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Internal control system for Islamic micro financing

An exploratory study of Baitul Maal wat Tamwil in the City of Yogyakarta Indonesia

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Abstract

Purpose – This paper aims to contribute to literature on managing Islamic micro financing by formulating and evaluating the implementation of internal control system for Islamic micro financing. It also aims to investigate the implementation of an internal control system for financing activities practiced by Baitul Maal wat Tamwil (BMT), a special micro finance organization, in Indonesia.

Design/methodology/approach – First, the paper introduces the concept of internal control system. Second, an internal control system for Islamic financing is formulated. Primary data that relate to the implementation of an internal control system for financing activities are obtained through a direct survey using questionnaires. The data are then analyzed using descriptive statistic and qualitative analysis to find the implementations of the internal control system.

Findings – BMTs in Indonesia have implemented an internal control system for their financing activities. The rank of the implementation is: information and communication; monitoring; control environment; risk assessment; and control activities. This study also indicates that the implementation of authorization and consultation to the *Shariah* Supervisory Board was low.

Research limitations/implications – The respondents of this study are small in number. However, the findings are valid and reliable.

Originality/value – To the author's knowledge, there is a lack of scholars' attention on the implementation of internal control especially for Islamic micro financing. Therefore, this study will provide insight to the literature on how to manage Islamic micro financing efficiently and effectively.

Keywords Internal control system, Baitul Maal wat Tamwil, Islamic micro financing, Indonesia, Control systems, Islam, Financial control

Paper type Research paper

Introduction

Baitul Maal wat Tamwil (BMT) stands for *baitul maal* and *baitul tamwil* and refers to Islamic financial institution which is formed to play Islamic social roles as well as to seek profit in a way that is in line with the Islamic laws (Soemitra, 2009). BMT was established as an Islamic financial intermediary especially for the small and micro enterprises (SMEs). Hence, BMT is also known as Islamic micro financing practice in Indonesia. The existence of BMT in Indonesia has been becoming an alternative financial services provider. The rationales are discussed in the two sections below.

The author would like to acknowledge the Directorate General of Higher Education of Indonesia for providing her PhD scholarship. The author would also like to acknowledge her employer, Ahmad Dahlan University in Yogyakarta Indonesia, for providing her with support and study leave.



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First, BMT was established in a small community. It was also developed from the “grass root” (Norvadewi, 2007). Therefore, it is not difficult for the potential customer to deal with BMT. In the other words, BMT is more reachable financial provider especially for the SMEs (Kholis, 2009) and it is able to improve the performance of SMEs in Indonesia (Widiyanto and Ismail, 2007). Second, it was evidenced that the existence of BMT in some regions in Indonesia such as Java Island has eradicated the practice of usurer/*rentenir* (Aziz, 2004). Previously, the practice of usurer has become an alternative financing for SMEs as it was not easy to meet the bankable requirement if they want to deal with a bank (Nasirwan, 2009).

Third, it was evident that BMT could survive when the global financial crisis hit the Indonesian economic stability in 2008 (BMT Center, 2009). During the global financial crisis in 2008, there was an increasing percentage of the financing provided by BMT. The press released of BMT Summit 2009 reported that in 2007, BMTs in Indonesia delivered 436.7 billion IDR[1] of financing fund and it increased to 792.5 billion IDR in 2008 (BMT Center, 2009). It means that at the moment some others financial institutions might have collapsed because of global financial crisis, BMTs afforded to increase 81 percent of their financing (BMT Center, 2009). Surprisingly, 65 percent of the BMT financing was delivered in the form of joint venture contracts (*mudharabah* and *musyarakah*) which were very risky (Seibel, 2008). It seems that BMTs were not influenced by the global financial crisis. Aziz (2004) also affirms that the severe economic crisis that hit Indonesia in 1997 did not give significant impact on the stability of BMTs in Indonesia either.

