

Analysis of Internal Control Over Financial Reporting Based on Liquidation at Banks in Liquidation According to the COSO Internal Control Framework: A Case Study of the Deposit Insurance Corporation

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ABSTRACT

This research examines the effectiveness of internal controls over transaction recording and liquidation-basis financial reporting in Banks in Liquidation (BDL), using the COSO Internal Control–Integrated Framework and a qualitative case study of the Indonesia Deposit Insurance Corporation (LPS). Despite the critical role of liquidation-basis reporting in safeguarding creditor rights and ensuring accountability, empirical research in this domain remains limited, particularly regarding controls surrounding credit asset realization and valuation. Data were collected through document analysis, business process mapping, development of a risk control matrix (RCM), and semi-structured interviews with liquidation teams, supervisory units, risk management functions, and external auditors. Analysis across six core liquidation processes reveals that LPS has implemented multiple entity-level and transaction-level controls; however, several control deficiencies persist, including the absence of detailed technical standard operating procedures, inconsistent documentation, limited formal risk assessment practices, suboptimal use of information systems, and gaps in ongoing monitoring. Although these deficiencies do not constitute material weaknesses, they may undermine the reliability of key financial reporting assertions, particularly existence, completeness, and valuation of credit assets. The study contributes to the literature by extending internal control research into the underexplored context of liquidation-basis reporting and provides theoretical insights through stewardship and agency perspectives. Practical implications include recommendations for LPS to strengthen SOP standardization, enhance liquidation team competencies, and reinforce monitoring mechanisms. The findings offer empirical guidance for improving the governance, transparency, and reliability of financial reporting in bank liquidation settings.

INTRODUCTION

Since the establishment of the Deposit Insurance Corporation (LPS) under Law Number 24 of 2004 concerning the Deposit Insurance Corporation (LPS Law), as amended by Law Number 7 of 2009, LPS has played a strategic role in maintaining banking stability and protecting customer deposits. This function is realized not only through the provision of deposit guarantees but also through the implementation of bank resolutions, one of which is a liquidation mechanism for banks whose business licenses have been revoked by the Financial Services Authority (OJK) (LPS Annual Report, 2024).

The liquidation process, in accordance with the LPS Law, is one of the methods used by LPS to resolve failed banks that do not have systemic impact and whose business licenses have been revoked by the OJK (Ashari & Nugrahanti, 2017; Humble & Mozelius, 2022). Bank liquidation is the process of settling all assets and liabilities of a bank as a result of the revocation of its business license and the dissolution of its legal entity. LPS establishes a Liquidation Team (Tim Likuidasi/TL) to carry out the liquidation process for the failed bank. LPS, along with other creditors and shareholders as stakeholders in the liquidation process, requires information related to the results of the liquidation to determine potential recoveries.

Since its inception in 2005, the Deposit Insurance Corporation (LPS) has carried out its bank resolution function by handling 137 failed banks. Most of these cases have been resolved through liquidation, including 136 Rural Banks (Bank Perkreditan Rakyat/BPR). Data through 2024 show that liquidation remains a significant measure, with 15 BPRs liquidated in that year (LPS Annual Report, 2024), thereby making these liquidated banks relevant and appropriate objects of study.

Based on data managed by the Deposit Insurance Corporation (LPS), bank failures are predominantly caused by internal factors, including irregularities or fraud involving bank owners, management, and employees. From a sample of 86 banks, credit misuse was the most common type of fraud and resulted in the largest losses, followed by credit quality manipulation, asset misappropriation, and deposit misuse, all of which reflect weak governance and internal control systems (Alexander, 2025). Credit-related problems are the main contributors to bank failure because credit constitutes the largest portfolio yet is the most vulnerable to moral hazard, leading to poor asset quality and high nonperforming loans. This condition results in a significant decline in asset values during the liquidation process, where the transition from the closing balance sheet to the statement of net assets at the beginning of liquidation shows depreciation of approximately 40–50%. This indicates that pre-liquidation asset values often do not reflect realizable values, complicating settlement processes, reducing recovery rates, and creating challenges in asset valuation and financial reporting during liquidation (Boyle & Schmierbach, 2020).

The determination of asset values during liquidation—particularly loans, collateral, fixed assets, and other economically valuable assets—often faces challenges due to market uncertainty and a lack of potential buyers, resulting in significant discounts (Borena, 2024; Nishihara & Shibata, 2021; Virgantara, 2025). Nonperforming loans are difficult to realize at book value, while collateral such as land and buildings is typically revalued under forced-sale assumptions, producing values significantly below normal market prices. The discrepancy between book value, fair value, and actual realized value is a critical factor in liquidation-based financial reporting because it directly affects reported net assets (Gawron et al., 2019). The risk of misstatement in loan accounts also increases due to unreliable data and uncertainty in valuation estimates (Hasan & Nugrahanti, 2018), thereby requiring strong internal controls in accounting treatment and financial statement presentation during liquidation.

Financial reporting in liquidation is highly important because it serves as a form of accountability to LPS, creditors, shareholders, and other stakeholders (Hidayah & Firmansyah, 2020). The liquidation process requires asset measurement based on net realizable value and the settlement of liabilities, replacing the going concern assumption with a liquidation basis of accounting. Accounting Standards Update (ASU) 2013-07 issued by the Financial Accounting

Standards Board (FASB) affirms that liquidation-basis financial statements must demonstrate whether assets are sufficient to cover liabilities and indicate the amount of net assets available for distribution. Therefore, weaknesses in internal control, misrecognition, or inaccuracies in fair value measurement can reduce the quality of financial information and adversely affect public trust in LPS (Hasan & Nugrahanti, 2018).

