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ABSTRACT

Pernyataan Standar Akuntansi Keuangan (PSAK) 71 and PSAK 73 are financial standards with an effective date of January 1, 2020. The new standards have their own complexities and impacts. PSAK 71 concerning financial instruments introduces the concept of expected credit loss, which increases the allowance for impairment losses on receivables and reduces profits. PSAK 73 concerning leases alters company financial ratios and potentially impacts the low performance and violation of debt covenants. Company X is a manufacturing company belonging to a state-owned enterprise in Indonesia that has been significantly impacted by the implementation of PSAK 71 and PSAK 73. This study aimed to identify improvements to the internal controls at Company X to minimize the risks related to PSAK 71 and PSAK 73 implementation according to the Internal Control–Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The case study method was used and the data were collected through interviews and a document review. The data were analyzed based on the discrepancy between the internal control condition and the principles of the COSO internal control framework.

Keywords: *COSO; internal control; PSAK 71; PSAK 73.*

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1. INTRODUCTION

Three new accounting standards, namely PSAK 71, concerning Financial Instruments; PSAK 72, concerning Revenues from Contracts with Customers; and PSAK 73, concerning Leases became effective for annual reporting periods commencing on or after January 1, 2020. Each standard was adopted from International Financial Reporting Standard (IFRS) 9: Financial Instruments, IFRS 15: Revenue from Contracts with Customers, and IFRS 16: Leases as developed and issued by the International Accounting Standards Board (IASB). Pricewaterhouse Coopers (2019) referred to these three standards as the “New Big 3 Standards” due to their complexity and significant impact on entities. However, despite their complexity and impact, the standards were implemented to create harmony between a company’s business and its performance as reflected in the financial statement.

As a manufacturing company belonging to a state-owned enterprise, Company X has adhered to PSAK 71, 72, and 73 since January 1, 2020. However, only PSAK 71 and 73 have had a significant impact on the company. First, Company X uses PSAK 71 to measure financial assets, especially trade receivables. PSAK 71 introduced a new accounting method known as expected credit loss, which replaced the incurred loss method. The expected credit loss method uses historical, current and forward-looking information to determine the allowance for impairment losses on financial instruments based on the risk profile (PWC, 2019a). Under the expected credit loss method, Company X recorded an increase in the allowance for credit losses on business receivables amounting to 18.6 billion rupiahs in 2020. It is recognized that the allowance for impairment losses can reduce profits; this is consistent with the prediction that expected credit loss will increase the allowance for credit losses and reduce profits (Gornjak, 2019a; KPMG, 2016). Company X’s allowance for credit losses on business receivables also increased since the implementation of PSAK 71, showing the risk increase in the company’s receivables.

Furthermore, PSAK 73 was implemented at Company X to accommodate lease asset transactions such as those for warehouses, land, office buildings, vehicles, and certain heavy equipment. The provisions of PSAK 73 require changes in lessee accounting, which, for a period, has seen operating leases recorded through the off-balance sheet. However, the lessee must now recognize right-of-use assets and lease liabilities on the balance sheet, with the only optional exemptions being short-term leases (with a duration of one year or less) and the leases of low-value assets (PWC, 2019b). In 2020, more than 800 contracts at Company X contained a lease, with a total value of 126.6 billion rupiahs. With the implementation of PSAK 73 in 2020, Company X recognized 61.8 billion rupiahs worth of right-of-use assets and lease liabilities, which impacted the increase in assets and liabilities on the company balance sheet. In addition, the lease payment, which is considered an interest expense and depreciation on right-of-use assets, increased on both the statement of profit and loss and the statement of other comprehensive income.

An increase in certain lease assets and liabilities creates changes that are subsequently reflected in financial ratios such as leverage, asset turnover, and interest coverage ratio (Àngels Fitó, IASB, 2016; Zamora-Ramírez & Morales-Díaz, 2019). From Company X’s perspective, it is crucial to maintain these financial ratios especially leverage; they are key performance indicators of the company and are included in debt covenants under bank credit agreements. Company X must assure that the on-balance sheet lease recognition will not lead to a violation in debt covenant violation. Besides, Company X holds more than 800 contracts which makes assessments to each contract a challenging task in terms of compliance, especially with its limited human resources.