The last rational is that BMT operates on the basis on Islamic Laws. As the majority of the Indonesians are Moslems and as some Islamic bodies/organizations such *Majlis Ulama Indonesia* (Indonesian Ulama Council), *Muhammadiyah* and *Nahdlatul Ulama* have affirmed that bank interest was *riba* (usury), which is unlawful (haram). BMT becomes the alternative choice of financial services provider.

Perhaps, because of the strong points of BMT mentioned above, the number of BMT in Indonesia has been increasing more than 3.5 times from year 1996 to 1998 (Seibel, 2005; Soemitra, 2009). Currently, there are more than 3,500 BMTs (Soemitra, 2009). In addition, as stated by the General Secretary of Indonesian BMT Association (*Absindo*), Andi Estetiono, it is predicted that the number of BMT’s customer will have been 10 million by the end of 2010 (*Republika Online*, 2006). However, some of BMTs in Indonesia fail to survive and have become insolvent and bankrupt due to lack of support and proper supervision (Nasirwan, 2009) as well as mismanagement problems (Mu’allim and Abidin, 2005).

As reported by Mu’allim and Abidin (2005), there are two big problems faced by the majority of BMTs in Indonesia. First, the lack of knowledge has become the major issues in managing BMT in Indonesia, not only in the financing management but also in the *shariah* compliance management. The second problem faced by BMT in Indonesia is the weaknesses of controlling and monitoring system, especially controlling system for the financing scheme. As a result of those problems, non-performing financing (NPF) become a big issue in managing BMT. Although Widiyanto and Ismail (2010) reveal that NPF of BMT in Indonesia is lower than NPF of Islamic Banks on average, we cannot say that NPF is not a big issue for BMT as they also reveal that the highest rate of BMT’s NPF was still high, 24.6 in 2003. Besides, that, BMTs’ asset in total is far below Islamic Banks’ asset in Indonesia[2] (Bank of Indonesia, 2010; *Republika*, 2007). Therefore, managing the NPF of BMT is still important.

With regard to the monitoring system of financing done by BMT, Muhammad (2004) argues that BMT should apply the prudential concept in delivering the financing. The author opines that the application of internal control system (ICS) could help BMT apply that prudential concept in delivering the financing products. A good ICS will help an organization in preventing the occurrence of bad financing. It also helps an organization in detecting error and irregularities in its operation. In addition, Seibel (2008) asserts that there are two options of promoting Islamic microfinance. One of that options is reassessing in a participatory process the challenges and realistic opportunities of Islamic cooperatives (BMT) by focusing on effective internal control, external supervision, and the establishment of associations with top services to their member institutions (Seibel, 2008).

This study, therefore, aims to seek answer of whether or not ICS has been implemented by BMT in Yogyakarta especially for the financing management. It also aims to describe the application of ICS for BMT's financing scheme. In particular, the study addresses the following questions: has ICS been applied by BMTs in managing their financing products? How is the application of the ICS components for BMTs' financing scheme in Yogyakarta?

2. Literature review

2.1 Baitul Maal wat Tamwil

BMT is an Islamic Economic institution modification of *baitul maal* in the period of Prophet Muhammad (pbuh). Unlike *baitul maal*, BMT does not only play social role which is non-profit motive, but also play a commercial role which is profit motive (Nasirwan, 2009). Beside collecting and distributing *zakat*, *infaq*, *sadaqah* and *wakaf* for social welfare, BMT can also act as financial intermediary, just like an Islamic bank, to seek profit in many ways which are in line with Islamic laws (*shariah*) (Soemitra, 2009).

Similar to Islamic bank, there are four activities that can be conducted by BMT (Utami and Setiawan, 2006; Soemitra, 2009; Widiyanto and Ismail, 2010). Those activities are: collecting and distributing *zakat*, *infaq*, *sadaqah* and *wakaf* activities (Soemitra, 2009); funding activities; financing activities and service activities (Widiyanto and Ismail, 2010). For funding activities, Utami and Setiawan (2006) assert that BMT usually applies depository principles (*wadiah*) and profit sharing principle, especially *mudharabah*, whereas for service activities, BMT provide services such as *kafalah*, *huwalah*, *wakalah* and *rahn* (Karim, 2004). Related to financing activities, the discussion is separated into the next section.