In Indonesia, Financial Accounting Standards (Standar Akuntansi Keuangan/SAK) have not specifically regulated liquidation-basis accounting (Gufron et al., 2019; Hidayah & Firmansyah, 2020). To address this gap, LPS, in collaboration with the Indonesian Institute of Accountants, has developed guidelines for financial recording and reporting for Banks in Liquidation through LPS Regulation No. 4/2019 and No. 2/2022, which refer to ASU 2013-07. These guidelines regulate reporting objectives, required disclosures, the use of accrual and liquidation bases, differences from general PSAK, and specific reports such as Laporan Aset Neto dalam Likuidasi Awal (LANAP), Laporan Perubahan Aset Neto dalam Likuidasi (LAPAN), and Laporan Aset Neto dalam Likuidasi Interim (LANIR) (LPS Regulation, 2022). However, successful implementation depends heavily on the effectiveness of internal control systems, particularly in loan recovery processes that require controls over completeness of recording, validity of rights and obligations, collateral valuation, and accuracy of presentation (Arens et al., 2017).

In this context, the COSO Internal Control—Integrated Framework (2013) serves as the primary reference, providing a structured approach through five components: control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013; Graham, 2015). The implementation of COSO has been shown to improve governance quality and operational efficiency in Indonesian institutions. Referring to the concept of Internal Control over Financial Reporting (ICoFR), material weaknesses in control can result in unreliable financial statements and increase the risk of material misstatements if not supported by adequate management assertions (Arens et al., 2017). Therefore, internal control plays a fundamental role in ensuring the accuracy, transparency, and accountability of liquidation-basis financial reporting, particularly for loan-related accounts.

Previous studies on liquidation indicate that research focus remains fragmented and has not adequately addressed internal control over liquidation-based financial reporting. Gufron, Firmansyah, and Firdaus (2019) examined liquidation in mutual funds, while Hidayah and Firmansyah (2020) emphasized differences between PSAK and ASU 2013-07. Hasan and Nugrahanti (2018) analyzed BPR asset recovery rates without linking them to internal control or financial reporting mechanisms. Meanwhile, studies on internal control and ICoFR generally focus on going concern entities, such as Virginia (2022), who identified weaknesses in PT Garuda Indonesia Tbk's internal control in risk assessment and information and communication, and Chairunissa (2025), who emphasized the importance of a top-down, risk-based approach in designing ICoFR to reduce misstatement and fraud risks in cash transactions. Thus, a research gap exists, as no study has integrated liquidation aspects with the effectiveness of internal control over financial reporting.

Referring to this research gap, this study examines the application of internal control systems in liquidation-based financial reporting, particularly for loan accounts, which have not been comprehensively evaluated. Unlike prior studies focusing on going concern entities, this

research highlights that entities in liquidation continue to prepare financial statements, manage economically valuable assets, and require strong governance to maintain information accuracy and accountability. LPS, as the resolution authority, plays a central role in ensuring the quality of reporting for Banks in Liquidation; therefore, effective internal control is essential to prevent misstatements, inaccurate valuations, and fraud risks during asset recovery processes. This study offers a novel perspective by integrating LPS liquidation accounting guidelines with the COSO Internal Control Framework to provide a more structured and relevant analysis of financial governance in liquidation contexts—an area not addressed in prior research. The selection of LPS as the research subject is based on: (1) its authority to conduct bank resolutions, including liquidation; (2) its established internal guidelines for preparing financial statements of Banks in Liquidation; and (3) its status as a public institution with a strong commitment to governance.

This study aims to explain the application of liquidation-basis financial reporting for loan accounts in Banks in Liquidation, evaluate the design and implementation of internal control systems using the COSO framework, and identify weaknesses and control gaps in financial reporting processes. The scope is limited to liquidation-based financial reporting in Banks in Liquidation managed and supervised by LPS, with reference to applicable laws, regulations, and institutional mandates. The findings are expected to provide recommendations for remedial actions to improve the accuracy, accountability, and quality of financial reporting. The benefits of this research are expected to extend to LPS as a basis for continuous evaluation and improvement, to academics as a reference for further research on bank resolution, and to practitioners such as auditors and liquidators as guidance in audit implementation and the proper presentation of rights and obligations in liquidation contexts.

METHOD

This study adopted a qualitative approach with a descriptive design, as it was considered most suitable for exploring complex phenomena in depth (Adeniran & Tayo-Ladega, 2024; Gaber, 2020). The analysis was conducted using two main techniques: content analysis and descriptive analysis. Both techniques were applied to understand how internal control was implemented in liquidation-based financial reporting, particularly in the process of disbursing credit-related assets. Content analysis was used to examine documents, standard operating procedures (SOPs), and internal guidelines, while descriptive analysis was used to interpret findings from field data, including interviews with the Bank's Liquidation Team and the Liquidation Group. This approach enabled the study to provide a systematic overview of internal control practices in Banks in Liquidation.

This study used both primary and secondary data to enhance reliability through data triangulation (Yin, 2018; Creswell & Creswell, 2018). Primary data were collected through in-depth interviews with members of the Liquidation Team, the LPS supervisory function, and related parties to explore internal control practices. Secondary data were obtained from financial reports, internal guidelines, regulations, and audit records. The combination of these sources supported a comprehensive analysis of internal control over financial reporting (ICoFR) and the identification of control gaps.

