

## NEW INTERNAL CONTROL REQUIREMENTS FOR BANKS – SUMMARY OF POJK 15/2024

RSM INDONESIA CLIENT ALERT – 1 November 2024

Otoritas Jasa Keuangan (OJK) has released POJK No.15/2024 in October 2024 - this regulation focuses on ensuring the integrity of financial reporting by banks. It emphasizes the importance of accurate and reliable financial information for decision-making by regulators and stakeholders.

### KEY POINTS

**Purpose and Importance.** Financial information and reports are crucial for decision-making by regulators and stakeholders. Integrity in financial reporting requires strong governance and internal controls. This regulation aims to enhance the integrity and reliability of financial reporting in the banking sector, thereby supporting better governance and decision-making.

**Financial Reporting Requirements.** Banks must ensure the accuracy, transparency, and reliability of financial information and reports. Financial reports must comply with financial accounting standards and OJK regulations.

**Prohibited Actions.** Directors, commissioners, and executives are prohibited from manipulating financial information or reports. Any actions that cause financial reports to misrepresent the bank's actual condition are forbidden.

**Internal Control Policies.** Banks must establish internal control policies to ensure the accuracy and transparency of financial reporting. These policies should prevent unauthorized transactions and ensure compliance with accounting standards.

**Special Unit for Fraud Prevention.** Banks are required to form special unit or designate executives responsible for preventing fraud in financial reporting.

**Sanctions.** Administrative sanctions, including fines and restrictions on business activities, are imposed for non-compliance. Severe penalties are outlined for significant violations, including fines up to Rp50 billion for commercial banks.

**Roles and Responsibilities.** The Board of Directors is responsible for the preparation and presentation of financial information and reports. The Board of Commissioners and Audit Committee must oversee the implementation of internal control policies.

**Shareholders and Affiliates.** Controlling shareholders must support reliable financial reporting and avoid any actions that could lead to misrepresentation. Affiliates are prohibited from interfering with the financial reporting process.

**Reporting to OJK.** Banks must report any significant weaknesses or conditions that could endanger their business continuity to OJK.

**Implementation.** Banks are given specific timeframes to comply with the new regulations, including establishing internal control policies and forming special units for fraud prevention.

## SEVERAL SIGNIFICANT IMPACTS

Overall, this regulation aims to create a more transparent, accountable, and reliable banking environment, which will benefit all stakeholders involved. The regulation for banks will have several significant impacts.

<b>Enhanced Transparency and Accuracy</b>	<ul style="list-style-type: none"> <li>Improved Financial Reporting: Banks will need to ensure that their financial reports are accurate, transparent, and reliable. This will enhance the quality of information available to regulators, investors, and other stakeholders.</li> <li>Compliance with Standards: Banks must adhere to financial accounting standards and OJK regulations, reducing the risk of discrepancies and misreporting.</li> </ul>
<b>Strengthened Internal Controls</b>	<ul style="list-style-type: none"> <li>Internal Control Policies: Banks are required to establish robust internal control policies to ensure the integrity of financial reporting. This includes procedures to prevent unauthorized transactions and ensure compliance with accounting standards.</li> <li>Special Unit for Fraud Prevention: The formation of special unit or the designation of executives responsible for preventing fraud will help detect and mitigate fraudulent activities in financial reporting.</li> </ul>
<b>Accountability and Governance</b>	<ul style="list-style-type: none"> <li>Roles and Responsibilities: The regulation clearly defines the responsibilities of the Board of Directors, Board of Commissioners, and Audit Committee in overseeing financial reporting and internal controls. This will enhance accountability and governance within banks.</li> <li>Sanctions for Non-Compliance: The imposition of administrative sanctions, including fines and restrictions on business activities, will deter non-compliance and encourage adherence to the regulations.</li> </ul>
<b>Impact on Shareholders and Affiliates</b>	<ul style="list-style-type: none"> <li>Support from Shareholders: Controlling shareholders are required to support reliable financial reporting and avoid actions that could lead to misrepresentation. This ensures that the interests of shareholders align with the integrity of financial reporting.</li> <li>Prohibition of Interference: Affiliates are prohibited from interfering with the financial reporting process, which helps maintain the objectivity and accuracy of financial reports.</li> </ul>
<b>Operational Adjustments</b>	<ul style="list-style-type: none"> <li>Implementation Timeframes: Banks will need to adjust their operations to comply with the new regulations within specified timeframes. This includes establishing internal control policies and forming special units for fraud prevention.</li> <li>Reporting to OJK: Banks must report any significant weaknesses or conditions that could endanger their business continuity to OJK, ensuring timely intervention and corrective actions.</li> </ul>
<b>Overall Impact on the Banking Sector</b>	<ul style="list-style-type: none"> <li>Increased Trust and Confidence: By enhancing the integrity of financial reporting, the regulation will increase trust and confidence in the banking sector among regulators, investors, and the public.</li> <li>Better Decision-Making: Accurate and reliable financial information will support better decision-making by regulators and stakeholders, contributing to the stability and growth of the banking sector.</li> </ul>