In addition, BMT in Indonesia also takes an important role as an intermediary (mediator) between Islamic banks and customer, especially to deliver the equity financing for micro and small enterprises (Seibel, 2008; Republika Newsroom, 2009). The rationales are as follows: micro and small enterprises in Indonesia usually do not perform good accounting records; therefore, it is difficult for Islamic bank to monitor and control the financing delivered to those enterprises. Even worst, equity financing is a trust-based relationship, which is very risky (Seibel, 2008). To minimise these weaknesses, then, through BMT, Islamic banks in Indonesia deliver their equity financing to micro and small enterprises as one of their corporate social responsibility activities. It is possible for BMT to perform direct monitoring to the customer since BMT is established in a small community and have good relationship to its customer/member (Republika Newsroom, 2009).

Although the activities of BMT are similar to Islamic banks, BMT in Indonesia do not have any responsibility to the Bank of Indonesia, but it has responsibility to the Minister of Cooperation, Small and Medium Enterprises of Indonesia (Nasirwan, 2009). Therefore, legally, BMT in Indonesia is classified as Islamic Cooperation (*Koperasi Syariah*), not Islamic bank (Norvadewi, 2007).

2.2 Financing activities of BMT

As discussed before, one of the activities of BMT in Indonesia is to provide financing activities. Based on the Letter of Pronouncement released by the Minister of Cooperation, Small and Medium Entrepreneur of Indonesia Number 91 year 2004 verse 1(1), financing is defined as follow:

An activity of providing fund and or other claims based on profit sharing principle and or sale and purchase principle between BMT and its member whereby the member obliges to pay back the principle and its benefit in form of profit sharing or margin (Minister of Cooperation, and Small, Medium Enterprises of Indonesia, 2004)

Moreover, there are two methods through which finance can be delivered (Timberg, 1999; Antonio, 2003). They are equity financing method and debt financing method. The first method can only be performed using profit sharing principle and should be performed to finance productive activities. The main model is that BMT deliver their fund to its members for financing their production activities. The profit earned from those activities will be shared between the BMT and its member based on the previous contract (*aqad*). Equity financing activities usually apply *mudharabah* (a kind of joint venture whereby the BMT only act as the investor/sleeping partner) and or *musyarakah* contract (joint venture between BMT and the customer).

With regard to the debt financing method, it can be conducted by three methods:

- (1) exchange of goods to cash;
- (2) exchange of cash to goods; and
- (3) exchange of cash to cash (*sharf*) (Antonio, 2003).

The contracts (*aqad*) that are usually applied under the first method are *murabahah*, *ba'i bitsaman ajil (BBA)*, *ijarah* and *ijarah muntahiya bittamlik*, whereas the contracts that are usually practiced under the second method are *salam* and or *istishna*. For the last method, BMT cannot gain any benefit from the exchange of cash to cash. As it is pure money lending activity, the benefit taken from the exchange of cash to cash is considered as interest (*riba*) which is strictly prohibited by Islam (Thomas, 2006). *Al qard* and *qardhul hasan* contract are usually applied under the last method of debt financing. Since there is no monetary benefit earned by BMT from activities under the last method, they are considered as one of the BMT's corporate social responsibility practice (Soemitra, 2009).

2.3 Internal control system

By referring to the concept of COS made by Committee on Sponsoring Organisation (COSO), then adopted into SAS Statement of Auditing Standard Number 55, Meisser (2003, p. 187) defines internal control as a process, affected by an entity's board of directors, managements, and other personnel, designed to provide reasonable assurance regarding the achievement of the objectives. Guy *et al.* (1999) added that those objectives are classified into three categories which are:

- 14 (1) reliability of financial reporting;
- (2) compliance with applicable laws and regulations; and
- (3) effectiveness and efficiency of operations.

