



Analysis of Internal Control System In Granting Credit In Pt. Bank Mandiri KCP Medan Belawan

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Abstract: This study aims to analyze the internal control system in providing credit at pt. Bank Mandiri KCP Medan Belawan and what actions were taken by the relevant departments in overcoming fluctuations in total credit, gross NPL, net NPL, and the ratio of core debtors to total credit at PT. Bank Mandiri (Persero) Tbk. 2016-2020 so as to be able to fulfill the entire process of providing credit without compromising the internal control system. This research was conducted using a descriptive method. Data collection techniques were carried out by means of interviews, studying documents and records about the company through the collection of information sourced from primary and secondary data. The results of the research on analysis, in distributing credit, Bank Mandiri always prioritizes the principle of prudence by placing the credit analysis function carried out by an independent business unit and credit risk unit. Bank Mandiri is always guided by the Credit Policy (KPKD) in managing end-to-end credit risk. Operationally, this policy is set forth in the form of Standard Credit Procedures (SPK) and Product Manuals. To speed up the process and improve credit performance, Bank Mandiri KCP Medan Belawan has also set limits on its authority to make credit decisions based on credit exposure and risk level. The greater the exposure, the greater the quorum of authority holders, consisting of members of the Credit Committee who function as Risk Management and members of the Credit Committee who function as Business Units. The internal control system implemented by Bank Mandiri KCP Medan Belawan is considered to have been running effectively and adequately reflected in the effectiveness of the implementation of internal control functions, including internal audit, risk management, compliance and operational control functions. In disbursing credit, PT Bank Mandiri (Persero) KCP Medan Belawan first conducts a search on customer data or prospective customers who will apply for credit based on certain procedures. Employees of PT Bank Mandiri (Persero) KCP Medan Belawan have carried out their duties in accordance with the responsibilities given.

Keywords: Credit; Internal Control System

I. Introduction

The burden on State-Owned Enterprises (BUMN) is getting heavier. It was later revealed that bad debts had ensnared banks, one of which was Bank Mandiri. While on the other hand, state-owned banks must also be at the forefront in providing loan facilities to their fellow government-owned companies. The debts of state-owned companies, especially the construction and infrastructure sectors at state banks, have also piled up. Giving credit is one of the main businesses of banks that generate income for the company and is one of the largest parts of the assets owned by the company, but on the other hand, lending carries risks.

One of the risks of providing credit is the emergence of non-performing loans or often referred to as bad loans. The higher the Non-Performing Loan of a banking company will affect the soundness of the bank. Therefore, the provision of credit must be carried out carefully and precisely, and carried out by credit employees who understand and understand

the basics of credit. Internal control is the foundation of the level of security and soundness of a bank. Effective internal control can reduce the possibility of major errors / mistakes and can help detect early on possible risks that will occur.

In the development of the world of education, especially after the rolling reforms, new phenomena have arisen in educational institutions, which are schools that use the term Integrated Islamic Schools (Titik, 2010: 42). The school is essentially aimed at helping parents teach good habits and add good character, also given education for life in society that is difficult given at home. Thus, education in schools is actually part of education in the family, which is also a continuation of education in the family (Daulay in Ayuningsih, W. et al. 2020).

The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

Table 1. Credit Data for PT Bank Mandiri

Information	2020	2019	2018	2017	2016
Total Credit	309,632,987	329,763,941	302,625,449	48,745,671	228,664,566
NPL Gross	3.29%	2.39%	2.79%	3.45%	3.96%
NPL Net	0.43%	0.84%	0.67%	1.06%	1.38%
Core Debtors to Total Loans Ratio	31.14%	31.89%	34.49%	22.49%	21.26%

Source: Financial Report

In the process of granting credit to PT Bank Mandiri, the opening rate granted in 2020 was last for corporate loans of 9.85%, retail loans of 9.8%, Micro loans of 11.5%, Consumer Loans for mortgages of 9.75% and non-mortgage Consumption Loans of 10.95%. Based on the table above, it can be seen that there were fluctuations in Total Credit, gross NPL, net NPL, and the ratio of core debtors to total credit at PT Bank Mandiri throughout 2016-2020.