The data analysis in this study applied qualitative content analysis and descriptive analysis. Content analysis was conducted on interview transcripts, internal documents, policies,

and audit records to identify recurring themes, control patterns, and weaknesses related to internal control over financial reporting (Chairunissa & Siregar, 2025). Descriptive analysis was then used to interpret these findings by linking field evidence with COSO principles and the context of liquidation accounting. The analytical process included data reduction, categorization, coding, theme identification, interpretation, and conclusion drawing. Data triangulation was also applied by comparing findings from interviews and document analysis to enhance validity. Through this approach, the study provided an evaluation of the effectiveness of internal control over liquidation-based financial reporting and formulated recommendations to improve governance and reporting reliability in Banks in Liquidation.

To address the research questions, the study followed these steps:

- 1) Identified business processes and the implementation of liquidation-based financial reporting related to credit accounts in Banks in Liquidation;
- 2) Identified risks and existing controls based on interview results;
- 3) Identified key issues related to weaknesses in internal control over transaction recording and financial reporting, with reference to the COSO Internal Control framework;
- 4) Reviewed relevant literature on internal control and related studies to support the analysis;
- 5) Conducted interviews to understand business processes, implementation of internal control policies, and practical challenges;
- 6) Analyzed documents to assess the alignment between policies and actual practices;
- 7) Processed data to identify patterns, themes, and relationships in both interview and document data;
- 8) Validated findings by comparing interview results with document analysis to reduce bias;
- 9) Evaluated the implementation of internal control systems in transaction recording and financial reporting processes, particularly for credit accounts, in comparison with COSO principles;
- 10) Drew conclusions regarding internal control weaknesses in transaction recording and reporting processes, particularly related to credit accounts; and
- 11) Proposed improvements for risk mitigation and internal control enhancement based on the research findings.

RESULT AND DISCUSSION

Analysis of the application of internal control system in the Liquidation Stale Financial Reporting process

A. Internal Control Evaluation

From the results of the interview process and document analysis (KAK Audit, LANAP, LPAN, and TL Minutes), the results can be conveyed as follows:

1. COSO components related to the Control Environment,
 - a. Commitment to Integrity and Ethical Values (COSO EC 1)

The results show that the commitment to integrity and ethical values has not fully supported the liquidation process which has high operational and financial risks. LPS actually has ethical guidelines as a standard for employee behavior, but these guidelines have not yet

explicitly applied to the Liquidation Team, which in the organizational structure is outside of LPS's permanent employees.

This finding was reinforced through an interview, where the Supervisory Team said: "For the Supervisory Team, there are guidelines for ethics and integrity standards as LPS employees. However, for the Liquidation Team, there are no guidelines or arrangements related to ethical and integrity standards... It is also currently implementing anti-bribery policy standards." (TP Interview, 2025)

The Liquidation Team conveyed similar conditions: "There is no regulation from LPS yet, but we still make an integrity statement and we also do that to our Support Team." (TL Interview, 2025)

The absence of formal ethical guidelines and compliance monitoring mechanisms causes the implementation of integrity pacts to be administrative and ad-hoc. This situation opens up the risk of moral hazard, especially since TL interacts directly with credit debits, collateral assets, negotiation processes, and asset sales. In the context of internal control, this condition shows a design deficiency in ethical aspects that has the potential to develop into a significant deficiency, or even material weakness if it affects the value of asset realization and transaction recognition in financial statements.

b. Structure, Authority, and Responsibilities (COSO EC 3)

The work structure of the Liquidation Team is one of the key aspects in the implementation of bank liquidation. However, the research found that the division of tasks between TL members is not supported by the provisions of the entity level, but depends on the practices of each team. The division of tasks is generally carried out internally and collectively.

This was made clear in the interview: "Our division of duties is administrative and financial and for the collection and disbursement of assets... the decisions of the Liquidation Team are collegial collective." (TL Interview, 2025)

Meanwhile, from the perspective of supervision, TP gave a statement: "The Liquidation Team is authorized to distribute duties and obligations in accordance with the Circular Letter on the liquidation implementation policy." (TP Interview, 2025)

A collective-collegial decision-making model without a clear accountability structure has the potential to obscure individual responsibility, making it difficult to ascertain who owns the processes on activities that affect the financial statement figures. This condition indicates a design deficiency in the control.

c. Commitment to Competency (COSO EC 4)

Another significant weakness in the control environment is related to the application of competency principles. Although LPS has set minimum competency standards for members of the Liquidation Team, research shows that the implementation of these competencies has not been supported by a structured, sustainable, and equitable training program for all stakeholders involved in the liquidation process.

Based on interviews with the Supervisory Team, it is known that formal training related to transaction recording and liquidation-based financial statements is not carried out regularly, especially for new members of the Liquidation Team. This is clarified in the following quote: "Currently, there is a minimum standard of competence for the Liquidation Team that we employ, but training related to transaction recording and financial reporting of Liquidation Banks is not routinely carried out, especially for the new Liquidation Team. Only the

Liquidation Team that has a working period of more than six years or became a Liquidation Team in the period 2019 to 2020 has been socialized and trained on liquidation financial statements by LPS." (TP Interview, 2025)

This condition results in a lack of understanding between TL members, especially in implementing PLPS provisions regarding the assessment and measurement of credit assets, the treatment of liquidation costs, and the presentation of LANAP-LAPAN-LANIR. This inconsistency has the potential to cause recording errors or differences in interpretation of liquidation-based accounting policies.

