

Study of Internal Control on the Credit Granting System

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Abstract— Internal control is a method used by managers/company leaders in running the company to achieve its goals, namely increasing the efficiency and effectiveness of bank performance in lending to minimize arrears in credit payments from customers. Early detection of bad loans is mandatory so as not to cause losses from credit arrears. The purpose of this article is to determine the internal control system in an effort to prevent bad loans at banks. The method used in making this article is a qualitative method by using literature studies from various journals on the topic of the internal control system for providing credit to banks that have been collected previously. The purpose of this article is to determine the internal control system in an effort to prevent bad loans at banks. The results obtained are that it is known that the internal control system for providing credit at national banks such as BRI and others has been implemented properly in accordance with the guidelines and standards/procedures for lending issued by Bank Indonesia, the internal control system for providing credit at Rural Banks (BPR) which have limited personnel and/or capital have not been running well and the internal control system for providing credit at the guarantor financial institution (Leasing) is running quite well.

Keywords— internal control; credit grant; bank

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I. INTRODUCTION

According to Law No. 10 of 1998 concerning banking, the definition of a bank is an institution that collects public funds in the form of deposits or savings and is channeled back to the community in the form of loans or credits to improve people's living standards (Amir & Nurfika, 2018).

A bank is a business entity that has a role as a financial intermediary (financial intermediary) between parties who have excess funds (surplus units) and parties who need funds (deficit units), as well as business entities that have the function of facilitating payment traffic. . The philosophy that underlies the bank's business activities is a public trust. This can be seen from the main activities of banks which collect funds (savings) from people who have excess funds in the form of demand deposits, savings, and time deposits and distribute them (provide credit) to parties who need funds (Indonesian Institute of Accountants, 1999) (Saputra et al., 2014).

The increasingly fast and dynamic development of the business world has spurred the emergence of many entrepreneurs, both national and international entrepreneurs. The increasingly fierce competition encourages small and medium economic actors to be able to survive and even be able to compete, this is where the role of banks in supporting the country's economic development is.

The existence of a bank is an important thing in the business world. The relationship between the business world and banking cannot be separated, especially in terms of investment and credit.

One form of activity carried out by banks is the provision of credit. In granting credit, the bank must have a high enough level of trust in the prospective debtor so that the funds provided can be used in accordance with the original purpose and will eventually be returned to the bank in accordance with the agreed agreement. Banks are always faced with the risk of whether the funds that have been channeled can return as promised in the credit agreement. In other words, an Internal Control System (SPI) is needed that can ensure the effectiveness of the credit distribution system. With adequate internal control in the field of credit, it means showing prudence in the provision of credit.

With the element of risk, we need a way to secure credit, both preventive and repressive. The purpose of this security is to minimize the risks that may occur.

In ensuring credit management is in accordance with the Bank's credit policy, there must be a good credit granting procedure. It is hoped that good credit procedures can minimize the occurrence of unhealthy credit practices.

Credit application submission, credit analysis process, credit disbursement process to the credit implementation feedback process is a procedure for granting credit that is commonly

carried out by banks. The concept of this credit granting procedure follows the flow of the credit process itself, so it supports the principle of prudence (prudential banking) in providing credit to the public and is expected not to cause bad credit in the future.

In practice, there are various factors that affect the difficulty of the debtor in carrying out his obligations to the Bank or the Bank has difficulty collecting credit from the debtor, such as a decrease in the debtor's business income, the emergence of a debtor's business loss or the run of the debtor.

With the development of the Indonesian banking world and as an effort to overcome the negative impact of lending, the implementation of credit control is needed. This is the implementation of internal control applied in banking with the aim of managing and supervising banks in the credit sector.

Internal control is a method used by managers/company leaders in running the company to achieve its goals, namely increasing the efficiency and effectiveness of bank performance in lending to minimize arrears in credit payments from customers. Banks must be able to detect the risk of bad credit early so as not to cause losses from a large number of credit arrears by customers the bank.

The definition of a bank at first was known as a table where money was exchanged. Then the notion of this bank is a place to store money and so on. However, with the increasing development of the banking world, the meaning of the bank has also changed. The definition of a Bank according to the Law of the Republic of Indonesia Number 10 of 1998 dated November 10, concerning banking, what is meant by a bank is a business entity that collects funds from the public in the form of savings and distributes it to the public in the form of credit or other forms in order to increase the level of lives of many people (Putra et al., 2016).