Three state-owned banks, namely PT Bank Mandiri Tbk, PT Bank Negara Indonesia Tbk, and PT Bank Rakyat Indonesia Tbk, had a total outstanding credit of IDR 400.47 trillion to their affiliates as of June 2019. PT Bank Mandiri Tbk recorded the largest credit value by affiliation. Bank Mandiri's outstanding credit to SOEs rose 11.3% from December 2018 to June 2019. The financial burden of state-owned banks needs to be watched out for. Many cases of default on jumbo debt involve state-owned banks as debtors. In fact, the threat of bad credit comes from its affiliates, namely state-owned companies. One of the credit problems of PT Bank Mandiri Tbk, namely there was a traffic jam experienced by PT Krakatau Steel Tbk (KRAS).

Bank Mandiri is one of the banks involved in the loan, along with a number of other banks, who are currently working on the restructuring process. Another default threat from Duniatex Group. The total debt of this group is Rp 18.6 trillion and US\$ 1.3 billion. Based on the background of the problem above, it can be identified the lack of a control system for employees, resulting in employees not being disciplined in their work, especially in executing prospective customers who want to be given credit by PT Bank Mandiri KCP Medan Belawan.

As well as the lack of employee knowledge that causes employees not to master the procedures or SOPs that have been set by the company, thereby reducing employee

contributions to the company to achieve company goals. So the researchers chose the title "Analysis of Internal Control Systems in Credit Granting at PT. Bank Mandiri KCP Medan Belawan

II. Review of Literature

2.1. Credit

According to Hasibuan (2011), credit in Latin is called "credere" which means to believe. This means that the lender trusts the credit recipient that the credit disbursed in the form of money or goods will be returned in accordance with the repayment period or installment payments in accordance with a mutually agreed decision. Credit indicators are seen from submitting credit applications, credit analysis, credit approvals, credit agreements, credit disbursement, credit supervision, and credit repayment.

2.2. Internal Control System

According to Hery (2013), the internal control system is a set of policies and procedures to protect the assets or assets of the company from all forms of abuse, to guarantee the existence of accurate company accounting information, and to provide assurance that all legal provisions or laws and management policies have been complied with. or carried out in accordance with the provisions of all employees of the company.

According to Widjaja (2010), the indicators of the internal control system in accordance with SOCO are the Internal Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.

III. Research Methods

3.1 Research Approach

The research method that will be used in this research is descriptive method. Sugiyono (2016) said descriptive research, namely, research conducted to determine the value of independent variables, either one or more (independent) variables without making comparisons, or connecting with other variables.

3.2 Types and Sources of Data

The type of data used in this study is in the form of qualitative data. According to Sugiyono (2016) the type of qualitative data is a research method used to examine the condition of natural objects where the researcher is the key instrument, namely by interviewing branch leaders regarding internal control in the credit process.

Sources of data used in this study are primary and secondary data. According to Sugiyono (2016), primary data is a data source that directly provides data to data collectors. And secondary data is data in the form of records or documents that already exist in the company used in research.

3.3 Data Collection Techniques

Data collection techniques were carried out by interview and documentation, namely the oral question and answer process that took place in one direction, meaning that the questions came from the interviewer and the answers were given by the interview.