Therefore, ICS could be defined as a system designed by an entity in order to achieve those three objectives mentioned before.

With regard to the components of ICS, there are five components of ICS based on the classification as stated by COSO (Guy *et al.*, 1999). Those five components are:

- 13 (1) control environment;
- (2) risk assessment;
- (3) control activities;
- (4) information and communication; and
- (5) monitoring.

The discussion of each component is as follows.

Control environment. It provides a guideline on how the organisation should be designed so that it affects the personnel to have self-control. It is necessary to detect and to prevent any error and irregularities. A good control environment should provide guidelines 24 related to: ethic and integrity values that should be owned by the member of entity; commitment to competence; participation or the board of director and audit committee; philosophy and management style; job description of each personnel; and lastly policy and procedure of human resources (Guy *et al.*, 1999, p. 204-6).

Risk assessment. This component relates to the identification of risk, analysis of risk and management of risk (Meisser, 2003, p. 193).

Control activity. This third component is defined as policy and procedure to ensure that every activity taken based on the consideration to minimise the risk faced by the entity. Generally, it consists of segregation of duties, control of physical, and control of process as well as review of performance. A good entity should separate transaction authorization function, accounting record function, and asset store function. It is necessary to prevent the occurrence of cheating. The independency of each function can also be used to minimize the cheating behaviour of the person in charge (Guy *et al.*, 1999; Meisser, 2003).

Information and communication. In a good organisation, information system is 17 vital to guide its operation process. It should consist of accounting information system to ensure that the accounting process is valid and reliable. The accounting system includes records and documents, accounting methods and the important functions. Moreover, that system should be communicated 27 everyone in the organization (Guy *et al.*, 1999, p. 208).

Monitoring. To ensure the reasonable assurance regarding achievement of the organizations objectives, the monitoring process should be performed. It can be done directly into each activity or separated from the activity (Meisser, 2003, pp. 193-4).

2.4 Internal control system for financing activities by BMT

As discussed in the introduction part, the major problems faced by BMT in Indonesia could be reduced by the application of ICS. By referring to the definition of ICS made by COSO as mentioned earlier, ICS for financing is defined as a process, affected by BMT's board of directors, managements, and other personnel in the BMT, designed

to provide reasonable assurance regarding the achievement of the BMT's objectives. In line with the main objectives of ICS, the objectives of the implementation of ICS for financing scheme are:

- (1) to ensure the reliability of the financial reporting related to financing scheme;
- (2) to comply with the applicable Islamic laws and regulations related to financing scheme; and
- (3) to achieve the effectiveness and efficiency of financing operations.

In relation to the components of ICS for financing by BMT, the author opines that they should be applied in every stage of the financing process, include identification of potential customer stage, decision making stage and monitoring of financing stage. Similar to the concept of ICS made by COSO, the components of ICS for financing also include five components (Guy *et al.*, 1999; Meisser, 2003).

First, control environment. The author opines that the implementation of control environment can be traced into the existence of an organizational structure, the existence of job description manual, the existence of code of ethic, as well as the existence of Shariah Supervisory Board (SSB) and internal auditor.

Second, risk assessment. The major risk faced by BMT in relation to its financing activities is the occurrence of NPF[3]. By referring to Guy *et al.* (1999), this risk can be reduced by implementing the risk assessment component. In general, financing risk can be classified into three levels which are low, moderate and high. The levels of this financing risk are determined by using 5C's[4] analysis. This analysis is needed to be performed in every financing proposal proposed by the customer of BMT. It consists of analysis of character of the customer, cash flow as well as capital of the customer. It also consists of analysis of the economic condition and analysis of the existence of collateral.

The third component of ICS for financing scheme is control activity. The segregation of duties is one of the mechanisms to implement this component (Meisser, 2003). The main functions of financing activities, which include authorization function, recording function and cash disbursement function, should be separated. There should be at least three personnel assigned for the financing activities so that those three functions are managed independently. This segregation of duties can prevent the occurrence of improper financing activities.

