

ANALYSIS THE IMPLEMENTATION OF THE INTERNAL CONTROL SYSTEM ON MATERIAL RECEIPT AND EXPENDITURE PROCEDURES AT PT.

ABC

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Abstract

This research is a descriptive qualitative study that aims to determine the implementation of the internal control system at PT ABC. In the data collection process, this study involved two main informants and used interview and observation methods. The results showed that the implementation of the internal control system in the material receipt and expenditure procedures at PT ABC has not run optimally. There are still a number of weaknesses, such as the absence of an organizational structure with an appropriate division of tasks, the absence of written policies, incidental risk management, weak recording systems, and the absence of scheduled evaluations. Therefore, the company needs to evaluate and improve the implementation of the internal control system, especially on material recording and distribution, to reduce the potential for errors and improve operational efficiency. This study concludes that the internal control system has an important role in supporting the continuity of the company's operational activities.

Abstrak

Penelitian ini merupakan penelitian deskriptif kualitatif yang bertujuan untuk mengetahui pelaksanaan sistem pengendalian internal di PT. ABC. Dalam proses pengumpulan data, penelitian ini melibatkan dua informan utama dan menggunakan metode wawancara serta observasi. Hasil penelitian menunjukkan bahwa pelaksanaan sistem pengendalian internal dalam prosedur penerimaan dan pengeluaran material di PT. ABC belum berjalan secara optimal. Masih ditemukan sejumlah kelemahan, seperti ketiadaan struktur organisasi dengan pembagian tugas yang sesuai, ketiadaan kebijakan tertulis, manajemen risiko bersifat insidental, lemahnya sistem pencatatan, dan ketiadaan evaluasi terjadwal. Oleh karena itu, perusahaan perlu untuk melakukan evaluasi dan perbaikan terhadap pelaksanaan sistem pengendalian internal, terutama pada pencatatan dan distribusi material, untuk mengurangi potensi kesalahan dan meningkatkan efisiensi operasional. Penelitian ini menyimpulkan bahwa sistem pengendalian internal memiliki peran penting dalam mendukung kelangsungan aktivitas operasional perusahaan.

Keywords: Internal Control System, Material Receiving Procedure, Material Dispensing Procedure, system, procedure, inventory, Material Dispensing Procedure, system, procedure, inventory

1. Pendahuluan

Business competition in Indonesia is currently very competitive. This encourages every company to increase the effectiveness and efficiency of its operational processes. The company can make various efforts through the management and improvement of

all its operational activities to strengthen competitiveness in maintaining business sustainability, so that the achievement of company goals can be realized optimally. The company has an internal control system in every operational activity. The internal control system has a very important role for the company based on the objectives made. The internal control system (ICC) is a series of steps, policies or

rules made by an organization to ensure that all operational activities run properly and according to objectives and prevent fraud, and ensure the information produced is correct. This is thought to be caused by unstructured and inconsistent procedures for the entry and exit of goods. This is also a focus in the field of shipping subcontractor services which has an internal control system for company-owned inventory. One of the shipping subcontractor service companies in Batam is PT ABC which offers shipping subcontractor services in the form of labor services and material supplies to build and repair ships to main construction companies.

PT. ABC in carrying out its operations has procedures, especially in the receipt and release of materials. In the process, the company often experiences a shortage of materials from the amount that has been ordered, where at the beginning of each shipbuilding project, material orders are generally made, such as one of which is the Aluminum Plate which is needed as many as 30-35 pieces, but due to information from previous records there are still some stocks, the warehouse orders by reducing the amount in stock, but after the material arrives at the company, the amount of material needed is still lacking and it is difficult to manage inventory. This results in the company having to improve again by implementing a more effective internal control system by recalculating the materials to be used. One of the cases in Batam shows that inventory management in PDAM companies still faces various challenges. Some common problems that often arise include the difficulty in identifying certain types of goods in a number of company branch warehouses. This is thought to be caused by the unstructured and inconsistent recording of goods in and out. In addition, another problem that also affects is the delay in the procurement process, which has an impact on stock vacancies. This situation can occur because there is no clear determination of safety stock as a reference for reordering (Aris, 2021).