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Considering the complexity and risks that arise as the result of implementing these standards, a company requires a strategy to improve its internal controls. Improving internal controls is purposefully intended to mitigate the risks related to the implementation and to ensure the company's compliance to the accounting standards.

Several previous studies have considered a variety of discussion and research objects when highlighting the implementation of IFRS 9 and IFRS 16. For example, studies by Gornjak (2019b), and Ntaikou, Vousinas, and Kenourgios (2021) concerning IFRS 9 emphasized the impact of IFRS implementation on financial institutions as well as solutions to overcome the problem. Other studies on the implementation of IFRS 16 by Churyk, Reinstein, and Lander (2015), Gross, Huston, and Huston (2014), Singh (2011), and Veverková (2019) examined airlines, retail, and real estate companies as their research objects. They analyzed the impact of and preparation involved in implementing the standard. Nguyen, Chen, and Nguyen (2021) were among the researchers who discussed both standards simultaneously, with a focus on the preparation of the required information system.

We assumed that no research on the improvement of internal controls of PSAK 71 and 73 at manufacturing companies had previously been carried out. This may be evident from the insignificant impact of both standards on the manufacturing sector compared to other industrial sectors (IASB, 2016). However, according to its financial statement and a preliminary interview with Company X, the implementation of PSAK 71 and 73 has had a significant impact on its performance and company business. Therefore, it is deemed necessary to propose the idea of improving internal controls, which is expected to mitigate risks related to the implementation and to comply with the standards. The selection of a research object and focus that differ from those of previous studies will contribute positively to Company X and the academic field, notably to research perspectives concerning PSAK 71 and 73.

The improvement of internal controls in relation to the implementation of PSAK 71 and 73 at Company X is analyzed based on the Internal Control – Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) consisting of five components and one principle. This study will analyze how to improve internal controls at Company X through each internal control principle.

Based on the above-mentioned explanation, this study aims to answer the following research questions:

1) How can Company X improve its internal controls after the implementation of PSAK 71?
2) How can Company X improve its internal controls after the implementation of PSAK 73?

2. LITERATURE REVIEW

2.1. PSAK 71 IMPLEMENTATION: FINANCIAL INSTRUMENTS

A financial instrument is any contract that increases the value of an entity's financial assets and liabilities or that of another entity's equity instruments. PSAK 71 is primarily implemented at Company X through financial support through trade receivables and investments in associates and joint ventures. Trade receivables are included as contractual rights to receive cash from other entities, while investments in associates are included as equity instruments issued by other entities. PSAK 71 introduces the concept of expected credit loss to measure financial assets. This concept also applies to the valuation of loans and receivables, including trade receivables with a short term. The expected credit loss model focuses on the risk of receivables

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defaulting, as opposed to actual losses. Consequently, companies require forward-looking information to calculate predicted credit loss. Compared to the incurred loss method, the expected credit loss model may increase the provision for impairment losses (Gomaa, Kanagaretnam, Mestelman, & Shehata, 2019; KPMG, 2016). Since each receivable is susceptible to future payment default, it has an inherent expected credit loss from the time of its creation.

2.2. PSAK 73 IMPLEMENTATION: LEASE

PSAK 73 requires lessees to record almost all lease transactions on their balance sheets. The only exemptions are leases with a duration of under 12 months and low-value underlying assets. PSAK 73 affects both the lessee and the lessor, although the lessee is affected more significantly. Given Company X's position as a lessee, the discussion of accounting treatment in PSAK 73 will focus on the lessee's perspective. IASB (2016) explained that the lessee's financial statements would be affected by the recognition of right-of-use assets and lease liabilities. The application of PSAK 73 has the following effect on the financial statements:

(1) The recognition of right-of-use assets and lease liabilities will result in an increase in the related assets and liabilities on the statement of financial position. In general, the carrying value of a right-of-use asset will fall more quickly than the carrying value of a lease liability. Because assets with a right-of-use are depreciated utilizing the straight-line technique. On the other hand, rental payments, deducted from lease liabilities, receive a smaller share than interest expenditure. If the firm previously engaged in a large number of operating lease agreements, this will result in a decrease in equity.
(2) The recognition of depreciation on right-of-use assets will increase the entity's depreciation expense, followed by the mention of interest expense on lease liabilities, which will increase the entity's financing expense.
(3) A portion of the rental payments covers principal and interest expenditures. This proportion of principal payments is classified as cash outflows from financing activities and interest expenditures. This will result in a rise in cash flows from operating activities, and a decrease in currency flows from financing activities on the statement of cash flows.

