ANALYSIS OF INTERNAL CONTROL SYSTEM
AT PT ALBASIA INDO LESTARI PONTIANAK

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Abstract
Inventory is one of the important assets owned by the company. Since inventory is an asset, a good and appropriate internal controls are required for the control and management of such merchandise to keep the inventory of the bad things that might happen in order for the business to continue operating. The research method used is qualitative method with descriptive analysis by the data gained from in-depth interview with the owner of the business. From the results of research on PT Albasia Indo Lestari, author can conclude that the internal control of quite low. The lack of professional workers has been the main problem of the business. The practice in the business is also still need improvements and the business should also pay attention to its employees’ knowledge and educations so their performances can be improved. There are still many improvements needed so the business can run effective and efficiently.

Keywords: evaluation, internal control system, inventory

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BACKGROUND

Developments in science and technology are really affecting the way people live, communicate and interact, with profound effects on economic development. The development of economy leads to businesses competency where each company tries to dominate the market. Every company, whether a manufacturing, a service, or a trading company, requires a supply of goods to maintain the business.

In general, merchandising companies can be defined as organizations that carry out business activities by buying goods from other parties/companies then selling them back to the community. Every company must aim to generate optimal profit in order to maintain its survival, advance, and develop its business to the higher level. One of the most important elements in a trading company is inventory. Inventories are merchandise purchased and then stored for resale in operation.

Internal inventory control is a very important managerial function, because internal control over this inventory influences the effectiveness and efficiency of the company’s activities. Therefore, internal control over inventories of merchandise is needed to reduce the risk of losses, anticipate the possibility of fraud and ensure that the procedures have been carried out properly so that improvements can be made. There are many businesses fail because of internal factors affected by management’s actions and disciplines.

The objectives of this research are to know the implementation of merchandise inventory control system applied by PT Albasia Indo Lestari Pontianak and to find out whether the merchandise inventory control system applied by PT Albasia Indo Lestari Pontianak is effective for the company.

LITERATURE REVIEW

Systems

System is a group of elements that are closely related to one another, and inseparable which also has the same function to achieve a certain goal. Effective system analysis and design can ensure that developers correctly determine business problems and design appropriate solutions.

Internal Control

The basic concept of internal control is quoted on Committee of Sponsoring Organizations of the Treadway Commission (COSO) which says that internal control is a process, influenced by the board of directors of an entity, management and other personnel, which is designed to provide reasonable assurance of achieving the organization objectives, such as effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations.

Objectives of Internal Control

Internal controls can be used to maintain the security of properties of the company, to make the right reports to the management, to improve business efficiency, and also to ensure policies are established by the management has been run well.

Components of Internal Control

According to Mulyadi, to create a good internal control system, there are four components of internal control; (a) an organizational structure that explicitly separates functional responsibility, (b) the system of authority and recording procedures that provide adequate protection against wealth, debt, income and costs, (c) sound practice in carrying out the duties and functions of each organizational unit, (d)
employees whose quality is in accordance with their responsibilities. While, according to COSO, internal control consists of five interrelated components, control environment, risk assessment, control activities, information and communication, and monitoring.

The Concept of Internal Control

The recording procedure that is applied correctly is able to provide protection against the inventory applied in the company. Separation of functional responsibilities and authorization systems and recording procedures that have been implemented must also be supported by the existence of sound practices in each implementation. By applying elements of internal control in the management and control of inventory, the internal control system can be carried out and run well.

Inventory

Inventory is the most important part for the company in carrying out operational activities. Without inventory, the company's activities will not run so that the company's goals can not be achieved.

Types of Inventory

There are three main types of inventory, raw materials inventory, work-in-process inventory, and finished goods inventory.

Functions of Inventory

According to Tampubolon (2004), there are three functions of inventory, decoupling function, economic size function, and anticipation function.

Inventory Costs

Inventory cost consists of all expenditures, both direct and indirect, relating to inventory acquisition, preparation, and placement for sale. In the case of raw materials or goods acquired for resale, cost includes the purchase price, freight, receiving, storage, and all other costs incurred to the time goods are ready for sale.