Information and communication is the fourth component that should be implemented in performing financing activities. The existence of accounting system is an indication that this fourth component has been applied (Meisser, 2003). Good accounting system for financing activities should include documents and records related to financing activities, flow chart of financing activities procedure as well as functions to perform the financing activities. Furthermore, the accounting system for financing activities should be communicated to all personnel of BMT. This communication can be done through information system or by using accounting system manual (guidance book). Thus, the implementation of information and communication components can be traced into the existence of accounting system and accounting system manual (Guy *et al.*, 1999; Meisser, 2003).

Finally, all components of ICS for financing will not be effective without monitoring activity (Guy *et al.*, 1999; Meisser, 2003; Seibel, 2008). As mentioned earlier, monitoring financing system should be applied from the beginning to the end of financing process. Monitoring activity, especially to monitor the customer's activities

in utilizing the fund, can be done through the supervision mechanism such as appointing an external auditor, performing routine inspection as well as spontaneous (incidental) inspection.

3. Research method

3.1 Sample and data collection

This study uses both secondary and primary data. The secondary data consist of data related to documents and record as well as the description of BMT whereas the primary data consist of any information related to the application of ICS. The secondary data were obtained from the documentation made by each BMT, whereas the primary data were obtained through direct survey by using questioner. The 30 questioners were distributed to 30 BMTs in the city of Yogyakarta. Respondents of this study were chosen at random from the personnel of BMT that was assigned in performing financing activities such as managers, accountants, and or financing function.

3.2 Instrument design and its measurement

This study is classified as an exploratory study as there is lack of information and literature related to the main problem of this study (Indriantoro and Supomo, 2002). Therefore, the questioner used in this study was developed by the author. This study involved a single variable that was ICS for financing by BMTs. Therefore, the questioner was developed based on five components of ICS. The development of the questioner is summarized in Table I. In relation to the measurement of the variable, nominal scale “yes” or “not” was applied. If the respondent’s answer was “yes”, then, it was counted 1 and if the respondent’s answer was “no” it was counted 0.

ICS components	Question item
Control environment	Organizational structure
	Job description
	Internal auditor
	Shariah Supervisory Board
	Proper selection of employee
	Education for employees
Risk assessment	Job rotation
	On leave facility
	5Cs consideration
Control activities	NPF allowance
	NPF write off
Information and communication	Set up targeted financing
	Segregation of duties
	Pre-numbered documents
Monitoring	Authorization
	Flowchart
	Accounting system manual
	Communication
	Routine inspection
	Spontaneous inspection
	External auditor

Table I.
The instrument design

15 To ensure the validity and the reliability of the instrument, before being distributed to the respondent, it was tested. The product moment correlation of Karl Pearson was applied to test the validity of each question listed in the questioner. If the corrected item-total correlation of a question is more than 0.30, it means that that question is valid (Cooper and Schindler, 2003; Green and Salkind, 2003). For reliability testing, as reliability test is used to test the consistency of all questions for every construct, the questioner was tested for every component. Cronbach's α test was used to test the reliability of the questioner. The question will be reliable if the coefficient of Cronbach's α is equal to or more than 0.6 (Cooper and Schindler, 2003; Green and Salkind, 2003).

15 In order to test the validity and the reliability of instrument, the author asked ten accountants of ten BMTs which were located not far from the writer's office to answer the questioner as a pilot test. From the data provided by ten respondent of the pilot test, the validity and reliability test were conducted. By using SPSS 14 for Windows software assistant, the result showed that the corrected item-total correlation of all question listed in the questioner are more than 0.30, whereby the minimum correlation was 0.344 for question related to segregation of duties. It means that all the questions are valid. Regarding the reliability, the result showed that the coefficient of Cronbach's α of five components of ICS are more than 0.60. The minimum coefficient, 0.667, was observed from the first components, control environment. It means that the instrument used was valid.