2.3. INTERNAL CONTROL

COSO (2013) stated that internal control helps an entity to achieve its objectives and also sustain and improve its performance. COSO's Internal Control – Integrated Framework helps entities effectively and efficiently develop internal control systems that can adapt to changes in the business and operational environment, mitigate risks, and support decision-making and governance in the entity.

The COSO framework defines internal control as a process influenced by the board of directors, management, and other entity personnel that is designed to bring reasonable assurance concerning the achievement of the entity's objectives related to operations, reporting, and compliance. The operations objective relates to the entity's operational effectiveness and efficiency, including its operational and financial performance and safeguarding assets from any loss. The reporting objective is closely related to the entity's reporting, both internal and external reports, financial or non-financial, and may comprise reliability, timeliness, transparency, or other terminology set by the regulator, admitted standard maker, or entity's policy. Meanwhile, the compliance objective concerns the entity's legal and regulatory compliance.

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The COSO Internal Control – Integrated Framework consists of five components and seventeen principles, all of which depict the fundamental concept of the components. Each principle relates directly to one component of internal control. Therefore, an entity that implements all seventeen principles can achieve effective internal control, which requires all five components to be present and functioning well. The internal control component is considered present if the component and related principle are present in the design and implementation of the internal control system. Additionally, a component is considered to function well if both it and the related principle are implemented in the entity's activities. Effective internal control provides reasonable assurance surrounding the achievement of the entity's objectives. Effective internal control will also reduce the risk of failure in achieving the objectives to an acceptable level that the entity may tolerate. The five components and seventeen principles of the COSO framework are given as follows:

(1) Control environment
   a. The organization demonstrates a commitment to integrity and ethical values.
   b. The Board of Directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
   c. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
   d. The organization demonstrates a commitment to attracting, developing, and retaining competent individuals in alignment with objectives.
   e. The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

(2) Risk assessment
   f. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
   g. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
   h. The organization considers the potential for fraud in assessing risks to the achievement of objectives.
   i. The organization identifies and assesses changes that could significantly impact the system of internal control.

(3) Control activities
   j. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
   k. The organization selects and develops general control activities over technology to support the achievement of objectives.
   l. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

(4) Information and communication
   m. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.
   n. The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
   o. The organization communicates with external parties regarding matters affecting the functioning of internal control.

(5) Monitoring activities

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p. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
q. The organization evaluates and communicates internal control deficiencies promptly to those parties responsible for taking corrective action, including senior management and the Board of Directors, as appropriate.

2.4. INTERNAL CONTROLS REGARDING PSAK 71

The implementation of the new accounting standard concerning financial instruments demands management involvement and sufficiently competent human resources (Gornjak, 2019a). The parties involved generally come from the accounting department, finance, sales, information technology, and senior management. It is important to establish coordination between parties to ensure the effective implementation of the standard. Additionally, this coordination should be supported by a policy adjustment or related procedure.

The implementation of PSAK 71 significantly impacts how companies treat their financial assets. Trade receivables are company financial assets, which are assessed with the expected credit loss model utilizing forward-looking information to predict impairment losses. Each trade receivable is considered to have a potential risk, meaning it may be uncollectible in the future. The greater the risk of uncollectible business receivables, the greater the impairment loss allowances that the company must deal with. Ultimately, impairment loss allowance will reduce profits (Gomaa et al., 2019; KPMG, 2016).

