

Internal Control System

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Article Info

Article history:

Received Jul, 2024

Revised Jul, 2024

Accepted Jul, 2024

Keywords:

Accounting
Financial Reports
Internal Control

ABSTRACT

This article discusses how important internal control is for accounting information systems. An internal control system is the responsibility of a company's management, a responsibility that includes creating and maintaining it in accordance with the company's needs. The research method used in writing this article is library research. The data collection technique used is library study, namely data collection is carried out by reviewing reference books in the library. The type of data used is secondary data in the form of books related to the discussion. Data analysis uses descriptive methods, namely describing research results and then drawing conclusions. The conclusion drawn from this article is that to create internal control within the company, it is necessary to obtain quality employees who are in accordance with their responsibilities. The responsibility for developing and operating good internal accounting controls within the company lies in the hands of top management, because the management of funds from company owners is in the hands of top management. In this case, internal control has an important role in company management.

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1. INTRODUCTION

In an increasingly complex and competitive business world, organizations are faced with various challenges, including increasing operational risks, compliance with increasingly stringent regulations, and demands to continuously improve performance. In facing these challenges, it is important for organizations to have robust and effective systems to control their operations. This is where the role of the Internal Control System (SPI) becomes very important [1]–[3]. SPI provides a structured

framework for managing risk, ensuring compliance, and improving operational efficiency and effectiveness.

According to [4] the internal control system is an integral component of the accounting information system. In the absence of a sufficient internal control system, the accounting information system will be unable to generate dependable information for the purpose of decision making [5]–[7]. The implementation of an internal control system in the accounting information system is highly beneficial in

preventing and managing undesired occurrences. The internal control system can also be utilized to identify and rectify faults that may arise.

The Internal Control System encompasses the integration of organizational structures, methodologies, and procedures to protect organizational assets, verify the integrity and dependability of accounting data, promote efficiency, and ensure adherence to management standards. An internal control system is defined by its intended objectives rather than its constituent components. Therefore, the aforementioned concept of internal control is applicable to firms that handle information manually, utilize bookkeeping equipment, or rely on computers. The primary goals of an internal control system, as defined above, are: (1) protecting organizational assets, (2) verifying the precision and dependability of accounting data, (3) promoting operational

efficiency, and (4) promoting adherence to management principles [8]–[10].

The internal control system may be categorized into two categories based on its purpose: internal accounting control and internal administrative control. Accounting internal control is a component of the internal control system that focuses on the organizational structure, procedures, and measures used to protect organizational assets and ensure the correctness and reliability of accounting data [11]. Effective internal accounting controls ensure the protection of investors' and creditors' assets and generate reliable financial reporting [4]. Administrative internal control refers to the systematic structures, techniques, and measures put in place inside an organization to promote efficiency and ensure conformity with management policies. The objectives of the internal control system and the segmentation of the system according to its objectives are illustrated in Figure 1.