3.3 Data analysis technique

The statistic descriptive, especially to calculate the mean of the data gathered, was performed to summary the application of any components of 30 for financing scheme which were applied by the sample of this study. In addition, qualitative analysis was used to describe how the application of ICS components was made by the sample of this study.

4. Result analysis and discussion of findings

4.1 Characteristic of the respondents

Out of 30 BMTs operated in the city of Yogyakarta, there are only 19 BMTs that involved in this study as 11 BMTs did not wish to be the respondent of this study. Using descriptive statistic analysis, characteristic of those respondents and modes of financing that are provided by BMTs in Yogyakarta summarised in Tables II and III.

Table II illustrates the respondents of this study consist of those who really involve in BMT financing activities. Manager is a representation of the authorization function of financing activities, accountant is the one who performed the accounting record and lastly; financing function is, of course, representation of the ones who deliver the fund

Characteristic		Frequency
Occupation	Manager	11
	Accountant	6
	Financing function	2
	Other personnel	0
Education	Diploma	2
	Bachelor degree	17

Table II.
Characteristic of the respondents

as well as monitor the fund. Hence, the writer convinces that the respondent had good understanding in financing activities provided by their BMT.

Table III shows summary of the modes of financing provided by BMT in Yogyakarta. It is notable that BMTs in Yogyakarta provide both equity financing and debt financing. Although equity financing is very risky, most of BMTs in Yogyakarta provide this financing. Unfortunately, none of BMT provided debt financing based on *salam* and *istishna* contract.

4.2 Descriptive statistic of the implementation of internal control for financing

With regard to the main problem of this study, Table IV reports the result of descriptive statistic analysis of the implementation of ICS for financing activities by

Table III.
Modes of financing provided

Modes of financing	Frequency
<i>Mudharabah</i>	14
<i>Musyarakah</i>	11
<i>Murabahah</i>	14
<i>Ijarah</i>	8
BBA	9
<i>Al Qardh</i>	12
Not answer	5

Table IV.
The implementation of ICS for financing by BMTs

Components of ICS	Question	Provided (respondent's answer "yes")	
		Total	Percentage
Control environment (15; 79 percent)	Organizational structure	17	89
	Job description	15	79
	Internal auditor	18	95
	<i>Shariah</i> Supervisory Board	11	58
	Proper selection of employee	17	89
	Education for employees	17	89
	Job rotation	9	47
Risk assessment (12.7; 66.7 percent)	On leave facility	17	89
	5Cs consideration	16	84
	NPF allowance	17	89
Control activities (10; 52.6 percent)	NPF write off	5	26
	Set up targeted financing	11	58
	Segregation of duties	13	68
	Pre-numbered documents	13	68
Information and communication (16.7; 87.7 percent)	Authorization	3	16
	Flowchart	16	84
	Accounting system manual	17	89
	Communication	17	89
Monitoring (15.7; 82.5 percent)	Routine inspection	18	95
	Spontaneous inspection	18	95
	External auditor	11	58

Note: The implementation of internal control for financing by BMTs on average is 73.8 percent or 14 BMTs

BMTs in Yogyakarta. By looking at Table IV, on average, 73.8 percent of BMT in Yogyakarta have implemented internal control for financing. The percentages of the implementation based on five components are as follows: 75 percent of them have implemented the control environment component; 66.7 percent of them have implemented risk assessment component; 52.6 percent of them have implemented control activities component; 87.7 percent of them have implemented information and communication component and lastly, 82.5 percent of them have implemented monitoring component.

It is also noted from Table IV that there were three most common activities performed by BMT in managing their financing. Out of 19 BMTs, there are 18 BMTs that indicate the existence of external auditor, the performing of routine inspection as well as spontaneous inspection to the customer. At the second level, there were 17 BMTs in Yogyakarta that perform proper selection of their employee, provide on leave facility for their employee, have organisational structure, set up NPF allowance as well as have their own accounting system which are communicated to the personnel. Unfortunately, in relation to the implementation of proper authorization for financing, there are only three BMTs which performed this activity.