According to (Ismail, 2011), Bank is a business entity that has a function in collecting public funds, channeling them back and providing other banking services" (Amir & Nurfika, 2018).

From the above understanding, it can be concluded that a bank is a financial institution that has activities, among others:

1. Collecting funds (money) from the public as savings, in this case, the bank is like a place for storing money or investing in the community. In general, the types of deposits in banks are demand deposits, savings deposits, and time deposits.
2. Channeling funds (money) to the public, meaning that banks provide loans (credit) to people who need funding. Before the credit is given, it is first assessed whether the prospective customer is worthy of being given credit or not. This assessment is carried out so that banks can avoid losses due to the non-refundability of loans disbursed by banks for various reasons. Types of

credit that are usually given by banks are investment credit, working capital credit, and trade credit.

3. Provide other bank services, such as remittances (transfers), collection of securities originating from outside the city or abroad (collection) as well as from within the city (clearing), letters of Credit (L/C), bank warranties, and other services.

At first, the term internal control system was internal check, and then starting in 1949 it changed to an internal control system. Basically, the internal control system develops naturally through experience or trial and error, and naturally.

Internal control is a tool to control the activities of corporate entities whose purpose is to secure and prevent acts of theft, fraud, abuse, and damage to company assets, as well as to ensure the accuracy of financial statements (Amir & Nurfika, 2018).

The definition of internal control according to (Mulyadi, 2017) is a process carried out by all company organs designed to provide adequate assurance about achievement (Lestari & Masrurroh, 2015). The definition of internal control according to the COSO (Committee of Sponsoring Organization) study in SAS No. 78 quoted by Arens (Arens et al., 2008) is as follows:

"Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations; (2) reliability of financial reporting, (3) compliance with applicable laws and regulations."

The above understanding states that internal control is a process carried out by the board of commissioners, management, and the leadership under them to provide reasonable assurance that the control objectives are achieved, namely: (1) effectiveness and efficiency of operations; (2) reliability of financial statements; (3) obedience to laws and regulations.

The characteristics of each company are different. Because of these differences in characteristics, causing good internal control in a company is not necessarily good for other companies. Therefore, all factors that influence the company in achieving its goals must receive special attention in making internal controls.

Several studies related to the credit granting internal control system that has been carried out by several researchers include:

In a study conducted at PT BPR Nusumma Jatim located in Tebuireng-Jombang under the title "Evaluation of the Internal Control System in the MSME Credit Granting Process (Study at PT. BPR Nusumma Jatim)", the results obtained that PT. BPR Nusumma Jatim already has an adequate internal control system as determined by Bank Indonesia, it's just that there are still multiple positions and it is known that there are inconsistencies between the applicable procedures

and the reality on the ground for certain things, such as procedures for granting loans with an amount of less than Rp 5,000.000 (Afinovita & Sukoharsono, 2013).

Research conducted at PT. East Java MSME Rural Bank Pacitan Branch with the title "Internal Control Analysis of the Working Capital Loan System (Case Study at PT. East Java MSME Rural Bank Pacitan Branch)" obtained the results that the implementation of systems and procedures can be assessed from the four elements of internal control and implemented quite well but there are still some weaknesses, namely, there are still multiple tasks that can cause fraud and there is no guarantee appraisal officer (Putra et al., 2016).

Research conducted at PT. BPR Suryajaya Kubu addition to the title "Internal Control System for Loans at PT. BPR Suryajaya KubuAddan "the results show that the credit granting procedures implemented and the internal control system in providing credit gradually provide healthy practices in their management (Saputra et al., 2014).

Research conducted at PT. Bank Rakyat Indonesia (Persero). Tbk Sinjai Branch Office with the title "Internal Control System in an Effort to Prevent Bad Loans at PT. Bank Rakyat Indonesia (Persero). Tbk Sinjai Branch Office" the results show that the internal control system implemented as a way to prevent bad loans at Bank Rakyat Indonesia (Persero) Tbk Sinjai Branch Office through the stages of internal control, environmental control, risk assessment, control activities, information and communication, and monitoring has run very effectively and the level of bad loans at Bank Rakyat Indonesia (Persero) Tbk Sinjai Branch Office is low because the BI standard is a maximum of 5% (Amir & Nurfika, 2018).