A similar case that occurred in Jakarta, namely the electronics company Bardi Smarhome, revealed that it encountered problems managing inventory, several problems experienced such as inappropriate stock, unknown position of goods, and stock records that were not updated. In addition, warehouse layouts that are not in accordance with the type of industry often result in obstruction of the traffic of goods entering and leaving the warehouse, and the placement of goods that are not in accordance with their place not only makes the warehouse look messy, but also reduces the quality of customer service because searching for goods in the warehouse becomes longer. The problem of item location that occurs in the Bardi Smarhome will generally get worse over time. As new items

continue to be added and space becomes scarce, the problems mount up (F Rio Winto, 2022).

Based on the above phenomenon, it can be seen that the internal control system has an important role in carrying out its operations. In addition, previous research on the internal control system shows that although there are established procedures, the implementation of internal control in the company is not fully effective and there are deficiencies in the separation of duties between related divisions. (Rahmawanti et al., 2020). According to research results of Setiyani et al. (2020), produced a list of functional requirements for the inventory management system, which can be applied at PT Amco Multitech in supporting the effectiveness of inventory management. In addition, according to Putra & Zefanya (2022), emphasizes the importance of recording and monitoring all operations to improve the efficiency of the internal control system. As a result, the company can better manage inventory and achieve the desired goals. According to research results of Irawati & Satri (2017), This research emphasizes that the implementation of the internal control system at PT Unisem Batam is effective. However, even though the system is running well, there are still some weaknesses that need attention. Furthermore, according to Arnawa (2018), from the results of the study found that there were This study reveals that there are differences between the concept of theory and implementation in the field, especially in the process of receiving, storing, and issuing goods or food ingredients. Based on the phenomenon supported by the results of previous research, this study discusses the internal control system in shipping subcontractor service companies in an effort to prevent errors in recording material inventories seen through material receipt and expenditure procedures.

Inventory is part of the assets or wealth owned by the company. Generally, each type of inventory is stored in a dedicated storage space known as a warehouse. Therefore, the process of receiving and releasing materials to be placed in the warehouse needs to be done carefully and planned in order to minimize the risk of loss. The problem that will be discussed in this study is how the implementation of the internal control system on material receipt and expenditure procedures at PT ABC.

The purpose of this study is to determine the procedure for receiving and issuing materials as a form of internal inventory control system at PT ABC and provide information related to the internal inventory control system applied to shipping subcontractor service companies. The expected benefits of this research are for the company, it is hoped that it can be a source of information and additional input regarding

the internal control system so that it can be used as a consideration in decision making. Furthermore, for readers, it can provide additional references for further research. And the last for researchers, gaining new experience and knowledge or insight into the internal control system of material receipt and expenditure procedures.

This research focuses on the internal control system related to material receipt and issuance procedures implemented by PT ABC as an effort to overcome the problem of material shortages and constraints in inventory management in material receipt and issuance procedures. PT. ABC is located in Batam City, Riau Islands Province, Indonesia. Aspects to be studied include procedures for receiving and issuing materials, the purpose of implementing an internal control system, the benefits that have been felt from the internal control system for the company, and internal control system procedures in managing company materials in the future to minimize inventory recording errors.

2. Theory and Literature Review

a. Theoretical Review

The theory of internal control based on the framework COSO (Committee of Sponsoring Organizations of the Treadway Commission)

Internal control is defined within the framework of COSO as a process, performed by the board of directors, management, and other personnel of an enterprise, designed to provide reasonable assurance regarding the achievement of objectives related to operations, reporting, and compliance. The COSO framework is designed to be used by organizations to assess the effectiveness of the internal control system to achieve objectives set by management.

Based on Hall (2007) policy, procedures are generally implemented by companies to achieve four objectives, such as :

- 1) Protect company assets, company assets or assets are at risk of being misused if there is no adequate internal control system, so the existence of the system is very important to maintain the security and integrity of company assets.
- 2) Ensuring the accuracy of accounting records and information, accuracy and accuracy in recording transactions are needed to produce reliable accounting information as a basis for managerial decision making.

- 3) Improve operational efficiency, internal control plays a role in preventing waste of resources and helps identify activities that do not add value to the company.
- 4) Ensuring compliance with company policies and procedures, the internal control system ensures that all operational activities run in accordance with the policies and procedures set by management to support the achievement of company goals.