In addition, the interview showed that the disparity in competence did not only occur in the Liquidation Team, but also in the Supervisory Team and the Public Accounting Firm (KAP) that conducted audits of BDL's financial statements. The Supervisory Team said: "It also includes training for the Supervisory Team and Public Accounting Firms, so that they have uniformity of understanding. And this can have a significant impact when the handling of liquidated banks is handled on a large scale such as commercial banks, for example, and that have a level of complexity that is complex, including accounting treatment." (TP Interview, 2025)

The lack of training that includes all parties to the Liquidity Team, Supervisory Team, and auditors poses a risk of differences in understanding and views, especially in situations where banks handle complex credit portfolios or large transaction volumes. Without uniformity of understanding, there is a risk of inaccuracies in asset valuations, misclassification, or inconsistencies in the application of the interbank liquidation basis handled.

Another interview also confirmed that the training needs are not only related to financial reporting, but also legal, collateral, and other technical aspects in the liquidation process: "It is agreed that routine training is not only for liquidation financial reporting but also for liquidation processes such as legal, collateral and other aspects to be applied to the Liquidation Team and us as the Supervisory Team. Currently, we only conduct a sharing session once a year during the evaluation of the performance of the Liquidation Team." (TP Interview, 2025)

Based on the results of this evaluation, it can be concluded that the competency improvement mechanism has not been carried out adequately. The training is only conducted in part and does not include all stakeholders. Annual sharing sessions are not enough to ensure uniformity of quality, especially given the complexity of the liquidation process and the significant variation between types of banks.

This condition indicates an operating deficiency, because even though competency standards have been set, strengthening competencies through formal training is not carried out optimally and consistently. In certain situations, one of which is in the event that competency errors have a direct impact on asset valuation errors or transaction recording, this weakness has the potential to develop into a significant deficiency in the context of financial reporting.

d. Accountability and Performance Monitoring (COSO EC 5)

The application of accountability in the liquidation process still shows significant weaknesses. Based on the results of research and interviews, the Liquidation Team's performance measurement currently only focuses on the achievement of asset disbursement in accordance with LANAP and the recovery rate, while compliance aspects, documentation quality, effectiveness of internal controls, and audit findings have not been used as formal indicators in performance evaluation.

This was emphasized by the Supervisory Team: "The performance of the Liquidation Team is measured by the ability to achieve the disbursement target and recovery rate. Compliance and audit aspects have not been fully used as indicators... and indeed there are no indicators such as KPIs." (TP Interview, 2025)

The Liquidation Team's statement shows a similar orientation: "Our target is asset disbursement in accordance with LANAP, thankfully exceeding the recovery rate, and there are no audit findings." (TL, 2025)

Reliance on financial indicators alone causes accountability not to reflect the quality of the process, such as the accuracy of recording, PLPS compliance, and the quality of the preparation of LANAP-LAPAN-LANIR. In addition, the monitoring mechanism by the Supervisory Team is still limited and not risk-based, so it does not encourage continuous control improvement.

The absence of compliance and control-based KPIs is an operating deficiency, because the accountability carried out has not supported the effectiveness of comprehensive internal controls. If this weakness causes repeated errors in the presentation of liquidation financial statements, this condition has the potential to increase to a significant deficiency.

Thus, the application of accountability and work monitoring in the liquidation process still needs to be strengthened, so that success is not only measured from the financial aspect, but also from the quality of internal control and the reliability of financial reporting.

2. The COSO component is related to Risk Assessment,

a. Clarity of Goal Setting (COSO RA 1)

The results of the study show that LPS already has guidelines for the implementation of liquidation through a Circular Letter as the basis for determining liquidation objectives. This is acknowledged by the Supervisory Team: "The purpose of the existing provisions has been stated in the Circular Letter to the Liquidation Team for guidelines for the implementation of liquidation." (TP Interview, 2025)

However, although general objectives have been set, these objectives have not translated into internal control objectives or more operational risk objectives, especially related to the transaction recording process and liquidation financial reporting. There is no specific objective mapping for areas such as asset valuation, cash reconciliation, asset disbursement, or the preparation of liquidation-based Financial Statements.

As a result, the determination of controls becomes directional as there are no binding risk objectives on such important processes impacting the Liquidation Team's ability to identify risks relevant to the reliability of financial statements.

b. Risk Identification and Analysis (COSO RA 2)

Based on interviews with the Supervisory Team, the Liquidation Team, and the second line of risk managers (GMRL), it was found that there is no specific risk register for the liquidation process or for the Liquidation Team, even though the liquidation process is material and high-risk. "Currently, there is no special risk register for the liquidation process... however, for the Liquidation Group, it has been available and evaluated by the Institutional Risk Management Group." (TP Interview, 2025)

GMRL reinforces that risk assessments are only carried out at the Group level, not yet at TL's operational level: "We conduct quarterly assessments for the risk of the Bank Liquidation

Group, but for the specific risks of the Liquidation Team or the liquidation process, there is no documentation." (Second Line GMRL, 2025)

Meanwhile, TL is actually aware of the risks in the liquidation process, but does not document it: "We are aware of the risks during the liquidation process including misvaluations, wrong inputs, including fraud... But we haven't documented it." (TL Interview, 2025)

This condition shows weaknesses in the risk identification process. Significant risks such as the risk of miscredit, the risk of incorrect input in financial statements, the risk of cut-off accuracy, the risk of completeness of asset realization documents, and the risk of fraud in the collection or sale of assets are not analyzed or included in the formal risk register.