The next research was conducted at PT. Radana Finance Branch Tangerang City, Banten with the title "The Effect of Internal Control on Bad Credit Levels in the Motorcycle Financing Process of PT. Radana Finance Branch Tangerang Kota, Banten ", the result is that there is a very strong influence of internal control with bad loans, the linear regression equation is $Y = 75.268 - 0.548X$. In the hypothesis test based on the t-test, it is concluded that H_0 is rejected and H_a is accepted. It means that the internal control variable (x) has a strong influence on the loan variable (y) (Kusumawati & Jimmi, 2015).

Subsequent research at PT. BRI (Persero) Tbk Manado with the title "Implementation of SPI in Supporting the Effectiveness of SME Loans at PT. BRI (Persero) Tbk Manado" results obtained that the internal control system implemented has fulfilled most of the elements of internal control. BRI has an internal control system in credit to prevent abuse of authority. BRI applies certain requirements to ensure the security of these business loans. These things prove the internal control system at PT. Bank Rakyat Indonesia (Persero) Tbk Manado has been in accordance with the existing theory so as to encourage the achievement of effective lending (Papalangi, 2013).

Research conducted at PT Bank Mitraniaga under the title "The Role of the Internal Control System for Loans in Minimizing Non-Performing Loans at PT Bank Mitraniaga, Tbk" obtained the results that the internal control system for lending has a negative and significant effect on Non-Performing Loans at a 5% confidence level. The value of the coefficient of determination (Kd) of 71.3% can be interpreted that the role of the internal control system in providing credit to non-performing loans is 71.3%, while the remaining 28.7% is explained or influenced by other factors not examined such as external factors, internal customer factors, and business failure factors (Lestari & Masrurroh, 2015).

II. RESEARCH METHOD

The method used in making this article is a qualitative method by using literature studies from various journals on the topic of the internal control system for providing credit to banks that have been collected previously. The study conducted in this article will present evidence that has been obtained from several selected journals related to the internal control system and its effect on lending to banks.

III. RESULT AND DISCUSSION

All organizations, both profit-oriented and non-profit-oriented, have various risks, any activity carried out by the company has risks. If the existing risks have been identified, then analysis and evaluation can be carried out so that the intensity and actions that can be minimized can be estimated.

Internal control carried out by the company can be used to prevent losses or waste of processing company resources. Internal control ensures the availability of information about the company's performance appraisal and company management and ensures the availability of information that will be used as a guide in future company planning.

The attitude of management and employees to the importance of control in the organization is part of the company's control environment. Management philosophy (single management in a partnership or joint management in a company) and management operating style (progressive or conservative management), organizational structure (centralized or decentralized) and personnel practices are factors that influence the control environment. This controlled environment is very important because it is used as the basis for the effectiveness of other elements of internal control.

Based on previous research, it can be concluded several things as follows:

1. The internal control system for providing credit to banks has been running quite well and in accordance with the guidelines and standards/procedures for lending issued by Bank

Indonesia, especially at national banks such as BRI, while for others, the internal control system in terms of lending has not been running well. By implementing these standards, the bank concerned has indirectly implemented internal control over loans. These guidelines or standards include credit application procedures, credit analysis, and approval processes, and installment payment processes to credit supervision over loans that have been granted. However, there are still shortcomings in the internal control system in banking, especially BPRs with limited personnel, such as at PT. BPR UMKM East Java, Internal control at PT. BPR MSMEs in East Java are quite good, although there are still some weaknesses, namely the dual tasks carried out by the credit division, namely the credit analysis function (Analys) and the guarantee assessment function (Appraisal) which can cause fraud and there is no guarantee appraisal officer. Sudden inspections carried out in accordance with the recommendations of the OJK (Financial Services Authority) revealed that there was no routine supervision. Job rotation has not been carried out as it should, so it is prone to conspiracy.

2. As for the internal control system for providing credit at a financial guarantee institution (Leasing), the results obtained from this study indicate a negative relationship and influence between Internal Control on Bad Loans at PT. Radana Finance Branch Tangerang City, Banten. In general, internal control is very important in reducing Bad Loans to Debtors. If Internal Control is inadequate, then it is likely that Bad Loans will also increase. On the other hand, if the Internal Control is decent or good enough, then of course the Bad Credit Level will be smaller or less.

IV. CONCLUSION

The conclusions that can be drawn from the above discussion are as follows:

1. The internal control system for providing credit at national banks such as BRI and others has been implemented properly in accordance with the guidelines and standards/procedures for lending issued by Bank Indonesia.
2. The internal control system for providing credit at Rural Banks (BPR) which has limited personnel and/or capital has not been running well.
3. The internal control system for providing credit at the financial guarantee institution (Leasing) is running quite well.

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