Considering the previous information, internal controls are required to ensure that business receivables have low uncollectible risk. (Romney & Steinbart, 2018) highlighted that the uncollectible risk of business receivables can be minimized through the proper credit policy and credit sale procedure. An initial assessment is important to determine whether or not a customer is eligible for a credit sale. If a customer satisfies the requirements to purchase goods under a credit scheme, a credit limit is required. This is the maximum amount of accounts receivable granted to buyers or customers based on their recorded transactions and financial capacities. The company also needs to set the person responsible to approve sales for new customers or sales that exceeded the credit limit.

Apart from the risk aspect of business receivables, the implementation of PSAK 71 alters how the company calculates the allowance of impairment losses. Through the expected credit loss method, the calculation of receivables impairment requires historical and forward-looking information, including macroeconomic conditions to calculate the probability of default. To produce reliable accounting information, the company must modify or update its accounting system and software or application (Gornjak, 2019a; Nguyen, Chen, & Nguyen, 2021; PricewaterhouseCoopers, 2015). In addition to updates, the company must plan to develop its human resource competence to operate the system, establish a guideline or manual for how the system works, and ensure the system is optimized (Nguyen et al., 2021). Bialkowska (2022) also mentioned several ways that a company may deploy to make sure the expected credit loss calculation using provision matrix complies to the standard:

(1) Assess how to incorporate forward-looking information reflecting economic uncertainty;
(2) Consider whether the segmentation applied to measure ECLs appropriately captures the different types of customers or regions that are affected in different ways by the economic uncertainty;

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(3) Assess whether a trade receivable has been modified and, if so, whether it continues to be appropriate to use a discount rate of zero; and
(4) Consider how to incorporate the impact of any credit insurance, new legislation and government support.

2.5. INTERNAL CONTROLS REGARDING PSAK 73

As with PSAK 71, the implementation of PSAK 73 involves management and all of the different working units in a company; therefore, interdepartmental communication and coordination must be effectively established (PWC, 2019b). Coordination is essential between the accounting department, leasing department, and the department of information and technology that manages the application or software regarding leases. To support this coordination, an adjustment should be made to policies and procedures.

In the implementation of PSAK 73 concerning leases, a company must recognize right-of-use assets and lease liabilities. Changes in the company’s financial statement will also alter the related financial ratios, which may consequently influence the company’s performance assessment and banking debt covenants. Singh (2011) investigated the lease capitalization at a restaurant chain and revealed that with many lease transactions, the company was obliged to develop strategies to minimize the risks related to the accounting standard.

First, a company should decide whether it wishes to lease or buy an asset. Long-term leases in particular will lead to the recognition of right-of-use assets and a higher lease liability. As such, precise calculations of the benefits and costs of each choice are required. Other aspects relating to the impact of implementing the lease accounting standard must be considered.

Second, a company must evaluate its existing leases and consider any modifications to minimize their impact. One such modification is to shorten the lease term and avoid a lease extension option. Singh (2011) stated that long-term leases will lead to the recognition of right-of-use assets and higher lease liabilities. Most initial lease payments will be allocated to the interest expense, meaning that the main portion, which reduces lease liability, has a lower value. This will lead to the recognition of higher interest expenses and impact the profit and loss statement of a company. Indeed, a shorter lease term will help a company to minimize the impact of implementing PSAK 73.

In addition, to avoid violations in the provisions of debt covenants, Singh (2011) stated that management must periodically monitor affected ratios such as leverage, interest coverage, and return on assets. If a company is expected to violate its debt covenants, immediate mitigation measures are required. These could include submitting a bank waiver, renegotiating the provisions of the debt covenants in a credit agreement, refinancing a bank loan, and paying off an existing loan. A company is also advised to increase its equity and reduce reliance on debt financing.

IASB (2016) added that if a company has an evenly distributed lease portfolio, it will be advantageous in minimizing the implementation of IFRS 16. An evenly distributed portfolio contains the same number of leases starting and ending in any one period, with the same terms and conditions (IASB, 2016). This is due to the absence of differentiation in IFRS 16 between an interest expense and depreciation expense along with the calculation of the lease expense using the previous accounting standard.