The absence of a risk register at the process level causes the controls to be executed are not risk-based, but administrative or reactive.

c. Fraud Risk Assessment (COSO RA 3)

The principles of fraud risk assessment require organizations to systematically identify fraud risks that may affect financial reporting objectives. Based on the results of the interviews, fraud risk has been considered in the context of the Anti-Bribery Management System (SMAP), but the specific risk fraud assessment of the liquidation process has not been carried out. "For the risk of fraud, it already exists for the purposes of the Anti-Bribery Management System which is being certified by LPS." (Second Line GMRL, 2025)

While the Liquidation Team and the Supervisory Team acknowledge the potential for fraud at various stages of the liquidation process: "We are aware of the risks... including fraud that can occur at the time of billing... but we have not documented it." (TP Interview, 2025)

This shows that the current fraud assessment is not associated with the financial reporting process, including manipulation of the realized value of assets, falsification of proof of cash receipts of liquidation, collusion in the sale of credit assets, concealment or manipulation of supporting documents, manipulation in the preparation of Liquidation Financial Statements.

The absence of fraud risk assessment in this case can lead to weak fraud prevention and fraud detection.

3. COSO components related to Control Activity,

Control Activities is a core component of the internal control framework as it ensures that control policies, procedures, and activities run consistently to reduce the risk of financial misstatements and operational risks during the liquidation process. The bank liquidation process has very manual, judgment-based, and involves diverse documentation, so that the effectiveness of control activities has a significant impact on the quality of bank liquidation financial statements.

The results of the study show that although there are control activities at various stages of liquidation, the design and effectiveness of the operation are not fully in accordance with COSO principles. Some of the key areas show the following weaknesses:

a. Selection and development of control activities

1) The absence of technical work standards causes the controls to be run separately

In this principle, the most fundamental weakness lies in the absence of technical SOPs that regulate the steps for credit document verification, collateral assessment, cash reconciliation, and the preparation of Liquidation Financial Statements. Although there is an LPS Circular Letter as a general guideline or working paper for the preparation of Financial

Statements, the research found that there is no technical operational standard that provides detailed direction for TL regarding how control should be carried out consistently.

As stated by one of the TLs, "the implementation of work relies on experience, there are no technical guidelines that really explain what must be checked." (TL Interview, 2025). "There are indeed general guidelines, but there are no detailed standards that ensure consistency between the Liquidation Team, the Liquidation Team in the Circular Letter is allowed to regulate operational standards that are technical and necessary in the operationalization of liquidation." (TP interview, 2025).

This condition is reinforced by the results of document testing which show variations in the format and verification methods between TLs. These variations not only have an impact on the quality of document verification, but also on the range of evidence produced, thus increasing the risk of inconsistency in results between one liquidation bank and another.

This design weakness causes control activities to be unstructured and greatly influenced by the subjectivity of officers. In the context of internal controls, the absence of technical standards is a design deficiency, as controls are not formally designed to ensure consistent risk mitigation.

2) Control activities have not considered potential risks

The absence of a risk register that specifically describes the risks in the liquidation process carried out by TL. As a result, control activities are not built on a comprehensive risk assessment.

The Supervisory Team said that "we do not have a special risk register for the Liquidation Team, so the focus of supervision is more on the completion of the work, not on detailed risks at each stage of the liquidation process." (TP interview, 2025).

The absence of a risk register causes important controls such as verification of completeness of documents, confirmation of cash balances, or validation of realized values to be not prioritized or designed in a directional manner. The ultimate control activity is reactive, not preventive. This condition increases the likelihood of repeated weaknesses and misconceptions that go undetected from the beginning of the process.

TL confirmed this condition in an interview, where they said that "we are actually aware that there are many risks, ranging from wrong values, wrong inputs, to the risk of fraud in billing, but so far there has been no risk document that we have handled." (TL Interview, 2025).

Without structured risk documentation, control activities are ultimately carried out based on the intuition and experience of each team member, rather than on specific risk mitigation needs.

As a result, important controls such as verification of the completeness of credit documents, validation of payment history, and confirmation of cash balances do not receive proportional attention. Control activities become reactive or only carried out or tightened after finding a problem is not preventive as effective control designs should be built. This condition also contributes to the emergence of repeated weaknesses in several liquidated banks, as conveyed by TP who admits that "Indeed, risk-based supervision is necessary, especially when later in the handling of large-scale banks there will be more and more areas that are prone to errors and in addition to the limitations of human resources" (TL Interview, 2025).

In the perspective of COSO, control activities must be built on the risks that have been identified and assessed. In the absence of a risk foundation, controls cannot ensure adequate

risk mitigation and consequently show design deficiencies that have the potential to have a significant impact on the reliability of liquidation-based financial reporting.

3) Existing controls are manual and prone to human error

Most of the control activities carried out by the Liquidation Team (TL) still rely on manual and administrative processes, especially in recording the realization of credit assets, cash reconciliation of liquidation, and the preparation of LANAP, LAPAN, and LANIR. TL explained that "the recording is still very manual, currently we have not utilized the Bank In Liquidation system optimally, because we still like errors and features are not all functional" (TL Interview, 2025).

This was confirmed to the Supervisory Team, which stated that "the majority of liquidation implementations are fulfilled with administrative aspects and some are still manual, so it is quite troublesome in the supervision process or to develop other things because they have been busy with administrative matters. The current Liquidation Bank system is still being developed with the hope that later the process will be automated in the system so that supervision can run optimally" (TP Interview, 2025).

This manual condition does not occur because of choice, but rather because the use of the bank system in liquidation has not been optimal.