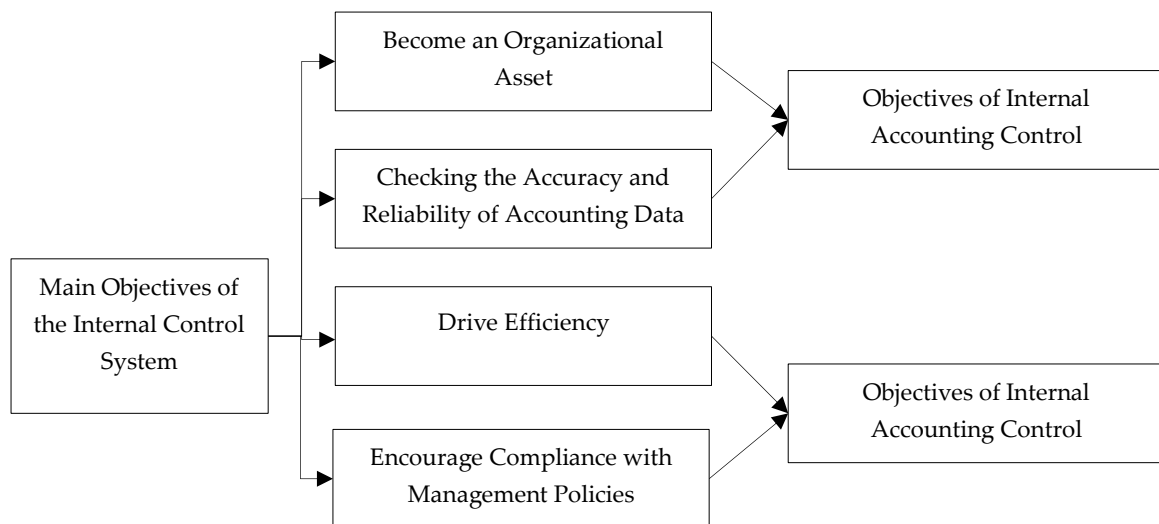


Figure 1. Main Objectives of the Internal Control System

Good internal accounting controls will guarantee the security of the wealth of investors and creditors invested in the company and will produce reliable financial reports.

2. RESEARCH METHODS

This study employs a qualitative methodology, utilizing the library research method or literature study. According to [12],

Library research, also known as bibliographic research, is a methodical process of gathering, analyzing, and drawing conclusions from data using certain methods and procedures. Its purpose is to identify solutions to issues encountered in the field of library research. Literary research, also known as library research, refers to the systematic collection of data and scientific writing with the purpose of studying and

analyzing library-related materials. It is typically conducted to address a specific problem and involves a thorough examination of relevant literature. And the reason for using library research is because researchers need data from various literary sources in the form of books, previous research journals as a source of research data in order to obtain a theoretical basis regarding the problem to be researched. This type of research data is secondary data, data analysis uses descriptive methods, namely describing the research results and then drawing conclusions [13]–[15].

3. RESULTS AND DISCUSSION

The internal control system is an integral component of the accounting information system. In the absence of a sufficient internal control system, the accounting information system will be incapable of generating dependable information for decision-making purposes. The implementation of an internal control system in the accounting information system is highly beneficial in preventing and managing undesired occurrences. The internal control system can also be utilized to identify and rectify faults that arise. The internal control system encompasses the organizational framework, procedures, and mechanisms that are harmonized to safeguard organizational assets, verify the precision and dependability of accounting information, promote effectiveness, and ensure adherence to rules. In a narrow sense, internal supervision is checking horizontal totals (crossfooting) and descending totals (footing). In a broad sense, internal supervision does not only include checking work but includes all the tools used by management to carry out supervision. Internal supervision encompasses the organizational framework and all integrated techniques and resources employed within the company to safeguard company assets, verify the accuracy and integrity of accounting information, enhance operational efficiency, and ensure adherence to pre-established management policies.

According to [16], internal control components are sub-systems that form an internal control system. Their existence is very important because if one of them is not present, the internal control system will become weak and ineffective in preventing errors and fraud. The following describes the parts of the internal control system components:

a. Control Environment

The control environment establishes the atmosphere of a company, shaping the level of awareness and adherence to control measures among its employees. The control environment serves as the foundation for all internal control components, offering both discipline and structure. The control environment establishes guidance for the organization and shapes the level of control awareness among individuals inside the organization. The control environment is influenced by several elements, such as integrity and ethical principles, dedication to competence, the board of directors and audit committee, management style and operational style, organizational structure, assignment of power and responsibility, and HR practices and policies. Auditors must acquire enough understanding of the control environment in order to comprehend the attitudes, awareness, and actions of management and the board of commissioners towards the internal control environment. This includes considering both the essence of the control and its overall influence.

Additionally, there are some who have a slightly varied interpretation but share the same essence, stating that the control environment includes the following elements: 1.) Dedication to upholding integrity and ethical principles. 2) Philosophy of management and manner of operation 3) Structure of the

organization 4) Conduct an audit of the governing body and board of commissioners. 5) Techniques for allocating power and accountability. 6) Human resources policies and procedures. 7) Factors from outside sources that have an impact.

b. Control Activities

Control activities refer to the set of rules and processes that are put in place to guarantee the effective implementation of management directives. These activities are crucial in ensuring that the necessary steps to mitigate risks effectively align with the entity's objectives. Control actions serve several purposes and are executed across different levels and departments within an organization. In an audit, control activities that are pertinent might be categorized as policies and procedures pertaining to performance evaluations, data processing, physical safeguards, and division of responsibilities.

