

## The Effect Of The Internal Control System On The Effectiveness Of Lending At Pt Bank Perkreditan Rakyat Tanah Laut

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### Abstract

*One of the efforts made by business actors to maintain stability and improve the existence of the business they run is through credit applications to financial institutions that provide credit such as banks. Credit granting activities must be carried out by implementing a good internal control system to avoid bad debts and achieve the effectiveness of credit granting. The purpose of this study was to determine the effect of the internal control system in terms of five indicators, namely the control environment, risk assessment, control activities, information and communication, and monitoring on the effectiveness of lending. The data analysis technique uses multiple linear regression tests. The results of hypothesis testing show that control activities and risk assessment have an influence on the effectiveness of lending. While the variables of control activities, information and communication, and monitoring have no effect on the effectiveness of lending.*

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## INTRODUCTION

Business activity is a very complex phenomenon because it includes various activities such as law, economics, and politics. Rapid economic growth and changes in the strategic environment will have an impact on the business world, including the small and medium enterprise sector. However, not a few of these sectors experience problems in the aspect of capitalisation. This condition is the background for every business actor to always strive to maintain stability and improve the existence of the business they run. Efforts that are often made are by applying for credit to financial institutions that provide credit, one of which is a bank.

Banks are one of the most important factors in the business world. As stated in Law Number 10 of 1998, banks are business entities whose main activities are to collect funds from the public in the form of deposits and channel funds to the public in the form of credit with the aim of improving people's lives. The relationship between the business world and banks is inseparable, especially regarding investment and credit. As one of the financial institutions providing credit, banks must always play a role in improving the quality of business sector operations to help the pace of economic growth through increased employment and community income.

Banks realise that lending activities carry great risk. Risks experienced by banks are potential events that are uncertain, both predictable and unpredictable and will have a negative impact on bank operations. The time span for loan repayment in credit will be a major risk borne by the bank in the face of uncertainty in the return of funds by the debtor. Good credit granting procedures can help guarantee the uncertainty faced by banks. Submission of a credit application requires credit analysis before proceeding to the disbursement stage. This analysis is carried out to see the debtor's behaviour in his responsibility in settling credit bills in the future. This procedure is already commonly used in the world of credit, but it must be supported by the principle of prudential banking with a well-implemented internal control system considering that the risk of bad credit does not only come from external factors but also from internal factors.

The implementation of a strong internal control system is expected to increase the effectiveness of lending and avoid negative risks for banks. The internal control system aims to provide assurance that all company operational activities have been carried out in accordance with applicable regulations, both regulations stipulated by the government and the company's internal policies and procedures. In addition, internal control also aims to protect company assets from the possibility of fraud or fraud and improve work efficiency and effectiveness. Effectiveness is important in lending with the aim of avoiding everything that results in failure in lending (Dewi et al., 2018).

According to the Regulation of the Minister of Manpower of the Republic of Indonesia Number 13 of 2019 concerning Guidelines for Implementing the Government Internal Control System of the Ministry of Manpower, the internal control system consists of five components that are integrated with each other,

namely the control environment, risk assessment, control activities, information and communication, and monitoring. These components can be a benchmark for banks internally so that lending to customers can be carried out effectively and avoid all forms of possibilities that can harm the bank. This possibility can come from the customer or from the bank itself.

In connection with the rapid economic growth, financial institutions in the form of banks have been established and are widely spread throughout Indonesia. One of them is PT Bank Perkreditan Rakyat Tanah Laut. PT Bank Perkreditan Rakyat Tanah Laut is a regional government-owned bank that provides various types of credit services. This bank has received awards in 2020 and 2021 with the title of the best according to Infobank Magazine published in issue 514 of February 2021 which is assessed based on aspects of capital, asset quality, profitability, liquidity, and efficiency including the assessment of non-performing loans (NPL). This shows that PT Bank Perkreditan Rakyat Tanah Laut has good credit quality. Good credit quality is of course followed by good credit distribution procedures as well. The results of related research say that the internal control system affects the effectiveness of lending.

## **METHODS**

This study uses quantitative data with primary data sources derived from the results of distributing questionnaires. The population used was employees of PT Bank Perkreditan Rakyat Tanah Laut with a saturated sample technique, namely 23 employees as research respondents. The variables used are control environment, risk assessment, control activities, information and communication, and monitoring. The data analysis technique used is as follows.

### **Data Quality Test**

#### **1. Validity Test**

A questionnaire is declared valid if it is able to reveal what should be measured (Ghozali I., 2016). The validity test aims to test whether there is a similarity between the data collected and the data that actually occurs on the research object. The basis for decision making in the validity test (Widodo, 2017) is as follows.

- a. The value  $r > r_{tabel}$  with a confidence level of 95% then the statement is

declared valid.

b. The value  $|r| < r_{tabel}$  with a confidence level of 95% then the statement is declared invalid.

## 2. Reliability Test

Reliability means that the results of measurements of the same object will produce the same data (Sugiyono, 2019). In other words, the answers from respondents will be consistent over time. In this study, the reliability test used Cronbach Alpha value with basis for decision making (Widodo, 2017) as follows :

- a. Cronbach Alpha value  $> 0.6$  then the statement is declared reliable.
- b. Cronbach Alpha value  $< 0.6$  then the statement is declared unreliable.