## TIMELINE APPLICABILITY & FINES

### Implementation Timeline

- ❑ Date of Enactment: The regulation was enacted on October 2, 2024.
- ❑ Date of Effectiveness: The regulation became effective on October 9, 2024.

### General Timeline for All Banks

- ❑ Internal Control Policies: Banks must establish and implement internal control policies within 3 months from the date the regulation is enacted (By January 9, 2025)
- ❑ Special Unit for Fraud Prevention: Banks must form special unit or designate executives responsible for preventing fraud within 6 months from the date the regulation is enacted (By April 9, 2025).

### Specific Requirements for BPR (Rural Banks)

- ❑ BPR with Core Capital Less Than Rp80 Billion: Must either form a special unit or appoint an executive responsible for fraud prevention within the specified timeframe.
- ❑ BPR with Core Capital of Rp80 Billion or More: Must form a special unit dedicated to fraud prevention within the specified timeframe.

### Fines

- ❑ Commercial Bank: Fines range from Rp2 billion to a maximum of Rp50 billion for each violation.
- ❑ BPR: Fines range from a minimum of Rp10 million to a maximum of Rp100 million for each violation.

## ADEQUATE INTERNAL CONTROLS

Under this regulation, sufficient or adequate internal control is defined by several key elements:

<b>Accuracy and Transparency</b>	Ensuring the correctness, accuracy, and transparency of financial information and reports.
<b>Compliance with Standards</b>	Financial reports must comply with financial accounting standards and OJK regulations.
<b>Internal Control Policies</b>	Banks must establish policies that include: (i) Prohibitions on activities that could materially misrepresent financial information; (ii) Procedures for recording financial transactions to ensure reports are prepared according to accounting standards; (iii) Maintenance of accurate and fair transaction records; (iv) Authorization procedures to ensure transactions are approved by authorized personnel; (v) Procedures to prevent or timely detect unauthorized transactions that could materially impact financial reports.
<b>Implementation and Monitoring</b>	Banks must ensure the implementation of these policies and procedures. They must provide an information system that supports financial reporting in accordance with accounting standards and OJK regulations.
<b>Special Unit for Fraud Prevention</b>	Banks must establish special units or designate executives responsible for preventing fraud in financial reporting.
<b>Reporting and Accountability</b>	The Board of Directors is responsible for the preparation and presentation of financial information and reports. The Board of Commissioners and Audit Committee must oversee the implementation of internal control policies.

By adhering to these elements, banks can ensure that their internal controls are sufficient and adequate to maintain the integrity of their financial reporting processes.

## EVIDENCE OF IMPLEMENTATION

Under the regulation, banks must provide several forms of evidence to demonstrate that they have implemented effective internal controls over financial reporting. By providing these forms of evidence, banks can demonstrate implementation, as required by the regulation.