The non-optimal use of the bank system in liquidation creates a large control gap. Without a system that provides information in an integrated manner, TL must carry out processes such as final balance calculation, payment history tracking, credit mutation validation, recording disbursement realization, and calculating disbursement realization manually. The absence of automatic control increases the risk of incorrect inputs, formula errors, and data inconsistencies between files. More than just technical errors, a manual file-based environment also magnifies the risk of losing trail audits.

External auditors confirmed this by stating that "the documents we receive often have different versions with no record of changes." (KAP Interview, 2025).

The manual process also opens up opportunities for fraud, without trail audits, changes in asset values, deletion of information, or modification of reconciliation numbers can occur undetected. Information that is not protected by the system is vulnerable to manipulation, especially if the TL does not have an adequate separation of duties in the recording and billing processes. In the context of internal control, conditions like this are an indicator of weak preventive and detective controls, so the risk of data integrity increases significantly.

This risk will become even more critical if the same liquidation model is applied to banks with large assets or complex credit structures. Small banks may still be able to handle manual methods, but for commercial banks or banks with thousands of creditors, the high volume of transactions and the complexity of the credit structure make the use of the system not only a necessity, but a necessity. TP also expressed similar concerns by stating that "in the case of complex banks, manual processes like this can be very risky and difficult for TL or supervision." (TP interview, 2025).

As the number of transactions increases, the risk of input errors, document mismatches, and potential fraud also increases exponentially.

In the framework of COSO evaluation, this condition clearly indicates an operating deficiency, because the control activities carried out are not able to provide adequate confidence in the reliability of the data. Furthermore, if the manual process and the absence of

a trail audit have a direct impact on the misrepresentation of the realized value of assets or the cash balance of liquidation, this weakness can develop into a significant deficiency that affects the fairness of the Liquidated Financial Statements.

4) There is no formal Segregation of duties

Although TL said that the division of duties had been carried out, the reality on the ground showed that the separation of duties had not been formally documented. TL acknowledges that "the division of tasks is flexible, tailored to the needs in the field." (TL Interview, 2025). "In the case of complex banks, separation and division of duties are indeed a priority in its implementation, we agree that the separation of duties is important" (TP Interview, 2025).

This condition has the potential to put one individual in a position to handle several functions at once, such as billing and cash recording, which poses a risk of collusion and misrepresentation.

Since the separation of duties is a basic principle of internal control, its ineffectiveness reflects a design deficiency.

5) No Data Integration between each Liquidation Financial Statement

The data between the processes has not been connected to each other, based on the results of interviews and monitoring results, information was obtained that: "There is no connection between the LANAP data, LAPAN, the realization of disbursement to the LANIR data." (TL Interview, 2025).

This disconnection signifies that control procedures do not support end-to-end data reconciliation. As a result, changes in values at one stage are not always traced to the impact on the next report. TL admits that "we still compile a lot of parts manually, so sometimes there are numbers that are out of sync." (TL Interview, 2025).

Without an integration system or procedure, the risk of inaccurate reconciliation increases, including the risk of inappropriate initial and final balances, different realizations between reports, potential material misrepresentations are not detected.

Reconciliation controls and data linkages are ineffective. This disconnection constitutes a design & operating deficiency, with a significant risk to the presentation of liquidation reports.

b. Development of technology-based control activities

Currently, LPS has prepared a bank system in liquidation that can be used for the liquidation process, the system is integrated with LPS's core system so that it makes it easier to meet the needs of data and information, but for the bank system in liquidation it is still in the process of development, so the utilization cannot be optimal.

This is related to the previous weakness related to manual recording "recording is still very manual, currently we have not utilized the Bank in Liquidation system optimally," (TL Interview, 2025).

This was confirmed to the Supervisory Team, which stated that "the majority of liquidation implementations are fulfilled in administrative aspects and some are still manual, so it is quite troublesome in the supervision process The current Bank In Liquidation system is still being developed with the hope that later the process will be automated in the system" (TP interview, 2025).

In addition to this, there are other aspects that need to be considered, namely related to the core banking system of the bank that is closed can provide valid information that is very

important for TL, including payment history, credit aging, list of arrears, and transaction details. However, TL cannot take advantage of the system because access is terminated after the permission is revoked. TP explained that "the bank system can actually help, but its utilization is not optimal and there is a consideration of the cost of extending access. In addition, related to the constraints of the previous bank system, the Closing Balance has been audited by KAP" (TP Interview, 2025).

Instead, TL uses the data from the preservation results created when the permit is revoked. TL states that "we rely on preservation data; the rest we have to go through the manual." (TL Interview, 2025).

In the context of COSO, the suboptimal utilization of the system indicates a lack of adequate technological support, thus reflecting an operating deficiency.

c. Implementing Control Activities Through Policies and Procedures

This principle emphasizes that control activities must be translated into policies and procedures that are clear, documented, and consistently implemented by all parties involved. However, the results of this study show that there is a significant gap between the formal policies of LPS and the implementation of control by the Liquidation Team (TL) in the field.

The results of the study show that although the regulatory framework is already available through the Bank Liquidation PLPS, SE-1/ADK1/2024, as well as the provisions of the Bank Liquidation PADK, the implementation of these policies at the operational level has not been fully effective. This condition is caused by the non-standardization of work procedures, the use of suboptimal IT systems, and weak control documentation that should be a reference for TL accountability.