Based on the 1992 and 2013 COSO framework, there are five components in the internal control system, such as;

- 1) Control Environment, which is a set of standards, processes, and organizational structures that are the main foundation in implementing the internal control system throughout the organization.
- 2) Risk assessment, which is a dynamic and continuous process, used to identify and analyze risks that can hinder the achievement of organizational goals. This process is the basis for determining appropriate risk management measures.
- 3) Control activities, are actions established through policies and procedures, with the aim of ensuring that management directives in minimizing risks can be implemented consistently and effectively.
- 4) Information and communication, which plays an important role in supporting the implementation of internal control. Accurate and relevant information is needed so that the organization can carry out its functions optimally, while good communication helps all employees understand their responsibilities in supporting the achievement of organizational goals.
- 5) Monitoring, carried out through continuous and periodic evaluations to assess whether the five components of internal control have been implemented and function properly.

The 2013 COSO framework recognizes the limitations associated with internal control systems. For example, certain events or conditions are beyond the control of the organization, and no internal control system will always do what it is supposed to do. Controls are performed by humans and are prone to human error, inherent uncertainty in judgment, management neglect, and avoidance due to collusion. An effective system of internal control (and an effective system of internal control over financial

reporting) provides reasonable assurance, not absolute assurance, that the entity will achieve its specified operating, reporting, and compliance objectives (COSO, 2013).

The theory of internal control based on the framework COSO (Committee of Sponsoring Organizations of the Treadway Commission) is closely related to the internal control system, especially in the procedure for receiving and issuing material supplies, because the COSO framework is designed to help companies assess effectiveness and ensure that internal controls are properly implemented.

b. Literature Review

Research of Rahmawanti et al. (2020), discusses the internal control system implemented by PT. Mica Jaya Pratama in managing inventory. The results of the study found that despite the established procedures, the implementation of internal control in the company was not fully effective. There are deficiencies in the separation of duties among the divisions in charge, which can result in the risk of errors and abuse of authority and the recording of transactions into accounting records still needs to be supported by more complete source and supporting documents.

According to research of Setiyani et al. (2020), The problems discussed in this study are various obstacles in managing inventory of goods obtained from the results of data collection at PT. Amco Multitech. This research resulted in a list of functional requirements for the inventory management system, which can be applied at PT Amco Multitech in supporting the effectiveness of inventory management.

Furthermore, research from Putra & Zefanya (2022), discusses the accounting system as an internal control of inventory and company performance, the results emphasize the importance of recording and monitoring all operations to improve the efficiency of the internal control system. As a result, the company could better manage its inventory and achieve the desired goals.

Research of Irawati & Satri (2017), This study discusses the effectiveness of procedures for receiving and issuing goods at PT Unisem Batam. The result of the study is that the implementation of the internal control system at PT Unisem Batam has been effective. Although the system has been running quite well, there are still some

weaknesses that need attention, including the implementation of procedures for the release of goods that are not yet optimal, errors in the placement of goods, inaccurate data recording in the warehouse, and unclear division of duties in the reception of goods.

According to research of Cahyaningsih et al. (2021), The problem discussed is the implementation of the internal control system over trade goods inventory at PT. XYZ. The study resulted in 15 components of the internal control system being analyzed, 11 components were declared effective, while 4 components were not effective. However, overall, PT. XYZ has implemented an internal control system over merchandise inventory effectively, in accordance with the components contained in the framework COSO (The Committee of Sponsoring Organizations of the Treadway Commission).

Research of Dwiatmanto & Azizah (2017), This study discusses the smoothness of the production process at CV. Cool Clean Malang, especially related to the management of raw material inventory. The study found that overall, although the accounting system at CV. Cool Clean Malang is already running, there are still weaknesses that need to be corrected to improve the efficiency and effectiveness of inventory management, which in turn will support the smooth production process and better internal control.

Research of Saifi (2018), discusses the problem of the accounting system for cement raw material inventory at PT Semen Bosowa Banyuwangi. The results of this study indicate that the raw material inventory accounting system at PT Semen Bosowa Banyuwangi has been running well in supporting internal control. However, there are still weaknesses in the procedure for purchasing and receiving raw materials that need to be improved. These weaknesses can lead to fraud and incomplete recording in the parts related to raw materials, such as duplicate tasks on receipts.