## 3. Classical Assumption Test

### 1. Normality Test

The normality test has the aim of knowing whether the residual values resulting from regression are normally distributed or not (Widodo, 2017). In this study, normality testing used the Kolmogorov Smirnov normal test, with the basis for decision making (Widodo, 2017) as follows.

- a. The value of asymp. Sig (2-tailed)  $> 0.05$  then the data is normally distributed.
- b. The value of asymp. Sig (2-tailed)  $< 0.05$  then the data is not normally distributed.

### 2. Multicollinearity Test

The multicollinearity test is carried out to test whether the regression model finds a correlation between the independent variables which is done by comparing the tolerance value with the variance inflation factor (VIF) value with the basis for decision making (Widodo, 2017) as follows.

- a. If the tolerance value  $> 0.10$  and the VIF value  $< 10$  then there is no multicollinearity
- b. If the tolerance value  $< 0.10$  and the VIF value  $> 10$  then multicollinearity

occurs.

### 3. Heteroscedasticity Test

The heteroscedasticity test is carried out to determine if in a regression model there is an inequality of variance from the residuals of one observation to another (Widodo, 2017). The heteroscedasticity test can be done using the spearman rank test with the basis for decision making (Sari et al, 2016) as follows.

- a. If the significance value  $> 0.05$  then there is no heteroscedasticity.
- b. If the significance value  $> 0.05$  then heteroscedasticity occurs.

## Hypothesis Test

### 1. Multiple Linear Regression Analysis

Multiple linear regression analysis models are used to explain the relationship and determine the effect of more than one independent variable on one dependent variable (Ghozali, 2018). The multiple linear regression equation is.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

Description:

Y	= Effectiveness of Lending
$\alpha$	= Constant
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$	= Regression Coefficient
X1	= Control Environment
X2	= Risk Assessment
X3	= Control activities
X4	= Information and Communication
X5	= Monitoring
$\varepsilon$	= Standard Error

### 2. The T test

The t test is used to determine the effect of each independent variable on the dependent variable (Ghozali, 2018). Testing through the t test is done by comparing the significance level with the confidence degree value. The value of the degree of confidence used is 95% ( $\alpha = 0.05$ ). If the significance value

is less than 0.05, the hypothesis is accepted and if the significance value is more than 0.05, the hypothesis is rejected.

### 3. The F test

The F test is used to show all the independent variables used in the study have a joint influence on the dependent variable (Ghozali, 2018). The value of the degree of confidence used is 95% ( $\alpha = 0.05$ ). If the significance value is less than 0.05, it means that the research model is feasible to use and if the significance value is more than 0.05, it means that the research model is not feasible to use.

### 4. Test Coefficient of Determination

The Coefficient of Determination Test is used to determine the amount of influence of the dependent variable that can be explained by the independent variable using the determination coefficient calculation (Ghozali, 2018). The coefficient of determination is between zero and one ( $0 < R^2 < 1$ ) which can be systematically formulated as follows.

- a. If the value is small (close to zero), it means that the ability of the independent variable to explain the dependent variable is very limited, it can be concluded that there is no relationship between the independent variable and the dependent variable.
- b. If the value is large (close to one), it means that the independent variable provides almost all the information needed to predict the dependent variable, it can be concluded that there is a relationship between the independent variable and the dependent variable.

## **RESULTS AND DISCUSSION**

### **1. Results**

The results of testing data quality through the validity test show that all variables used in the research instrument are declared valid because  $> (0.4132)$ . The reliability test results show that all statement items on each variable in this research instrument are reliable because they have a Cronbach's alpha value greater than 0.6.

The results of classical assumption testing through the normality test show that the significance value is 0.200, which means that the regression model in this

study has fulfilled the normality assumption because the significance value exceeds 0.05, meaning that the data used in this study are normally distributed. The multicollinearity test results show that the tolerance value on all variables is more than 0.10 and the VIF value on all variables is less than 10, meaning that there is no multicollinearity. The results of the heteroscedasticity test show that the significance value of all variables is more than 0.05 so that it can be declared free from heteroscedasticity.

The hypothesis in this study was tested through multiple linear regression models with the following results. Hasil pengujian kualitas data melalui uji validitas menunjukkan bahwa seluruh variabel yang digunakan dalam instrumen penelitian dinyatakan valid karena  $r > (0,4132)$ . Hasil uji reliabilitas menunjukkan bahwa seluruh item pernyataan pada setiap variabel dalam instrumen penelitian ini reliabel karena memiliki nilai *cronbach's alpha* lebih besar dari 0,6.