1) Non-standardization of the Liquidation Team's procedures and work practices in the field

There are several key procedures that do not have standard operational standards, so TL relies on different internal practices between banks in liquidation. On the other hand, in the process of updating the asset mapping, the findings show that the criteria for grouping non-problematic and non-problematic assets are inconsistent between banks in liquidation, including the assessment mechanism carried out at the time of the initial assessment of bank liquidation credit assets, because there are no technical instructions that set the assessment parameters that must be followed by the Liquidation Team. Onsite found: "There is no standardization of the use of the asset valuation criteria matrix yet... so that asset mapping between BDLs has the potential to be inconsistent, including the valuation." (Interview TP, 2025)

When the procedure guidelines are not standard, control activities depend only on TL's experience. In an interview, TL said that "our process relies a lot on each other's experiences, there is no detailed technical SOPs." (TL Interview, 2025).

This can have an impact on the valuation of credit assets whose results depend on the subjective assessment of each TL, rather than standard procedure-based controls. This condition has a direct impact on the determination of LANAP and asset disbursement strategy, and even has the potential to cause overstated or undervalued assets, which is significant in the context of liquidation-based financial reporting.

The absence of operational technical procedures means that controls cannot be considered effective, as controls are not designed to produce consistent outputs. This condition

is a design deficiency, which becomes significant because it has a direct impact on the presentation of the value of liquidated assets.

2) Inadequate Control Documentation and Does Not Reflect the Workflow from Start to End

This principle requires adequate documentation so that control activities can be proven and traced. However, there are still control weaknesses related to incomplete liquidation documentation, inconsistency between processes, and not always being able to trace transactions from start to finish. The results of interviews and documentation tests found that: "Supporting documents are incomplete, including limitations of PK documents, collateral documents, and historical data of the debtor." (TL Interview, 2025).

This lack of documentation leads to the loss of the control trail (audit trail). Without adequate documentation, TL decisions cannot be verified, and controls cannot be assessed for effectiveness.

TL confirmed the condition by stating that "documents are often incomplete from the start, and we have to look for them manually." (TL Interview, 2025).

TP admits that this documentation condition complicates the monitoring process: "often the supporting evidence is incomplete, so we have to re-request it to TL." (TP interview, 2025).

Incomplete documentation that does not cover all stages of the process indicates that the controls are not running effectively. Transaction non-traceability indicates an operating deficiency that can lead to a significant deficiency, especially if it affects the reliability of the Liquidation Financial Statements.

3) Work Procedures Are Not Able to Prevent Recurring Weaknesses

The results of the study referring to the audit and supervision results also found that the same weaknesses reappeared in some BDLs, such as:

- a. Misclassification of assets
- b. Inconsistency of assessment
- c. Inaccurate reconciliation
- d. Incomplete collateral documents

TP acknowledged that "these kinds of weaknesses do reappear in some BDLs because the understanding of TL is not uniform." (TP interview, 2025).

Recurring weaknesses indicate that controls have not been fully effective in preventing the same risks in other liquidation processes, Recurring weaknesses are a strong indicator of significant deficiency

4. COSO components related to Information and Communication,

a. Presentation and Utilization of Relevant and Quality Information (COSO IC1)

This principle emphasizes that organizations must produce and use information that is relevant, accurate, and timely. In the context of liquidation, the quality of information greatly determines the accuracy of decision-making, the accuracy of asset valuation, and the accuracy of the preparation of Liquidation Financial Statements (LANAP, LAPAN, and LANIR).

The results of the interviews show that the information used by TL and TP has not been fully optimal.

1) The initial data of the bank in liquidation is incomplete and requires additional verification

The Liquidation Team faced many obstacles in the early stages of the liquidation process, especially related to incomplete data received from the bank before its license was revoked.

This was confirmed by TL: "The data we received before liquidation is often incomplete, so we need to re-verify it before it can be used." (TL Interview, 2025)

This condition creates the risk of incorrect basic information, which can affect the assessment of the realized value of assets, the determination of collateral status, and the adjustment of the initial balance.

2) The use of the bank system in liquidation has not been optimal

Ideally, the core banking system of a liquidated bank can be an accurate and reliable medium to obtain the final data before liquidation. However, its utilization has not been maximized. TP stated: "The bank system can actually help provide information, but there are cost concerns if it is only extended but the utilization is not optimal" (TP Interview, 2025) "Currently, we are utilizing the data from the preservation that has been carried out by the IT team at the time of revoking the Bank's Business License, so that the data and information from the bank system can be used both for the benefit of the Liquidation Team or the Investigation Group if we want to conduct fraud investigations" (TP Interview, 2025)

When the data available in the system is not used optimally, TL relies more on Excel files or manual documents, increasing the risk of human error and data inconsistencies.

Considering these conditions, the potential for operating deficiency can occur, but considering that the initial information is the basis of the entire liquidation process, this weakness has the potential to become a significant deficiency if inaccuracies in the data have an impact on asset valuation and financial reporting.

b. Internal Communication Between the Liquidation Team and the Supervisory Team (COSO IC2)

This principle requires a clear, structured, and documented flow of information between all parties within the organization. In the context of liquidation, effective communication between the Liquidation Team (TL) and the Supervisory Team (TP) is a factor in the success of internal control. Currently, based on the results of the evaluation, the use of the liquidation bank system as a data communication medium is not optimal

Data that should have been able to be submitted through the bank system is still collected and sent through manual files. TP said: "The Bank in Liquidation system can be a channel for data communication between teams, but its use is not optimal." (TP Interview, 2025) "Currently, the monitoring of the disbursement of assets or other matters related to the liquidation process is carried out through the medium of Monthly and Weekly Reports which are submitted to us for the review process related to supervision" (TP Interview, 2025)

It can also mitigate the inconsistency of documentation and communication between the Liquidation Team and each other. "Communication is ongoing, but the documentation is not uniform or formal between one BDL and another." (TL Interview, 2025)

This creates a dependence on Excel files, which do not have an audit trail as a technical communication medium, without a formal documentation base, increasing the risk of miscommunication, especially in the event of a change of TL or TP personnel, thus having an impact on the effectiveness of internal communication and is an operating deficiency. Because miscommunication can have an effect on recording errors, asset valuations, or report cut-offs, this condition has the potential to be a significant deficiency.