Thus, a company should focus not only on the aspects of lease substances but also on the management of lease data. The calculation of right-of-use assets and lease liabilities depends on the lease data owned by a company. If a company owns a large volume of lease data, the manual management of that data will increase the risk of

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recording or calculation errors. In line with the implementation of IFRS 9, modification and renewal of the information system are required for IFRS 16 implementation (Nguyen et al., 2021). A company requires software or an application to manage its lease data to produce reliable accounting information. The use of the new system must be accompanied by competent human resources who operate the system and follow procedures or a manual in its operation.

3. RESEARCH METHODS

This study used the case study method with interviews and document reviews to obtain data. Interviews were conducted with Senior Vice President (SVP) Administrasi Keuangan, Vice President (VP) Marketing Business Partner Korporasi (MBPK), VP Pengadaan Jasa, SVP Satuan Pengawasan Intern (SPI), and a member of the Audit Committee. Table 1 lists the reasons for selecting these interviewees and the types of information that were needed from them.

Table 1. List of interview respondents

Respondents	Reason for selection	Information to be obtained
SVP Administrasi Keuangan	Responsible for implementing PSAK 71 and PSAK 73, identifying their impacts, and conducting internal control to minimize them.	• Implementation of PSAK 71 and 73 in Company X; • Internal controls regarding the PSAK 71 and 73 implementation.
VP MBPK	Responsible for non-subsidized product sales.	Internal controls regarding the PSAK 71 implementation.
VP Pengadaan Jasa	Responsible for handling lease transactions including negotiating lease terms with vendors and managing lease contracts data.	Internal controls regarding the PSAK 73 implementation.
SVP SPI	Responsible for several aspects of Company X's internal control practices, including testing and evaluating internal control according to corporate policies.	Internal controls regarding the PSAK 71 and 73 implementation.
Audit Committee member	Responsible for monitoring in Company X, especially regarding the accounting standard.	Internal controls regarding the PSAK 71 and 73 implementation.

Each interview lasted for between 1 and 1.5 hours. The interview questions were arranged in reference to the related COSO principles to gain deeper understanding about existing internal control related to trade receivable and lease management. For example, the first questions asked are related to the first principle of Control Environment which is tone at the top. The questions to the interviewee are: what are the commitments that the management shows in managing its trade receivables; how did the management

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address the commitment; and whether all the different functions in the company such as marketing, finance and accounting adheres to this commitment.

All interviewees agreed for their interviews to be recorded and later transcribed. In addition to the interviews, document reviews were conducted to gain a better understanding of the topics. Table 2 contains a list of the documents used in the study and the types of information obtained from them.

Table 2. List of documents used

Document	Information to be obtained
Risk register	Risk identification and risk assessments relevant to PSAK 71 and PSAK 73 implementation.
Non-subsidized product sales procedure	Existing business process, risk, control, and person in charge for non-subsidized product sales.
Service procurement procedure	Existing business process, risk, control, and person in charge for lease transactions.

4. ORGANIZATIONAL PROFILE

This study was undertaken in a manufacturing company in Indonesia, namely Company X. The parent company of Company X is Company A. Its main activities are producing and trading agro-chemicals product. Company X sells products to distributors, corporates, or traders from Indonesia and abroad. Among the financial assets of Company X measured using expected credit loss according to PSAK 71 are trade receivables originating from the sale of non-subsidized products and services. Specifically, this study focused on the sale of non-subsidized products to third parties since this accounts for up to 65.41% of the company's total trade receivables. Company X also employs various assets to support its business, including office buildings, factories, storage tanks, warehouses, and vehicles. Most of these assets are leased and should thus be treated in line with PSAK 73.

5. RESULTS AND DISCUSSION

Based on the interviews and document reviews, this study found that Company X already made several adjustments to its internal controls system related to PSAK 71 implementation. Although, the results from the adjustments are not as expected. Table 3 below shows the existing internal controls related to PSAK 71 and 73 and its deficiency based on the analysis.

Table 3. Company X's changes in internal control system regarding PSAK 71 and 73

No.	Existing internal controls	Internal controls deficiency
A. Internal controls regarding PSAK 71		
1.	Company X uses a customer performance ratings to determine which customer deserves credit based on transaction history.	Company X has not established measurable, straightforward, specific customer assessment/profile activities criteria.