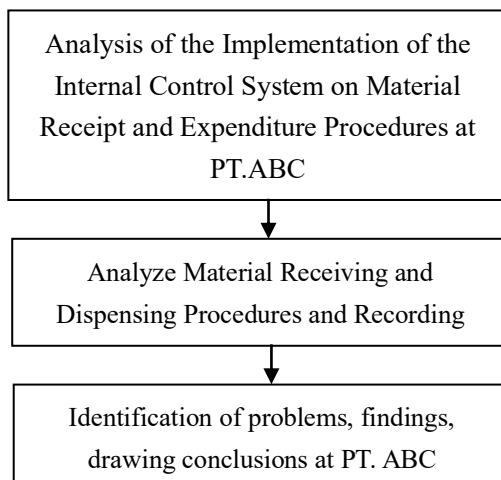
Furthermore, research from Rahmaningtias & Hati (2020), discusses the design of SOP (Standart Operational Procedure) and evaluate the implementation of the incoming and outgoing goods process that has been carried out by PT Krisna Makmur Abadi. These results show that the research successfully designed of SOP (Standart Operational Procedure) for a structured inbound and outbound goods process. This SOP (Standart Operational Procedure) is

equipped with supporting documents such as flow charts and narratives that facilitate understanding for employees and produce Inventory Information System applications using Microsoft Access 2007.

Research of Arnawa (2018), This research discusses the problem of internal control over food supplies at the Melia Bali Villas & Spa Resort Hotel. From the results of the discussion that has been carried out, it can be concluded that there are differences between the concept of theory and implementation in the field, especially in the process of receiving, storing, and issuing goods or food ingredients, the kitchen often requests verbally, the application of the FIFO (First In First Out) system for food expenditure is not carried out properly and warehouse cleanliness is not good.

According to research of Silfira & Aliamin (2022), discusses the internal control system implemented based on the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) framework and to evaluate the conformity between existing internal control practices and expected standards. The results of this study indicate that the implementation of the Internal control system in Baitul Mal Aceh Selatan is still not fully in accordance with COSO-based standards (The Committee of Sponsoring Organizations of the Treadway Commission).

c. Research Flow



2.1. Conceptual Framework
Source: Reprocessed

3. Research Methods

This research uses a qualitative descriptive method, which does not rely on numerical data, but is based on facts obtained through interviews

based on informants' statements at PT. ABC.

a. Research Time, Location and Object
This research is located at PT. ABC which is located in Batam City. PT. ABC is one of the shipping subcontractor service companies. The company is located in two places, namely for the office at Ruko Tiban Centre Blok O No.10, Batam City, and for the workshop and warehouse at the main contractor PT. ABC. The objects studied in this research include Analysis of the Implementation of the Internal Control System in the Procedure for receiving and issuing materials at PT. ABC.

b. Research Informants/Subjects

The research subjects consisted of 2 (two) resource persons, namely Mr. Yoga Alva Reza as the warehouse department of PT. ABC as the main resource person for this research and Mrs. Cyintia as the purchasing department of PT. ABC as a resource person related to strategies in overcoming problems in material receiving and issuing procedures. Sampling was carried out through interview techniques, taking into account that the informants selected were those who were considered to have the best knowledge and understanding of the procedures for receiving and issuing goods at PT. ABC.

c. Data Collection Technique

The data collection process was carried out through direct interviews with sources and observations made by researchers to the PT. ABC office. Observation activities are carried out by direct observation of the object, namely the material receipt and expenditure procedures to be studied to obtain the necessary data in connection with the research interests. Observation that researchers do by looking at the process of ordering, receiving, issuing and recording materials. The interview process with the warehouse department as the main source and the purchasing department as the second source by dividing the interview session

between the two sources. The information questions regarding this research are related to the procedures for ordering, receiving and issuing, and recording materials.

d. **Data Analysis Technique**

The data analysis technique used is the interactive analysis of Miles & Huberman (1992) through 4 (four) stages, namely the process of data collection, data reduction, data presentation, and conclusion drawing.

- 1) The data collection process was conducted through interviews and observations.
- 2) The data reduction process is carried out by filtering relevant information and grouping data based on certain categories, namely the five components of internal control based on the COSO framework
- 3) Data presentation is presented in the form of descriptive narrative
- 4) onclusions were drawn inductively, with trends and themes emerging from the interviews and observations

Data validation techniques are carried out by method triangulation. Method triangulation was used to validate the results of interviews with two informants and the results of observations at PT. ABC. Data triangulation validation aims to increase confidence in research findings. Data validation techniques are carried out by matching the results of interviews and matching observational data and Microsoft excel documents.