3.4 Teknik Analisis Data

According to Sugiyono (2016: 246), data analysis techniques are activities in qualitative data analysis carried out interactively and take place continuously until complete, so that the data is saturated. Saturated data means that whenever and wherever they are asked to informants (data triangulation), and to whomever the same question is asked, the answers given are consistently the same. Activities in data analysis are: Data Reduction, Data Display, Conclusion Drawing/ Verification.

a. Data Editor

According to Sugiyono (2016: 247) the data obtained from the field is quite large, for that it needs to be recorded carefully and in detail. Reducing data means summarizing, choosing the main things, focusing on the important things, then looking for themes and patterns. Thus, the data that has been reduced will provide a clearer picture, and make it easier for researchers to conduct further data collection, and search when needed. Data reduction is assisted by electronic equipment such as mini computers, by providing codes on certain aspects.

b. Presentation of Data

After the data is reduced, the next step is to display the data. In qualitative research, the presentation of this data can be done in the form of tables, graphs, pie chart, pictograms, and the like. Through the presentation of the data, the data is organized, arranged in a pattern of relationships, so that it will be easier to understand. The most frequently used for presenting data in qualitative research is narrative text.

c. Verification

Verification The third step in qualitative data analysis is drawing conclusions or verification. The initial conclusions put forward are still temporary, and will change if no strong evidence is found to support the next stage of data collection. Thus, the conclusions in qualitative research may be able to answer the problem formulation formulated from the beginning, but may also not, because as has been stated that the problem and problem formulation in qualitative research are still temporary and will develop after the researcher is in the field. According to Sugiyono (2016: 253), the conclusion in qualitative research is new findings that have never existed before. Findings can be in the form of a description or description of an object that was previously dim or dark so that after research it becomes clear, it can be in the form of casual or interactive relationships, hypotheses or theories.

IV. Result and Discussion

4.1. Research Results

PT Bank Mandiri is a State-Owned Enterprise (BUMN). Starting from the takeover of share ownership in four state-owned banks, Bank Mandiri finally has the largest assets, loans and deposits in Indonesia. The loans provided by Bank Mandiri are credit and credit cards. Several types Credit for individuals available at Bank Mandiri are Mandiri Multipurpose Loans, Motor Vehicle Loans, Home Ownership Loans, subsidized Home Ownership Loans, and Multipurpose Loans. As for Micro (MSMEs), Bank Mandiri has People's Business Loans (KUR) and Micro Business Loans. (KUM). Types of credit for small and medium businesses include Working Capital Loans, Investment Loans, Distributor Financing, Billing Financing, and Work Contract Financing.

4.2. Data Analysis

Business loans provided by PT Bank Mandiri (Persero), are Micro Business Loans (KUM) with Collateral, and Micro Multipurpose Loans (KSM).

a. Credit Granting Process

In general, the procedure for granting credit can go through seven stages, namely starting from:

- a. Application for credit, the application is submitted by prospective customers (individuals or companies that are included as debtors of the SME Segment and also for new non-debtor customers who apply for credit and non-debtor customers who receive credit approval within the program period) to the bank by submitting documents containing official application letter, company establishment deed, explanation of business plan, business feasibility study report, project feasibility study report, company financial report and other information such as NPWP, company domicile statement, permits obtained, company accounts with several banks.
- b. Credit analysis, The main purpose of credit application analysis is to gain confidence whether the customer has the will and ability to fulfill his obligations to the bank in an orderly manner, both principal and interest payments in accordance with the provisions stipulated by the bank.
- c. Credit approval. The results of the analysis made by the account officer are examined by his superior (Head of Credit Division), then submitted to the Bank's directors. The bank's systems and procedures regarding credit analysis reports can be in the form of credit analysis reports, credit application analysis reports, credit recommendation reports, project feasibility studies reports
- d. Credit agreement, the credit agreement is prepared by a public notary appointed by the bank or chosen by the prospective customer. The bank sends legal experts to assist the Account Officer in discussing the provisions that will be included in the credit agreement.
- e. Credit disbursement, the requirements for credit disbursement, usually include a signed credit agreement, credit withdrawals are in accordance with project needs, credit withdrawals are in accordance with the development schedule, credit disbursement requests are supported by the required documents, the amount of credit is in accordance with the agreed credit agreement. Credit disbursement can be made directly to the customer in cash to the customer's account, or some are addressed to the accounts of the customer's partner companies
- f. Credit supervision, the main key to the success of credit distribution is credit monitoring. Bad credit events occur due to the weakness and negligence of the bank in conducting supervision.
- g. Repayment of credit, customers who are able to fulfill their obligations according to the agreement contained in the credit agreement according to the schedule made, then the credit is declared paid off. The collateral that was originally held, is then returned to the customer

b. Credit Guarantee

There are several types of goods that can be used as collateral for credit. An item that can be used as credit collateral must meet the following criteria:

- a. Must have economic value in the sense that it can be valued in money and can be used as money.
- b. Ownership must be transferable from the original to another party.

- c. Must have juridical value in the sense that it can be perfectly bound so that the bank has the right to the results of the search for the collateral (Bank Mandiri)

Based on this, the types of collateral that can be received by PT. Bank Mandiri (Persero) KCP Medan Belawan, as follows:

- a. Immovable property (land, buildings, ships, and gardens)
- b. Movable goods (vehicles, machinery and other means of production, accounts receivable on behalf of).

c. Terms of Credit Pemberian

Credit Assessment must meet the following criteria, namely completeness of credit application files, interviews, credit investigations, reviews, pre-credit risk, data collection processes, determination of critical points for prospective debtors' businesses, and bank credit analysis.

d. Internal control procedures in granting credit

According to SE No. 05/22/DPNP Bank Indonesia, the implementation of the internal control system in banking includes management supervision and control culture, risk identification and assessment, control activities and segregation of functions, accounting, information and communication systems, monitoring and corrective actions for irregularities.

Guidelines for determining the structure of collateral in the context of credit risk mitigation policies have been regulated in detail in the Credit Procedure Standards (SPK) for each segment. The bank will evaluate the feasibility and bona fide of the guarantor (guarantor).

To guarantee credit facilities, the Bank prioritizes collateral in the form of fixed assets in the form of land or land and buildings. The value of the collateral used by the Bank as credit guarantee is the value of the collateral assessed by the internal appraiser (credit operation unit) and the external appraiser of the Bank's partner or an external appraiser who is not a partner of the Bank who has been appointed by the authorized officer in the business unit/credit recovery unit.

In calculating credit risk mitigation using a standard approach in accordance with SEOJK No.42/SEOJK.03/2016 concerning Guidelines for calculating RWA for credit risk, Banks can recognize the existence of collateral, guarantees, guarantees, or credit insurance as an MRK technique, with several recognition requirements that must be met. fulfilled by the

Bank. Types of financial collateral recognized (eligible financial collateral) in the MRK-Collateral Technique include cash, current accounts/savings/deposits, gold, Government Bonds (SUN), Bank Indonesia Certificates (SBI) and others as regulated in SE OJK mentioned above. Meanwhile, collateral in the form of fixed assets, inventory, land/buildings owned by the Bank, are not recognized in the standard approach.

4.3. Discussion

PT. Bank Mandiri (Persero) KCP Medan Belawan supervises lending, starting from supervision before credit is given, supervision during the approval process and supervision after credit is given. In addition, supervision is carried out on bank officials who carry out the stages of providing credit facilities and the credit facility itself.

Bank Mandiri KCP Medan Belawan already has an international standard internal control system, namely the Internal Control System developed by the Committee of Sponsoring Organizations of The Treadway Commission (COSO) which includes:

1. Control objectives (operational objectives, reporting objectives, compliance objectives)

2. Control environment, namely commitment to integrity and ethical values, carrying out supervisory responsibilities, implementing structure, authority and responsibility, demonstrating commitment to competence, and encouraging accountability.
3. Risk assessment, namely determining appropriate objectives, identifying and analyzing risks, assessing the risk of fraud, identifying and analyzing significant changes.
4. Control activities, namely selecting and developing control activities, selecting and developing general controls over technology, and detailing them into policies and procedures.
5. Information and communication, namely using relevant information and internal communication.
6. Monitoring activities, namely continuous evaluation separately to ensure components of internal control exist and function properly, evaluate and report any deficiencies..