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2.	Establishing credit enhancements such as Letters of Credit (LC), Surat Kredit Berdokumen Dalam Negeri (SKBDN), Distributor Financing (DF), or Bank Guarantee (BG).	Credit guarantees using LC and SKBDN are nevertheless frequently subjected to late payments or additional costs. The human resources are not sufficient to handle all the documents for processing disbursement.
3.	Improving human resources competency related to PSAK 71	The improvement was made to human resources related to accounting, finance, and marketing function. There is no deficiency related to this internal control.
4.	Coordination with Company A as parent company to ensure compliance with PSAK 71	Company X consistently coordinating with Company A regarding PSAK 71 implementation. There is no deficiency related to this internal control.
5.	Reliance on independent consultants to calculate expected credit loss.	The calculation process took longer time do be completed since it's conducted for all of Company A's subsidiaries.
B. Internal controls regarding PSAK 73		
1.	Conducting administration and assessment to lease contracts.	Administration of lease contracts are not properly performed. Imbalance between the number of lease contracts and the number of human resources to exercise the assessments.
2.	Implementing an accounting software (application H) to exercise accounting calculation related to PSAK 73	• Only one HR representative administers the H application with no oversight or consent from superiors. • The reporting feature of the H application is not a necessity at Company X.
3.	Improving human resources competency related to PSAK 71	The improvement was made to human resources related to accounting, finance, and service procurement function. There is no deficiency related to this internal control.
4.	Coordination with Company A as parent company to ensure compliance with PSAK 73	Company X consistently coordinating with Company A regarding PSAK 73 implementation. There is no deficiency related to this internal control.

Source: Interview and document review

Table 3 shows that various gaps exist between the COSO components and Company X's current condition. These are potentially the cause of the company's increasing loan loss provision and its greater right-of-use assets and lease liability. This study therefore recommends the following actions for Company X to minimize the gaps:

Recommendation 1: Improve internal controls after PSAK 71 implementation

1) Establish relevant policies and procedures for internal control to accommodate the effect of PSAK 71.
   Company X should establish a credit policy with the necessary credit sales provisions. The objective of the credit policy is to receive consumers eligible for credit facilities and determine the terms and conditions of credit sales (Freedman,

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2022). This is necessary given that Company X is still required to have clear, specific, measurable, and standardized criteria for measuring customer performance ratings. After establishing the credit policy, the sales method must be revised to include a customer performance rating evaluation and credit sales approval steps. The entity responsible for the review and authorized to approve purchases on credit should also be clearly indicated in the procedure. The protocol should then be disseminated to all personnel at Company X to ensure the appropriate parties know about, understand, and implement it. Additionally, systems must be assessed after a predetermined period to verify their continued relevance to existing business operations (Graham, 2015) .

2) Improve Control Activities related to credit enhancements
To ensure that trade receivables are paid according to maturity, Company X may seek several efforts to improve internal control. First, the company need to prepare template clauses or prerequisites for LC and SKBDN as credit enhancements. Thus, all LC and SKBDN submitted as collateral have uniformity prerequisites. This will make it easier for Company X to complete the presentation documents. The person in duty doesn't need to do detailed checks for every LC and SKBDN which will take a long time and increase the risk of errors. By implementing this, Company X can also ensure that there are no clause that potentially burdens the company. Furthermore, the company may require the types of LC and SKBDN that are accepted only the Sight type because the LC and SKBDN disbursement can be done immediately no later than 5 working days after the presentation document is declared complied by the bank. Customers submitting LC or SKBDN with types other than Sight as collateral will be rejected because the disbursement takes longer time. The credibility of the bank issuing the LC or SKBDN also needs to be considered. because a bank with a good credit rating is considered to have a very low risk of repayment failure (PWC, 2018). Therefore PT X may also require LC or SKBDN to be issued by a bank with a good reputation and credit rating.
Company X may determine alternative credit guarantees aside from existing ones in the form of account balances or customer deposits with an amount equal to the purchase value. This type of guarantee can be beneficial for both Company X and the customers since it is simpler and cheaper to implement. Although, Company X must establish another controls to ensure this alternative credit guarantee works properly.
Company X must also evaluate human resource competence in internal control, particularly in the MBPK Department, which frequently makes mistakes in credit guarantee management. Furthermore, all critical human resources must receive periodic credit guarantee training, particularly LC and SKBDN;