4. Results and Discussion

a. **Research Results**

Based on the results of the analysis that has been carried out through direct interview methods with respondents and the results of thorough observations of operational activities at PT ABC. This study aims to

describe how the implementation of the internal control system in the material receipt and expenditure procedures at PT ABC is seen from the implementation of the COSO framework components, and to see the suitability of the internal control system at PT ABC with a good internal control system based on the COSO framework. The following is a description of the results and discussion obtained through interviews based on the COSO framework components :

1. **Control Environment**

Based on the information obtained from the warehouse department, it can be seen that the authority and responsibility that has been applied to PT. ABC operational activities related to the verification process of materials received is carried out by involving several steps such as checking the Delivery Order document, physical quantity and quality checks, and record keeping to ensure that incoming materials are as ordered. *“This verification process is usually carried out by different teams from the party placing the order, namely the purchasing department and the party that manages the material and is directly involved in the physical inspection process of the material, namely the warehouse”*. In addition, other information obtained from the purchasing department at PT ABC, there is a separation of duties between the parties in charge. *“Yes, in our company, there is a separation of duties between the parties in charge, namely the person ordering the material is carried out by myself in the purchasing department and the party receiving, issuing, and recording the material is carried out by the warehouse department, namely Mr. Yoga and assisted by the materialcheck department”*. Observation showed that there was a separation of duties and verification of materials received before they entered the warehouse, but there was no structured division of duties and no written procedures. The consistency of the two data points informs and reinforces the conclusion

that although each division understands its duties, the absence of a formal organisational structure and written procedures means that the boundaries of authority and responsibility are not clearly defined.

2. Risk Assessment

The results of the interview also show that PT. ABC has determined the objectives in inventory management, namely, the recording system for all material receipt and issuance transactions is recorded in a timely manner, when the material is received at the warehouse, The process of direct recording is carried out as well as issued from the warehouse, which allows the warehouse department to monitor material inventory more precisely and reduce the risk of errors or discrepancies. *“sometimes there are some delays in recording in the system because at the time of material expenditure, it is temporarily recorded first manually in a book and then transferred to Microsoft excel”*. The warehouse department, in addition to managing materials, also doubles as a material recording department, understands that material stock management aims to ensure stock suitability.

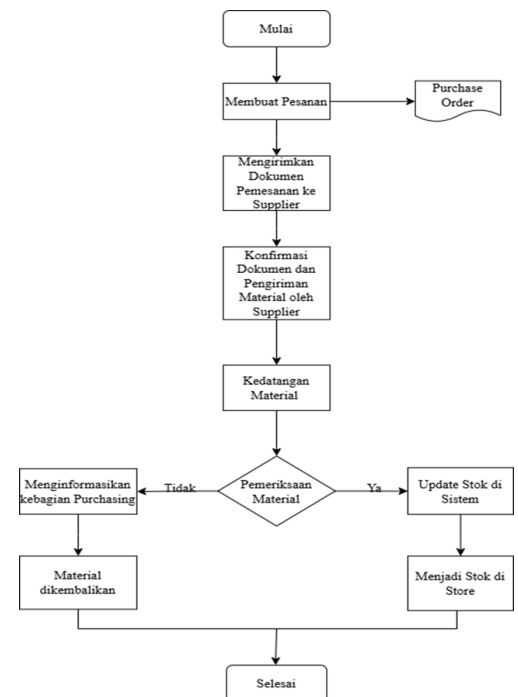
Based on information from the warehouse department, it is also realised that there are several risks in managing inventory such as difficulties in managing inventory and errors in recording delays and potential fraud for theft of materials caused by the company warehouse that can only store limited materials. *“Usually, the recording errors include differences between the amount of material recorded and issued due to late recording”*. From the result of observation, the researcher witnessed directly that the recording was still done manually, so the recording was often delayed until the end of work or the next day and the researcher witnessed that the condition of the warehouse owned by the company was limited in size. In addition, based on the documentation reviewed, the Microsoft Excel report is still messy, both in terms of date and item name. The consistency of the three data shows that discrepancies due to delays in recording material stock can pose a risk to the company as a result, the production team that needs materials experiences a shortage of materials needed for shipbuilding, which ultimately hampers the smooth production or operational process, and the condition of the warehouse owned by fraud or theft still depends on trust

and honesty between parts.