<b>Internal Control Policies and Procedures</b>	<p><b>Documentation.</b> Banks must document their internal control policies and procedures, which should include:</p> <ul style="list-style-type: none"> <li>• Prohibitions on activities that could materially misrepresent financial information.</li> <li>• Procedures for recording financial transactions to ensure reports are prepared according to accounting standards.</li> <li>• Maintenance of accurate and fair transaction records.</li> <li>• Authorization procedures to ensure transactions are approved by authorized personnel.</li> <li>• Procedures to prevent or timely detect unauthorized transactions that could materially impact financial reports.</li> </ul>
<b>Internal Control Reports</b>	<p><b>Regular Reporting.</b> The Board of Directors must submit regular reports on the internal control processes to the OJK. These reports should include:</p> <ul style="list-style-type: none"> <li>• A statement from the Board of Directors regarding their responsibility for implementing internal controls.</li> <li>• An assessment of the effectiveness of the internal controls over financial reporting.</li> </ul>
<b>Special Unit for Fraud Prevention</b>	<p><b>Formation and Functioning.</b> Evidence that the bank has established special unit or designated executive responsible for preventing fraud in financial reporting. This includes:</p> <ul style="list-style-type: none"> <li>• The existence of a dedicated unit or designated executive.</li> <li>• Documentation of the unit’s activities and measures taken to prevent fraud.</li> </ul>
<b>Audit Committee Oversight</b>	<p><b>Audit Committee Reports.</b> The Audit Committee must provide reports on their monitoring and evaluation of the internal control policies and procedures. These reports should include:</p> <ul style="list-style-type: none"> <li>• Evaluations of the implementation of internal controls.</li> <li>• Recommendations for improvements based on their findings.</li> </ul>
<b>Compliance with Standards</b>	<p><b>Financial Reports.</b> Banks must ensure that their financial reports comply with financial accounting standards and OJK regulations. Evidence includes:</p> <ul style="list-style-type: none"> <li>• Financial statements that adhere to the required standards.</li> <li>• Documentation of compliance checks and audits.</li> </ul>
<b>Corrective Actions and Sanctions</b>	<p><b>Response to Findings.</b> Evidence that the bank has taken corrective actions in response to any identified weaknesses or violations. This includes:</p> <ul style="list-style-type: none"> <li>• Records of any sanctions imposed, and the steps taken to address the issues.</li> <li>• Documentation of improvements made to internal controls following any findings of non-compliance.</li> </ul>
<b>Information Systems</b>	<p><b>Supportive Systems.</b> Banks must provide evidence that they have implemented information systems that support financial reporting in accordance with accounting standards and OJK regulations. This includes:</p> <ul style="list-style-type: none"> <li>• Documentation of the systems in place.</li> <li>• Records of system audits and evaluations.</li> </ul>
<b>Training and Awareness</b>	<p><b>Training Programs.</b> Evidence that the bank has conducted training programs for staff on internal control policies and procedures. This includes:</p> <ul style="list-style-type: none"> <li>• Records of training sessions.</li> <li>• Attendance logs and training materials.</li> </ul>

## KEY STEPS IN IMPLEMENTING THE NEW REGULATION

Here are key steps for considerations when preparing the implementation. By following these steps, banks can effectively prepare for and implement the new regulations, ensuring compliance and enhancing the integrity of their financial reporting processes.

### 1. Understand the Regulation

**Thorough Review:** Carefully read and understand the full regulation to grasp all requirements and deadlines.

**Identify Key Areas:** Focus on the main areas such as internal control policies, fraud prevention unit, and reporting requirements.

### 2. Establish Internal Control Policies

**Develop Policies:** Create comprehensive internal control policies that ensure the accuracy, transparency, and reliability of financial reporting.

**Include Key Elements:** Ensure policies cover prohibitions on misrepresentation, procedures for transaction recording, maintenance of accurate records, authorization processes, and prevention of unauthorized transactions.

**Approval and Documentation:** Get the policies approved by the Board of Directors and document them thoroughly.

### 4. Prepare for Reporting

**Internal Control Reports:** Prepare to submit regular internal control reports to the OJK, including statements of responsibility and assessments of effectiveness.

**Compliance Checks:** Conduct periodic internal audits to ensure compliance with the new regulations and prepare for external reviews if required.

### 3. Implement and Monitor Internal Controls

**Deploy Systems:** Implement information systems that support financial reporting requirements.

**Training and Awareness:** Conduct training programs on the new internal control policies and procedures.

**Regular Monitoring:** Set up regular monitoring and evaluation processes to ensure the effectiveness of internal controls.

For further information please contact:

**RSM Indonesia**  
Plaza ASIA Level 10  
Jl. Jend. Sudirman Kav.59  
Jakarta 12190  
T: +62 21 5140 1340  
E: [inquiry@rsm.id](mailto:inquiry@rsm.id)  
[www.rsm.id](http://www.rsm.id)