3) Coordinate with Company A on the application of the expected credit losses software
Company X should propose to Company A the implementation of a credit losses software or calculation engine. The findings indicate that Company X continues to rely mostly on external consultants to compute the estimated credit loss in collaboration with other Company A subsidiaries; scope therefore exists to improve the financial reporting process as Company X is obliged to wait for another subsidiary.

Recommendation 2: Improving internal controls after PSAK 73 implementation

1) Scrutinize asset procurement strategy

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Company X should consider several control activities to minimize the impact of PSAK 73 application. These could include exercising an asset procurement strategy analysis before deciding to lease an asset. Prior to this research, Company X never done any analysis before leasing an asset so it didn't have any strong underlying to justify its decision. An analysis would help Company X to decide whether it is most beneficial for the company to obtain an asset through lease, purchase, or other option. By implementing this, the company may ensure that all of the lease decision made are the best option for the company considering financial, technical, and other aspects. When the company decided to lease an asset, next thing to be the concern is to propose the best terms and condition. For example, one of the lease terms that impacts the accounting aspect significantly is lease period. Singh (2011) mentioned that a lease contract with a longer lease term will lead to a higher recognition of right-of-use assets and lease liabilities. To mitigate this, company can set a lease period that is not too long. The company currently leases assets with terms varying from two to five years. The rental period is determined based on the needs of the asset user work unit and negotiations with the lessee. It is recommended that the company put into consideration the best lease period from both business aspect and accounting impact.

2) Improving control activity related to lease contract administration and assessments
Company X should establish a separate procedure outside the service procurement procedure focusing on the lease procurement process. This is required to accommodate the details of the lease contract's negotiation and administration stages. As existing policies must specify the points to be addressed during talks, the system should include steps for submitting the most recent rental contract data from the Service Procurement Department to the Accounting Department for financial reporting purposes. As a result, data entry is frequently delayed, and the financial reporting process is disrupted. Company X may also establish an evenly distributed lease portfolio to put ease in its lease assessment process. An evenly distributed lease portfolio being a portfolio with the same number of leases starting and ending in any one period, with the same terms and conditions. This is especially the case for vehicle rentals, where a large number of contracts are routinely carried out every few years.

3) Improvement of accounting software
Company X must propose application H improvement to Company A through the addition of an authorizer function to review and approve data before the data process is resumed, ensuring the process is not performed by only one person and that the data is error-free. The input of H application data should immediately be connected to the SAP application, thus eliminating the need for manual data entry, which is prone to errors and data loss. This will improve the H application's reporting capability to satisfy Company X's needs for monthly and annual reports. These enhancements are required to ensure the dependability of the H application. Furthermore, Company X must suggest an upgrade to reporting function in the software that differs from the requirements so that the information generated meets the company's needs.

6. CONCLUSIONS

Company X experienced an increase in loss provisions based on its implementation of PSAK 71. The company also experienced an increase in right-of-use assets and asset liabilities in line with the implementation of PSAK 73. To minimize these impacts,

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Company X can seek to improve its internal controls. This study identified gaps in five COSO elements in Company X, where improvements can be made. It then recommended several internal control improvements as suggested by Gornjak (2019a), Nguyen et al. (2021), Oussama and Jamil (2020), PricewaterhouseCoopers (2015), and Singh (2011). The improvements identified are expected to complete the company's internal control at the same time as minimizing the risks related to PSAK 71 and PSAK 73 implementation.

This study used data collection techniques in the form of document reviews and interviews with five interviewees. During the interviews, there were differences in responses between one interviewee and another when asked the same question. However, this difference could not be confirmed further because the interviews were carried out alternately for each interviewee. It is recommended for future studies to use other data collection methods such as focus group discussions so that differences in responses can be directly confirmed between sources in order to obtain a comprehensive and useful explanation for analysis.

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