3. Control Activities

Based on interviews, policies and procedures related to the receipt and release of materials at PT ABC are implemented in the form of SOP (Standard Operational Procedure). The purchasing department stated that the company didn't have a clear unwritten policy. *“the company only defines the flow related to the receipt and release of materials and the authorisation required before materials can be released from the warehouse”*. The purpose of the flow is to ensure that only materials are used that meet the needs of the organisation.

The flow of the material receipt and release procedure submitted by the warehouse as a form of internal control system implemented at PT.ABC, as follows:

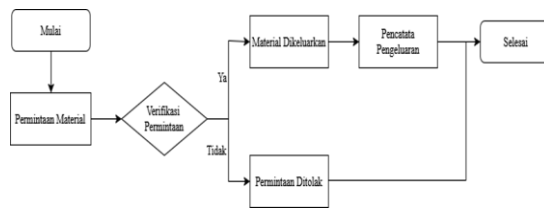


3.1. Flowchart of Material Receiving
Source : PT. ABC

In the flow of receiving materials:

- a. Purchase order documents are created by the purchasing department when ordering materials.
- b. The Purchase Order document is then sent to the supplier via whatsapp to be confirmed.

- c. At the arrival of materials, the department in charge will check shipping documents, such as bills of lading and invoices, to ensure compliance with the order that has been submitted.
- d. To conduct a physical inspection of the received materials such as the quantity, quality, and condition of the materials, to ensure there is no damage or shortage of materials.
- e. After conducting the physical inspection, the received materials will be recorded in the company's inventory system in Microsoft excel to ensure that the stock data is always accurate. And if there is a mismatch in the order, it will inform the purchasing department to confirm the return of the material to the supplier.
- f. The verified and recorded materials will be stored in the warehouse according to their category and type.



3.2. Flowchart of Material Dispensing
Sumber : PT. ABC

In the flow of dispensing materials:

- a. All material requests from the production division must go through the appropriate submission procedures, such as the reason why the material is needed.
- b. The warehouse division will check the request to ensure that the requested materials are available and match the records in the inventory system.
- c. After verification process as requested, the material will be removed from the warehouse and handed over to the person in need.
- d. Each material release will be recorded in the inventory system to keep the material stock up to date. This allows PT.ABC to monitor the availability of materials.

In addition, there are stages of material

expenditure authorisation that are implemented at PT. ABC :

1. Submission of material requests is submitted by the production department that requires the material.
2. Once the request is submitted, authorisation for material expenditure is made by the supervisor to verify that the requested material is actually required for operational activities and in accordance with the existing plan.
3. The warehouse department will carry out checks to ensure that the requested materials are in stock and ready to be issued.
4. After the entire process is completed, the approved materials will be released from the warehouse, and each release will be recorded in the system.

The purchasing department stated that the procedure is not yet in a standardised form “*Yes, in our company, there is a verbal authorisation required before materials can be removed from the warehouse*”. Based on observations, researchers did not find SOP documents displayed for employees to access. In addition, so far the procedures implemented are based on work habits (flow) that have been going on, and the recording procedures are still unclear. The consistency of the two data shows information and strengthens the conclusion that indicates that the implementation of the SOP (Standard Operational Procedure) has not been orderly, especially in the warehouse section.

4. Information and Communication

The interview results show that internal communication at PT ABC has been ongoing. The warehouse department stated that “*The requests for materials are made with clear reasons and objectives that the materials will be used in the construction of what ship project*”. This ensured that the materials released from the warehouse were only used for their intended purpose. Material requests were made by communicating directly in the field between the warehouse department and the operational supervisor. Then, based on information from the purchasing department, coordination related to material purchases between related divisions is carried out directly informally to ensure the amount of material to be ordered. *Yes, usually ordering materials coordinates with the warehouse*

team first to ensure the amount of material to be ordered, and the warehouse itself previously coordinated with the supervisor regarding the amount of material needed for shipbuilding". However, the purchasing department has difficulty tracking stock differences and discrepancies due to the lack of material stock information from the warehouse.