4.3 Discussion of findings

The author noticed that there are three issues need to be further investigated. First, issue on SSB; second, issue on authorization; and lastly issue on how to boost the opportunity of BMT to be an alternative Islamic financial service provider especially in the unpredictable condition during economic crisis period.

As mentioned before, BMT is one of Islamic financial institutions. It means that BMT have to be operated in line with Islamic laws which prohibit *riba* (interest), *gharar* (uncertainty) and *maisir* (speculation). Therefore, to ensure that BMT has been operated based on those Islamic laws, there should be at least one person who performs the function of SSB. This board is essential as it has the responsibility in determining whether or not the activities conducted by BMT are lawful. It is necessity for BMT to consult to the SSB in determining all of its products and contracts. However, based on the finding of this study, there were only 11 BMTs that really have SSB in their organization. Without SSB, there are eight BMTs in the City of Yogyakarta Indonesia whose compliance to the Islamic law (*shariah*) will be questionable.

Related to the issue of authorisation, good activity financing cannot be separated from authorization. This is because the authorisation is essential to prevent the occurrence of improper financing, which is financing to improper customer or financing with improper procedure. Unfortunately, there are only three BMTs that perform authorization for every financing activity. It means that 16 BMTs in the City of Yogyakarta Indonesia could provide improper financing that might lead to the occurrence of NPF.

The last issue is issue on how to raise the opportunity of BMT to be an alternative financial intermediary. As mention in the introduction part of this paper, it was evidenced that BMT in Indonesia could survive during the financial crisis. This is because, as a free interest financial intermediary, BMT would never have the problem of negative spread which is usually faced by conventional financial intermediary. Beside, BMTs in Indonesia have other advantages as mentioned in the introduction part too. The problem faced by BMT usually relate to its management especially in managing the financing activities. Therefore, the writer believes that by formulating and implementing ICS, BMT would be

able to play an important role as an alternative financial service provider in Indonesia with a high steadiness during economic crisis period.

5. Conclusion

The research has shown that the BMTs in Yogyakarta have implemented ICS for their financing activities. The most common activities that were performed by BMT in Yogyakarta in managing financing activities were the existence of external auditor, the performing of routine inspection as well as spontaneous inspection to the customer. Based on the component of ICS, the implementation of each component can be ranked from the most implemented to the least implemented. The implementation rank is as follows:

- (1) information and communication;
- (2) monitoring;
- (3) control environment;
- (4) risk assessment; and
- (5) control activities.

Although BMT in Yogyakarta have implemented ICS for financing, however, there are still weaknesses. Those weaknesses especially are related to the implementation of authorization procedure and the existence of SSB. Those two activities were essential in order to prevent/avoid the occurrence improper financing activities. Next, there is an optimistic belief that BMT in Indonesia would be able to be an alternative Islamic financial intermediary, especially for micro and medium enterprises, given that BMT in Indonesia implements ICS for its activities, especially its financing activities.

Lastly, the author suggests that the future researchers need to address the issues mentioned previously for the next investigation. In short, the future researchers need to find:

- The rationales of the inexistence of SSB and authorization in some BMTs in Indonesia.
- The formulation of ICS for Islamic Micro financing, not only by referring to the concept of ICS made by COSO, as in this paper, but also based on the Islamic jurisprudence.

Notes

1. 1 US \$ similar to 9,125.00 IDR (www.seputarforex.com/berita/kurs_dollar_rupiah_hari_ini (accessed March 22, 2010)).
2. The total asset of Islamic Banks in Indonesia is 67,436 billions IDR in January 2010, whereas the total asset of BMT is approximately 1,980 billions IDR.
3. It is similar to non-performing loan in interest based finance intermediaries (bank).
4. 5C's is an abbreviation of character of customer, cash flow of customer, capital of customer, condition of economic and collateral existence.

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