Table 1 Multiple Linear Regression Analysis Test

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	-8,647	4,842		-1,786	0,092		
Lingkungan Pengendalian	0,579	0,240	0,477	2,413	0,027	0,484	2,065
Penilaian Risiko	0,663	0,299	0,489	2,220	0,040	0,390	2,566
Kegiatan pengendalian	-0,031	0,180	-0,028	-0,174	0,864	0,732	1,365
Informasi dan Komunikasi	0,157	0,243	0,113	0,644	0,528	0,610	1,639
Pemantauan	-0,113	0,263	-0,096	-0,44	0,666	0,397	2,518

Coefficients <sup>a</sup>							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
	6			0			

a. Dependent Variable: Efektivitas Pemberian Kredit

Source: Primary data, processed with SPSS Version 26

Based on table 1, the multiple linear regression equation can be determined as follows.

$$Y = -8,647 + 0,579X_1 + 0,663X_2 + (-0,031X_3) + 0,157X_4 + (-0,116X_5) + \varepsilon$$

Which means that:

- a. The constant value is negative, which is equal to -8.647, meaning that if the variables of the control environment, risk assessment, control activities, information and communication, and monitoring are considered zero, the variable effectiveness of lending will decrease.
- b. The control environment regression coefficient is positive, namely 0.579, which means that if the control environment is increased by one unit, it will contribute to an increase in the effectiveness of lending by 0.579, assuming other variables are constant.
- c. The risk assessment coefficient is positive, which is 0.663, meaning that if the risk assessment is increased by one unit, it will contribute to an increase in the effectiveness of lending of 0.663, assuming other variables are constant.
- d. The control activity regression coefficient is negative, which is -0.031, meaning that if the control activity is increased by one unit, it will contribute to a decrease in the effectiveness of lending by -0.031, assuming other variables are constant.
- e. The information and communication regression coefficient is positive, which is 0.157, meaning that if information and communication is increased by one unit, it will contribute to an increase in the effectiveness of lending by 0.157, assuming other variables are constant.
- f. The monitoring regression coefficient is negative, which is -0.116, meaning



that if monitoring is increased by one unit, it will contribute to a decrease in the effectiveness of lending by -0.116 assuming other variables are constant.

The t test results can be seen through the significance value in table 1. The significance value of the control environment variable is 0.027 and the risk assessment is 0.040. This value indicates that the control environment and risk assessment variables have an influence on the effectiveness of lending because the significance value is less than 0.05. The significance value on the control activity variable is 0.864, the information and communication variable is 0.528, and the monitoring variable is 0.666. This value indicates that the variables of control activities, information and communication, and monitoring have no influence on the effectiveness of lending because the significance value is more than 0.05.

The next hypothesis testing is the F test. The F test results show that the significance value is 0.01. This shows that the variables of control environment, risk assessment, control activities, information and communication, and monitoring have an effect on the effectiveness of lending because the significance value is less than 0.05. This condition states that the regression model in this study is feasible to use.

After the independent variables are declared to have an effect on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut, then to see how much influence through the test. The test results state that the Adjusted R Square value is 0.584 or 58.4%, which means that the dependent variable, namely the effectiveness of lending, can be explained by the independent variables, namely the control environment, risk assessment, control activities, information and communication, and monitoring by 58.4%. While the rest is explained by other factors not included in this study.

## **2. Discussion**

The higher the application of good control environment aspects, the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut will also increase. The aspects in question are the existence of a clear division of duties and responsibilities to each employee, the suitability of employee competence or expertise with the position they occupy, and the existence of management implemented to reduce dishonest employee actions. Employee awareness of the importance of standard

operating procedures that have been set by the company is also an important factor in the realisation of the effectiveness of lending. If the control environment at PT Bank Perkreditan Rakyat Tanah Laut is not well coordinated, it will result in a decrease in the level of effectiveness of lending. This is caused by the behaviour and actions of employees who do not apply the precautionary principle in accepting customers supported by the absence of expertise and employee responsibility for their position.

Risk assessment is directly related to various assessments of customers such as customer character, customer ability to pay bills, and most importantly, the history of loans by customers to minimise bad credit. Thus the effectiveness of lending can be achieved with a relatively small level of non-performing loans. If PT Bank Perkreditan Rakyat Tanah Laut does not pay attention to the risk assessment aspect, it will certainly result in a high level of non-performing loans which will result in the company's operating profit.

Control activities are a follow-up to risk assessment. In the event of non-performing loans, the bank will take action to overcome this, but this has no effect on whether or not the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut is achieved.

Good communication between employees is important so that the work carried out can be well coordinated. Before achieving the effectiveness of lending, of course, the bank will determine the target or amount of credit provided. Determination of targets is carried out through coordination between employees and leaders through information and communication, but this does not affect the level of effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.

Monitoring is carried out by conducting an assessment from the initial to the final stage both in terms of employee performance and customer behaviour. Supervision and evaluation related to lending activities by PT Bank Perkreditan Rakyat Tanah Laut is not a factor that affects the achievement of the effectiveness of lending.

## **CONCLUSION**

Based on the results of research analysis and discussion regarding the effect of the internal control system on the effectiveness of lending, it can be concluded that:

1. The control environment has an influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.
2. Risk assessment has an influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.
3. Control activities have no influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.
4. Information and communication has no influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.
5. Monitoring activities have no influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.
6. The internal control system has an influence on the effectiveness of lending at PT Bank Perkreditan Rakyat Tanah Laut.

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