Based on the results of interviews with the purchasing department, communication between PT. ABC and suppliers has been carried out via Whatsapp formally and sending soft file purchase documents in the form of Purchase Order. *"The document used to order materials uses a Purchase Order sent from WhatsApp to the supplier in the form of a softfile"*. Based on the observation, the researcher witnessed that internal and external communication carried out by direct coordination of the amount of material to be ordered has not been conveyed optimally, because the minimum information related to the stock owned. The consistency of the two data shows that through communication has been going on well and in the form of reporting and digital archives and information from suppliers is very helpful regarding the price of materials and the condition of the materials received at the company.

5. Monitoring

According to the results of the interview, evaluation activities on the implementation of controls on material receipt and issuance procedures at PT ABC have not been carried out, but if a discrepancy is found between the amount of material received and that recorded in the system, it is only done by re-verifying the receipt and recording documents and conducting a physical inspection of the material received. The warehouse department revealed *"The team will coordinate with suppliers or related parties to find solutions, usually in the form of replacement of goods, correction of quantities, or rearrangement of shipments if there are discrepancies"*. Regular reports are also submitted to management regarding material management only to find out about the use of these materials. The purchasing department also added *"In our company, we do not carry out further evaluation of the reports provided by the warehouse, we are given these routine reports only to find out the use of materials for any ship project"*. Based on the observation, the researcher found that the company does not have a special section that runs internal

audit. The consistency of the two data shows that the absence of monitoring in inventory management can cause material usage to go undetected by the company.

b. Research Discussion

Analysis of the causes of material shortages and material management issues

1. Control Environment

The Control Environment includes a set of standards, processes and organisational structures that form the main basis for implementing the organisation's internal control system. In the COSO framework, leaders play an important role in determining and shaping behaviour through role models and formal policies. PT. ABC shows that responsibilities between divisions have been carried out, but have not been supported by an organisational structure and written policies. The division of tasks has also not been documented systematically, which reflects that commitment to the control environment is not within in a structured system. The impact of the absence of structure and lack of separation of functions is weak control in the company, which has the potential to cause material shortages and inventory management difficulties. This is aligned with research of Saifi (2018) there is a separation of duties, but the absence of an organisational structure has resulted in duplication of duties, especially in the reception department..

2. Risk Assessment

Based on the data found in the field, the warehouse department recognises the importance of risk assessment in the goal of accurate stock and record reporting accuracy. However, the components of risk assessment are not applied thoroughly, characterised by the absence of measurable risk indicators and written operational activity objectives. Risk identification is still proactive and not supported by formal analyses and accurate recording systems. Risks such as delays in recording stock, data entry errors, and storing some materials outside the warehouse are recognised, although systematic procedures are not implemented. Controls against fraud and theft still depend on trust and honesty between departments and informal

verification without forms and internal audits. This is aligned with research of Rahmawanti et al., (2020) stated that weaknesses in the separation of duties and inventory recording could increase the risk of recording errors and potentially lead to fraud.

3. Control Activities

Control activities at PT ABC have been implemented through procedures for receiving and issuing materials, but the implementation is still manual and the existing SOP is generally not in a standardised form. Existing policies are not in clear written form and the procedures for receiving and issuing materials at PT.ABC have not been implemented in a documented and structured manner, resulting in material shortages and inventory management difficulties. This is aligned with research of Rahmaningias & Hati (2020) The SOP for a structured inbound and outbound goods process must be equipped with supporting documents such as flowchart structures and narratives that facilitate understanding for employees.

4. Information and Communication

Based on the analysis, it shows that the information and communication system at PT.ABC has been running thoroughly but not in an integrated manner, where information about inventory stock is not optimal. Internal communication is still informal and lacks written documentation and external communication with suppliers is integrated and important information is conveyed in a complete and timely manner, thus minimising errors in inventory recording and warehouse arrangement. These conditions indicate that the information and communication component in internal control at PT. ABC has not fully supported the smoothness and accuracy of inventory recording, in line with the COSO theory that information must be relevant and accurate so that the organisation can carry out its functions optimally so that it can support the achievement of the organisation objectives. This is aligned with research of Cahyaningsih et al., (2021) that an information system that can capture and exchange information needed to manage and control operational activities is needed by the company.