The SPI consists of 8 (eight) components that are interrelated with each other and are implemented effectively by all levels of the organization in the Company in order to achieve the Company's goals. This SPI is a development of the 5 (five) main elements of the Company's SPI which are regulated by the Regulator. The development carried out refers to the COSO Model developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) which consists of, Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, Monitoring.

In the field of credit, each granting of credit with the category of authority must be carried out through discussion in the Credit Committee Meeting forum as a means of implementing the four-eyes principle as well as a check and balance process between the Business Unit as the initiator unit and Risk Management as the Risk Mitigation Unit. In this committee, the Legal Group and Compliance Group must always be present to provide opinions from a legal and compliance perspective in order to strengthen aspects of independence, avoid domination by one unit, avoid conflicts of interest and ensure objective and pressure-free decision making. To speed up the process and improve credit performance, Bank Mandiri KCP Medan Belawan has also set limits on its authority to make credit decisions based on credit exposure and risk level. The greater the exposure, the greater the quorum of authority holders consisting of members of the Credit Committee who function as Risk Management and members of the Credit Committee who function as Business Units.

Bank Mandiri's credit quality has deteriorated due to the impact of the COVID-19 pandemic since early 2020. Bank Mandiri's consolidated gross NPL ratio in September 2020 rose by 89bps (YoY) to 3.50%. Meanwhile in the bank only position in December 2020, Bank Mandiri's gross NPL increased by 87 bps to 3.26% compared to 2019 (2.39%). The Cost of Credit Average Balance (bank only) ratio also increased by 100 bps to 2.31% when compared to the same period the previous year which reached 1.31%. Bank Mandiri has a strategy to continue to grow in a healthy and sustainable manner, while still promoting the principle of prudence through lending to sectors with lower credit risk and strengthening risk management. Specifically, to improve credit quality and reduce NPL and cost of credit, various efforts have been made, including a comprehensive account assessment of performing loans (collectibility 1 and 2) which are included in the watchlist category, followed by mapping to project debtors who are still performing and who have the potential to downgrade. Then carry out efforts to save credit for watchlist debtors by accelerating credit restructuring for debtors who have good intentions, business prospects and financial conditions are getting better as well as collateral with adequate security coverage ratios. Carry out efforts to save credit for non-performing debtors through rescheduling, reconditioning and restructuring,

including converting loans into temporary equity participation. Conduct post-restructuring debtor reviews, including assessing the debtor's business prospects while taking-into account market conditions and the economic sector that is the debtor's business which can affect the debtor's performance and repayment capacity. For loans that cannot be restructured, immediately efforts to reduce the debit balance (downsizing). Improve coordination and cooperation with stakeholders in handling non-performing loans, including PPATK, Private Auction Centers, prosecutors, curators, and others.

Bank Mandiri's credit risk management process for the Wholesale segment begins with determining the target market which refers to the Portfolio Guideline, which divides the industrial sector into Industry Classification (attractive, neutral, selective) based on the outlook and portfolio quality, as well as Industry Limits which limit the risk of credit concentration in a given area. specific sector. In the pre-approval stage, a Clearance Process is carried out which includes an initial analysis of the targeted customer on the Industry Acceptance Criteria and clearance parameters (reputation, business, finance) to produce a quality debtor pipeline. The next process is to conduct a credit risk assessment using a series of credit risk tools (credit risk rating, spreadsheet, CPA, NAK, etc.) which is then decided by the Credit Decision Authority (through the Credit Committee Meeting) with a four-eyes principle involving the Business Unit and Credit Risk Management Unit independently.