Control activities can be categorized as follows:

1. Information Processing Control, which includes: general control, application control, appropriate authorization, recording and documentation, and independent audit.
2. Separation of duties
3. Physical control
4. Review performance

c. Risk Assessment

Risk assessment is the process of identifying and analyzing the risks that are important to an organization's goals and objectives. It serves as a foundation for selecting the appropriate methods for managing such risks. The determination of risk goals for financial statements involves the process of identifying, analyzing, and managing risks associated with the compilation of financial reports in line with PABU. Risk management

assesses the correlation between the risks associated with certain financial statement statements and actions such as the recording, processing, summarizing, and reporting of financial data. Financial reporting risks encompass both internal and external events and conditions that have the potential to impair the entity's capacity to accurately record, process, summarize, and present financial data in alignment with management's claims in the financial statements.

d. Information and Communication

Information and communication refer to the process of identifying, capturing, and exchanging information in a manner and timeframe that allows individuals to fulfill their duties. Financial reporting relies on relevant information systems, such as accounting systems, which encompass various ways for recognizing, combining, analyzing, categorizing, documenting, and reporting transactions. These systems also provide responsibility for assets and liabilities. Communication involves conveying detailed explanations of specific tasks and obligations pertaining to the internal control framework in financial reporting.

e. Monitor Performance

Performance monitoring is a systematic procedure that assesses the effectiveness of internal control performance over a period of time. Performance supervision is synonymous with monitoring. Monitoring involves assessing the prompt implementation and effectiveness of controls, and implementing any remedial measures. This process is executed by ongoing operations, discrete evaluations, or various amalgamations of the two.

From the research results that have been presented previously, they will be discussed one by one to produce a more detailed understanding. The first component of an internal control system is the control environment, which can be discussed as follows:

1. It is crucial for management to have an organizational structure that prioritizes integrity and ethical ideals. Organizations can use integrity as a basic operating principle, by actively teaching and practicing it.
2. The level of responsibility exhibited by workers in striving to attain organizational goals is directly influenced by the management philosophy and operational style, with a greater chance of responsible behavior when these are more responsible. If management neglects internal control, staff will become less conscientious and ineffectual in attaining specific control objectives.
3. The organizational structure refers to the hierarchy of power and responsibility inside an organization, outlining the overall framework for planning, directing, and regulating its activities. Key elements of organizational structure encompass the centralization and decentralization of authority, the delegation of responsibilities for specific tasks, the impact of responsibility allocation on management's information needs, and the arrangement of information systems and organizational functions.
4. The audit committee is comprised of external commissioners who are not part of the organization. The audit committee has the responsibility of supervising the company's internal control structure, financial reporting systems, and adherence to applicable laws, rules, and standards.
5. The method of allocating power and responsibility involves management assigning specific business objectives to relevant departments and personnel, and holding them accountable for attaining those objectives. Responsibility and authority can be delegated by means of job descriptions, staff training, and operational plans, timetables, and budgets. Regulations that pertain to ethical standards, justified business activities, legal obligations, and conflicts of interest are especially significant.
6. Human resources policies and practices encompass several aspects such as recruitment, training, performance evaluation, compensation, and promotion. These policies and practices have a direct impact on the organization's ability to mitigate threats, risks, and vulnerabilities.
7. External effects refer to external elements that impact the control environment. These considerations might include requirements set by stock exchanges, financial organizations, and insurance companies.

4. CONCLUSION

The internal control system encompasses the organizational framework, procedures, and mechanisms that are harmonized to protect organizational assets, verify the correctness and dependability of accounting data, promote efficiency, and ensure adherence to management standards. The internal control system is categorized into two types: internal accounting control

and internal administrative control, in accordance with the stated goals.

The accounting information system is a means used by organizations to record all events that contain monetary value. With an accounting information system, the accounting process can be carried out well. The accounting process begins with a transaction, then recorded with proof of the transaction. The next step is to record journals, ledgers, trial balances and financial reports. Whatever the form and name, financial reports are a tool of accountability

from organizational managers to parties who have interests.

An accountability tool must have sufficient reliability, so that it can be trusted by parties interested in the organization. Internal control is one of the instruments that can be used to produce financial reports that can be relied upon for their truth. With good internal control, every process that occurs within the organization will be controlled fairly, so that records in the form of financial reports are also free from errors.

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