5. Monitoring

Based on the analysis, it shows that the monitoring of internal control at PT ABC has not yet been implemented. The activity in the form of internal audits of inventory stock directly and evaluation of Microsoft Excel reports on recording material usage has not been carried out, and is still incidental, which is only carried out in the form of re-verification when there is a discrepancy between the amount of material received and reporting is only verbal and without documentation. This is aligned with research of Cahyaningsih et al., (2021) revealed that the internal control system implemented or developed must always be monitored, evaluated, and modified as needed.

Analysis of solutions to prevent material shortages and material management issues

Based on the results of the findings and problems that occur in the implementation of the internal control system in the material receipt and expenditure procedures at PT. ABC, a solution that is comprehensive, integrated, and can be implemented in accordance with the actual conditions of the company is needed. To prevent material shortages and difficulties in managing material inventory, there are solutions that can be implemented, including the following. First, at PT. ABC, the main problem is the absence of a clear organisational structure and the division of tasks that have not been documented systematically and have not been supported by written policies. Therefore, it is recommended that PT ABC compile an organisational list with an appropriate division of tasks. In addition, it is necessary to implement a written policy to strengthen the internal control system to reduce the risk of errors and abuse. Secondly, material shortages and inventory management difficulties are caused by the lack of systematic risk identification. The solutions that can be implemented through the identification of key risks related to material receiving and issuing procedures, such as delays in recording, recording errors, and difficulties in managing warehouse management. In addition, PT.ABC needs to establish other plans such as changes in recording procedures. Third, the absence of a written SOP for the implementation of revenue and expenditure procedures and its implementation is still manual is an obstacle. This reason, PT. ABC needs to develop and implement a written SOP for all material receiving and issuing procedures, starting from ordering, receiving, issuing, recording and correcting differences in material. In addition, a routine recording schedule, both daily and per project,

needs to be established and compared with what is recorded in the Microsoft excel system. Fourth, the communication process has been informal and without written documentation. The solution that could be implemented is to build internal communication in a written documented manner, such as through a daily stock report form. In addition, formal coordination between the warehouse and purchasing departments needs to be strengthened to ensure that orders are placed in the required quantities. And the last, a significant obstacle that occurs is the absence of internal audits and report evaluations conducted. Therefore, it is recommended to conduct an internal audit and evaluation of the material usage report once a month to check the suitability of the material stock. In order to support the sustainability of the internal control system, it is necessary to develop periodic evaluations of the implementation of material receipt and expenditure procedures as a basis for further improvement.

Conclusions and Recommendations

a. Conclusion

Based on the description of the results and discussion that has been carried out, this study shows that the implementation of the internal control system in the material receipt and expenditure procedures at PT. ABC has not run optimally in preventing shortages in the amount of material that has been ordered and difficulties in managing material inventory. The five components of COSO, namely the control environment, risk assessment, control activities, information and communication, and monitoring have begun to be implemented but are still informal, undocumented and not fully coordinated.

The main weaknesses are the absence of an organisational structure, a clear division of tasks, the absence of written SOP and policies, and the absence of a continuous audit and monitoring system. This has caused the recording of material inventory to be hampered, inaccurate, and caused losses to the company.

This research has the impact that PT ABC, especially companies in the field of shipping subcontractor services, need to build an internal control system that is structured, documented and not only informal. The application of the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework is considered contextually inappropriate. It is caused by the

fact that the COSO framework is comprehensively designed with a complex structure and broad scope that is more suitable for large companies or entities that already have a mature risk management system and organisational structure. COSO implementation often requires adequate human resources, a clear division of tasks, and a supporting information technology infrastructure that is generally not owned by small companies. Therefore, in the context of PT ABC, it is recommended to use an alternative framework that is simpler and suitable for the capacity of small companies, such as an internal control approach based on basic control principles that is more flexible and easy to implement. This approach can still support the achievement of internal control objectives, but is more adaptive to small organisational structures and limited resources.

b. Recommendation

There are several suggestions for consideration for further research objects. These suggestions are as follows:

1. For future research, it is recommended to prepare an organisational structure and division of tasks between sections in writing in order to clarify responsibilities in the implementation of material receipt and disbursement procedures.
2. It is recommended that further research begin to implement SOP and policies in writing for each inventory entry and exit activity so that the internal control system is well organised.
3. Future research can examine more than one business unit to get a more comprehensive comparative overview.

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