After the credit disbursement process, credit risk and potential debtor failure must always be monitored and detected early (Early Warning Signals) using watchlist tools. For the

Retail segment, because it is a mass market, the credit process is carried out more automatically using a credit risk scorecard, with reference to the Risk Acceptance Criteria for each product, and processed through an automated work-flow (loan factory). The monitoring process is carried out on a portfolio basis through the Portfolio Quality Review, which can be continued with the collection and recovery process for the problematic portion of the portfolio. To anticipate deteriorating macroeconomic conditions, a what-if analysis of the wholesale and retail portfolios is carried out through a process of stress testing and sensitivity analysis using certain macroeconomic scenarios.

In disbursing credit, Bank Mandiri always prioritizes the precautionary principle by placing a credit analysis function carried out by an independent business unit and credit risk unit. Bank Mandiri is always guided by the Credit Policy (KPKD) in managing end-to-end credit risk. Operationally, this policy is outlined in the form of Standard Credit Procedures (SPK) and Product Manuals.

In managing credit concentration risk at the debtor level, Bank Mandiri consistently monitors the Maximum Lending Limit (BMPK) and the implementation of Management Limits and Value Chain Limits for large business groups. In general, the credit process and credit risk management at Bank Mandiri have been carried out in an end-to-end and integrated manner by the Business Unit, Credit Operation Unit and Credit Risk Management Unit.

The Bank periodically reviews and improves credit policies in general, credit procedures per business segment and risk management tools. The work guidelines provide complete credit risk management instructions, to identify risks, measure and mitigate risks in the end-to-end lending process, from target market determination, credit analysis, approval, documentation, credit withdrawals, monitoring/supervision, to the settlement process. non-performing loans/restructuring.

To increase the Bank's social role and concern for environmental risks and as a manifestation of the implementation of the principles of responsibility in good corporate governance, Bank Mandiri has compiled a Technical Guideline for Environmental and Social

Analysis in Lending which is used as a reference in carry out environmental analysis on the analysis of lending. This is in line with the efforts made by Bank Indonesia, where the Bank Indonesia Regulation concerning the Assessment of Asset Quality for Commercial Banks stipulates that the assessment of the debtor's business prospects is also related to the debtor's efforts to protect the environment. In addition, Bank Mandiri has started to implement sustainable banking through the implementation of the Sustainable Finance Action Plan (RAKB) in order to develop business processes and portfolios by considering ESG (environment, social, governance) factors. In principle, credit risk management is applied at the transactional and portfolio levels. At the transactional level, the four-eyes principle is applied, i.e. each credit decision involves the Business Unit and Credit Risk Management Unit independently to obtain an objective decision.

The four-eyes principle mechanism is carried out by the Credit Committee in accordance with the limit of authority with the credit termination process carried out through the Credit Committee Meeting mechanism. Credit risk from debtors and products has been covered and reserved through CKPN which is currently calculated based on PSAK 71 as of January 1, 2020, and monitored through cost of credit indicators.

V. Conclusion

The internal control system implemented by Bank Mandiri KCP Medan Belawan is considered to have been running effectively and adequately in accordance with COSO as reflected in the effectiveness of the implementation of internal control functions, including internal audit, risk management, compliance and operational control functions. In disbursing credit, PT Bank Mandiri (Persero) KCP Medan Belawan first conducts a search on customer data or prospective customers who will apply for credit based on certain procedures. Employees of PT Bank Mandiri (Persero) KCP Medan Belawan have carried out their duties in accordance with the responsibilities given.

Suggestion

PT. Bank Mandiri (Persero) KCP Medan Belawan is expected to maintain and maintain internal control over giving credit that has been applied so that it continues to run in accordance with the Bank's credit policy. PT. Bank Mandiri (Persero) KCP Medan Belawan is expected to continue to provide trust, authority and responsibility to employees in accordance with their respective duties so that all work runs smoothly. PT. Bank Mandiri (Persero) KCP Medan Belawan is expected to continue to conduct research on customers before providing credit so that fraud does not occur which results in losses.

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