Inventory Control

Inventory control is also known as stock control and the purpose of this is to monitor the stock at any given point in time. Not only this, but it also deals with the maintenance of the stock and keeping track of any excess or deficit. Inventory control can be performed employing one of the many methods that are used by companies. All methods are efficient in their own right; a company must choose the one that suits it the most. It is not necessary for a company to go for just one method at a time, but instead it can be a mixture of two or more methods.

The Differences between Periodic and Perpetual Inventory Systems

The periodic system uses an occasional physical count to measure the level of inventory COGS. Merchandise purchases are recorded in the purchases account. The inventory account and the cost of goods sold account are updated at the end of a set period – this could be once a month, once a quarter, or once a year.

In contrast, the perpetual system keeps track of inventory balances continuously, with updates made automatically whenever a product is received or sold. Purchases and returns are immediately recorded in the inventory account. As long as there is no theft or damage, the inventory account balance should be accurate. The cost of goods sold account is also updated continuously as each sale is made. Perpetual inventory systems use digital technology to track inventory in real time using updates sent electronically to central databases.

Inventory Valuation Methods

There are many kinds of methods in inventory valuation method and each company has a right to determine the valuation of inventory owned by the
company, as long as the method and system of inventory valuation is done consistently. The purpose of inventory valuation is to maintain the validity and reality in the financial statements.

**RESEARCH METHODOLOGY**

**Population and Sample**

The population of this research is PT Albasia Indo Lestari Pontianak, while for the sample used in this research is the owner of PT Albasia Indo Lestari. The reason why author choose the owner as the sample is because the company is just freshly upgraded as big company. It is the owner himself that know the story and anything running in the company.

**Types and Sources of Data**

The data used in this research are primary data that got through interviews and observations.

**RESULTS AND DISCUSSIONS**

**Evaluation of the Internal Control System of Merchandise Inventory at PT Albasia Indo Lestari**

<table>
<thead>
<tr>
<th>Elements Related to the Internal Control System of Merchandise Inventory</th>
<th>Accounting Information System Theories of Merchandise Inventory</th>
<th>Accounting Information System of Merchandise Inventory at PT Albasia Indo Lestari</th>
<th>Comments</th>
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<tbody>
<tr>
<td>Organizationa l Structure</td>
<td>Operation and storage functions must be separated from the accounting function. A function must not be given full responsibility for all stages of a transaction.</td>
<td>The lack of staff in the warehouse makes the warehouse staffs do all the related functions in merchandise inventory.</td>
<td>Inadequate. In the inventory department, PT Albasia Indo Lestari only focus on the warehouse in the organization al structure because it wants to summarize each section to be easily monitored, yet there are still lack of employee in the warehouse. The owner also putting so much trust in the warehouse head that giving him a full authority to do all the jobs related to the warehouse and that is not good for one person to control all related jobs.</td>
</tr>
</tbody>
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Adequate. procedure that occurs is the procedure for recording the goods, recording the product ready for sale, and recording the product returned from the buyer or the sales return, physical inventory calculation.
### Sound Practice in Carrying Out Tasks and Functions

| Employees whose Quality is in Accordance with Their Responsibilities | The use of a sequence numbered form is printed. Sudden inspection (surprised audit). Every transaction must not be carried out from the beginning to the end by one person or one organization unit. Job rotation. Must take leave for eligible employees. Physical matching is held periodically. Establishment of an organization unit whose task is to check the effectiveness of other control system elements. | The form does not have a printed serial number. There is no sudden audit check. There is already a clear division of tasks from each transaction. There is no position rotation. Employees are available to take annual leaves. | Inadequate. As stated on the theory of internal control system of merchandise inventory, in the warehouse, there should be a printed serial number form used. There should also be a surprise audit check and job rotation in the organization. | the education development of the employees. |

### Evaluation of the Internal Control System of Merchandise Inventory at PT Albasia Indo Lestari in Accordance with COSO’s Internal Control Components