5. The COSO component is related to Monitoring Activity,

Monitoring Activities are an important component of COSO's internal control framework because it ensures that all control activities function consistently and in accordance with the established design. In the context of bank liquidation, the monitoring mechanism becomes increasingly crucial considering that the liquidation process takes place over a limited period of time, involves the complexity of asset valuation, cash reconciliation, and the preparation of special financial statements (LANAP, LAPAN, and LANIR), and has higher inherent risks than normal banking operational processes.

The results of the study show that although LPS has implemented several monitoring mechanisms, its effectiveness still faces a number of fundamental weaknesses that have implications for internal control risks

a. Continuous monitoring and separate evaluation (COSO MA 1)

This principle requires organizations to conduct ongoing evaluations and separate evaluations adequately to ensure effective internal controls. In practice, the Supervisory Team (TP) has carried out routine monitoring of the Liquidation Team (TL), especially related to the progress of asset disbursement, cash reconciliation, and the preparation of liquidation reports. However, the monitoring has not fully adopted a risk-based approach, resulting in certain control areas not being comprehensively evaluated.

TP said that the monitoring carried out so far emphasizes more on the aspect of the operational progress of liquidation than on the evaluation of process risks. This happens because until now there is no special risk register for the Liquidation Team that can be the basis for preparing a risk-based monitoring agenda. As conveyed by TP: "The monitoring we carry out is more about the progress of liquidation such as the disbursement of assets or the preparation of reports, while the risk process does not yet have a special risk register of the Liquidation Team which can be the basis for risk-based monitoring." (TP Interview, 2025)

The absence of a risk register causes monitoring not to focus on high-risk areas such as transaction recording, cash reconciliation accuracy, credit asset valuation, updating data from bank system preservation, and validity of supporting documentation. Thus, monitoring is more output-driven than control-driven.

In addition, the internal auditor (Third Line) said that the scope of the audit of the liquidation process does not always cover all banks or all aspects of control, because there are limited resources and audit priorities. The internal audit states: "Audits of BDL are conducted on a priority or risk basis so that not all banks or control areas can be tested every year." (Internal Audit Interview, 2025)

This situation causes weaknesses in monitoring, especially in manual processes such as documentation of proof of realization, cash reconciliation of liquidation, and preparation of Liquidation Financial Statements. Thus, although monitoring is carried out periodically, the quality and depth of evaluation are not sufficient to detect potential control weaknesses at an early stage.

From the results of the analysis, this condition shows that the effectiveness of monitoring is in the category of operating deficiency, because the existing mechanism is not fully able to provide adequate assurance of the effectiveness of the control, and has the potential to develop into a significant deficiency if the absence of risk-based monitoring causes material mishandling that is not detected in a timely manner.

b. Evaluate and communicate weaknesses (COSO MA 2)

This principle emphasizes the organization's ability to identify, evaluate, and communicate control weaknesses in a timely manner to ensure adequate corrective action. In the context of bank liquidation, a follow-up mechanism is actually in place; however, the research shows that weaknesses in repetitive controls still occur, especially related to the accuracy of documentation, the consistency of cash reconciliation, and the Liquidation Team's understanding of liquidation-based accounting treatments. KAP said: "We see some recurring weaknesses, particularly in the supporting documentation of the report and the understanding of liquidation-based accounting treatment." (KAP Interview, 2025)

TP also reinforced the findings: "Inconsistency of understanding between Liquidation Teams often leads to the same weaknesses repeatedly, despite reviews. Some have the perception that it is right, some still need deepening." (TP Interview, 2025)

TL also acknowledged that some areas require technical deepening: "Some areas do require more understanding, for example accounting treatment such as treatment for non-performing loans, fictitious credits, credotes with contingency legal cases, and termination of liquidation. If it is not anticipated with training, the same weaknesses can indeed appear." (TL Interview, 2025)

Repeated weaknesses illustrate that despite the existence of follow-up mechanisms, improvements are not always comprehensive or preventive. Thus, the communication and evaluation process of weaknesses still has gaps in ensuring that the root cause of weakness is addressed systemically, not just on a case-by-case basis.

Based on the analysis, this condition includes operating deficiency, with the potential to increase to a significant deficiency if repeated weaknesses have an impact on material misstatements in the Bank's Liquidation Financial Statements.

CONCLUSION

This study examined the implementation of liquidation-based financial reporting in Banks in Liquidation (BDL), with a focus on credit accounts, and evaluated the effectiveness of internal control using the COSO framework. The findings indicated that, while financial reporting was generally compliant with LPS provisions—particularly in the valuation and presentation of credit assets—practical challenges remained, including significant declines in asset values and uncertainty in realization. The COSO evaluation showed that although basic control activities were in place, weaknesses persisted in risk assessment, documentation, operational procedures, and monitoring, which were not yet fully integrated. These limitations created risks of misrepresentation and information asymmetry between the Liquidation Team and LPS, highlighting the need to strengthen governance, internal controls, system support, and human resource capacity to improve reporting quality. Future research is recommended to explore the integration of technology-based controls and comparative analyses across different liquidation cases or jurisdictions to enhance the robustness and generalizability of internal control practices in liquidation contexts.

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