1. **Control Environment**

   a. **Integrity and Ethical Values**

   Integrity and ethical values carried out by PT Albasia Indo Lestari has gone well. This can be seen by the existence of a policy statement and implementation of rules that have been made by management. The rules in the company become the basis or benchmark for employees to be honest and uphold professionalism and loyalty to the company. All the employees obey the rule made by the company.

   b. **Commitment to Competence**

   Started as a small business, PT Albasia Indo Lestari did not have much competence employees, only recruiting peoples who willing to work. But now, PT Albasia Indo Lestari has committed to recruit employees who have different competencies according to the needs of the company. Since the business developed, now there are career path making the employees motivated to develop theirselves so they could promoted for a better position in the company.

   c. **Determination of Authority and Responsibility**

   Determination of authority and responsibility in internal control of inventory is good carried out by PT Albasia Indo Lestari. The separation of
functions makes each field have the authority and responsibility of each, and cannot be interfered with by other fields even though everything is interconnected. There are separations between all positions and the authorization also clear for every department.

d. Organizational Structure of the Company

Organizational structure designed by PT Albasia Indo Lestari is good. This is seen by the functional division of administration and finance, marketing, and inventory. The division based on this function is appropriate with the company because it will clearly show the division of duties and authority of each functional, so that control can be done well.

2. Risk Assessment

The assessment carried out is by maintaining the quality and quantity of the items stored in the warehouse. Reports from checks are made by looking at the physical number of items in the warehouse, minimizing the risk of accumulation, shortages, and even fraud.

3. Control Activities

To avoid the risks of accumulation, shortages, or fraud, the control activities done by the company is as follows:

a. Separation of Duties

PT Albasia Indo Lestari has held a separation of duties to handle every transaction or activity which occurs especially with inventory, so this reflects the internal control in the company.

b. Proper Authorization of Transactions

Authorization of transactions and activities is carried out by signing by an authorized person in each documents.

c. Adequate Documents and Records

Completeness of documents starting from the request until the inventory is sufficient. Starting from the order letter, warehouse stock card, item expenditure letter, receipt/invoice.

d. Physical Control of Assets and Notes

Physical protection of PT Albasia Indo Lestari is considered effective. Besides availability of warehouses as a storage area and CCTV cameras make the inventory safe from theft. This protection also applies to documents and records so that they become safer even though they have been archived, internal damage manual records can also be avoided.

4. Information and Communication

Information and communication system by PT Albasia Indo Lestari is good enough. Clear procedure preparation in the company, including in inventory supervision procedures involving several related functions, documents and records needed must be based on the source report accompanied by supporting documents that are complete and authorized by the competent authorities.

5. Monitoring

Internally, each part of the department is overseen by the higher position. This activity is good in supporting the creation of adequate internal controls within the company. But, the overall monitoring is still done by the owner of the company. The results of the research conducted show that inventory
control is sufficient by running five components of internal control. This can be seen from the good organizational structure, with the separation of duties of each part and the appropriate separation of functions, and a good supervision and security system that keeps the company under control, even though there are still lack of competence employees and inadequate documents.

CONCLUSIONS AND SUGGESTIONS

Conclusion
Based on the data obtained from the field and the results of the discussion of the internal control system analysis of PT Albasia Indo Lestari’s inventory, the authors draw the conclusion that for a freshly upgraded company, the internal control system at PT Albasia Indo Lestari is not good enough. There are still many things that need to be improved so there will be effectiveness and efficiency of the operation in the organization, such as for the job separation and rotation, also for the knowledge and skills of the employee hired in the company.

Suggestions
Based on the conclusions above, the authors provide suggestions for this study, including:

1. If the business wants to run for a longer time, maybe the owner should start thinking about recruiting more capable employees that can handle problems that might not be able to be solved by the existing employees.

2. The business should start fixing the internal control systems, for example doing position rotation more often, doing records and reports in a proper way, start making a new deployment where the function is separated so there is no more one person handling an order from beginning until the end.

3. The business should also taking care of the development of its employees. Trainings or seminars would really help improving the employees knowledge, as well as rewards for employees to tighten up their feels of belonging to the company.

REFERENCES


