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Internal Controls in the System Accounting Information

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ABSTRACT

This article discusses the importance of internal control in accounting information systems. The accounting information system functions as a framework for implementing accounting processes within the organization. It is important to have adequate safeguards in place in the accounting process to prevent unintentional and intentional errors and anomalies in financial statements. This article was written using descriptive techniques, which mostly rely on library data. This article shows that financial reports, which function as a form of organizational management accountability to interested parties, must be ensured to be free from errors. In this scenario, internal controls play an important role in achieving the desired results, in addition to other considerations such as audits carried out by public accountants.

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1. INTRODUCTION

Internal control can be defined as a process consisting of regulations and procedures that are influenced by the board of directors, management and employees that aim to provide reasonable assurance that the objectives of the organization will be achievable through. As long as the economy uses money as a means of payment, the role of accounting is always crucial because accounting records business events that are financial. Sales of merchandise, payment of wages, and purchase of credits are examples of business events recorded in accounting. http://dasarakuntansi.blogspot.co.id/2013/02/arti-penting-akuntansi_24.html 13 October 2015

Control is the process of influencing or directing the activities of an object, organization, or system. One of the goals of an Accounting System is to assist management in controlling a business organization. Accountants can help achieve this goal by designing effective control systems and by assessing the control systems currently in place to ensure that they operate effectively.

As long as the economy uses money as a means of payment, the role of accounting is always important because accounting is tasked with recording financial events such as the sale of goods, payment of employee wages, and purchases on credit. For an organization, accounting can also prevent and detect crimes of misuse of funds. Business organizations called companies even use accounting to facilitate operational activities, make business decisions, and to account for the implementation of managers' duties. Accounting information systems are very closely related to the internal control system. These two things are an inseparable and complementary part to the achievement of the company's goals [1].

In various life activities, we rely a lot on accounting reliability. For example, when we withdraw money from an ATM, we are actually instructing the bank to prepare accounting records. Cash withdrawals result in a reduction in the amount of money in the bank and also a reduction in our account balance in the bank according to the value of rupees that we mentioned. What are the consequences if the bank reduces our account balance by an amount that exceeds the amount of rupees we receive? Undoubtedly, we will ask the bank a question and close our account immediately, as this indicates the lack of reliability of the bank's accounting system.

The organization's senior management is responsible for the internal control system. Management responsibilities include the establishment and maintenance of many tasks and obligations. Internal control systems must be appropriately designed to align with the specific requirements of the organizations that use them. An organization without adequate internal controls will reduce the trust of stakeholders. Management is responsible for providing reliable information to the shareholders, investors, creditors, and other stakeholders of the organizations they supervise. The internal control system is considered important because there are often management failures in completing their tasks adequately. The internal control system consists of an organizational structure, methodology, and procedures that are harmonized to protect the organization's assets, verify the correctness and reliability of accounting data, improve efficiency, and ensure compliance with regulations [2].

Internal control includes not only the verification of work, but also all the instruments used by management for supervisory purposes. Internal controls include the organizational framework and various coordinated methods and instruments used by the company to protect its assets, verify the accuracy and integrity of accounting information, improve operational efficiency, and ensure compliance with pre-established management policies.

The internal control system includes organizational structures, procedures, and measures that are harmonized to protect the organization's assets, check the correctness and reliability of accounting data, encourage efficiency, and ensure compliance with regulations [2]. Internal control includes not only job verification, but also all the mechanisms used by management to oversee operations. Internal controls include the organizational framework and the various methods and instruments used by the company to safeguard its assets, verify the accuracy and integrity of accounting information, improve operational efficiency, and ensure compliance with pre-established management policies.

Internal control is an organizational process system that encourages the development of management policies to improve operational efficiency, safeguard assets, and most importantly, prevent fraud against company assets, as can be deferred from the various existing definitions. Paying attention to the definitions mentioned above, the functions of internal control can be described as follows:

1. Protecting the organization's assets from adverse actions and situations, such as theft, loss, and destruction.
2. Assess the extent of damage to accounting data to provide reliable information for decision-making purposes.
3. Improve the company's operational efficiency. It is designed to prevent unnecessary and inefficient duplication of efforts across all sectors of the company.
4. Encourage compliance with established management rules. Management formulates many rules and processes to achieve the company's goals.

2. LITERATURE REVIEW

2.1 Definition of Internal Control System

Control refers to systematically exerting influence or direction over the actions of an item, organization, or system. The Accounting System aims to assist management in the organizational governance of a company. Accountants can contribute to achieving this goal by developing a robust control system and evaluating existing control systems to guarantee their efficient operations [3].

Control as the act of influencing or giving direction to an action, good, organization, or system. One of the objectives of SIA is to assist management in supervising and regulating the organization of the company. Organizations implement coordinated strategies and actions to protect assets, ensure the correctness of financial information, and assess the reliability of accounting data. These efforts aim to improve business efficiency and encourage compliance with established company standards.

An internal control system is a mechanism designed to ensure the protection and safety of various components within a company [4]. According to Mulyadi [2], the internal control system consists of organizational structures, methods, and measures that are coordinated to protect the organization's wealth, check the accuracy and reliability of accounting data, encourage efficiency, and maintain compliance with management policies.

Internal control refers to a systematic approach that incorporates regulations and protocols established by the board of directors, management, and workers. The goal is to provide a reasonable level of confidence that the organization's goals will be achieved:

1. Efficiency and effectiveness of activities.
2. Provision of reliable financial reports
3. Azhar Susanto Accounting Information System ensures compliance with applicable regulations and regulations.

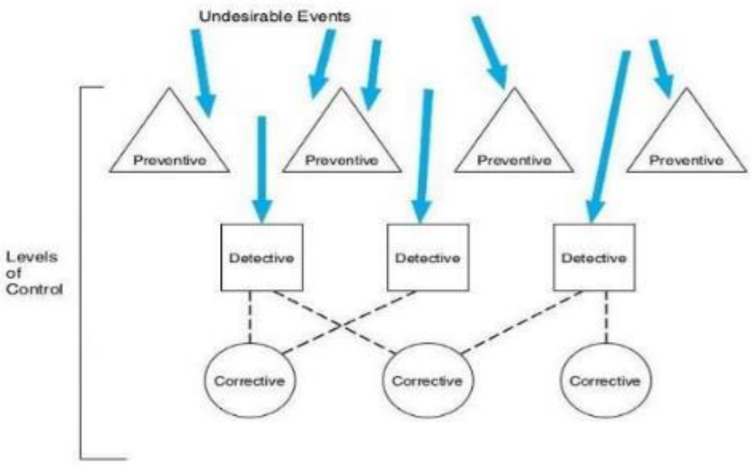

Figure 2.1 Internal Control by Hall

Internal control has three important roles, namely:

1. Prophylactic regulation Anticipate and mitigate problems proactively. For example, implementing strategies such as hiring staff with specialized skills, describing employee responsibilities, and organizing physical access to assets and information.
2. Detective control refers to the method of monitoring and identifying potential problems or anomalies in a system or process. Identify unanticipated issues. For example, performing double-counting

verification and compiling monthly bank reconciliations and trial balances.

3. Controls to correct or address errors or irregularities. Diagnose and resolve problems, as well as fix and recover from subsequent errors. For example, ensuring the retention of duplicate copies of files, fixing data entry errors, and retrieving transactions for further processing.

2.2 Types of Internal Control Systems

Internal control can be categorized based on its scope into two main types:

1. Accounting control, which aims to protect organizational resources from misuse and ensure the correctness of accounting data.
2. Administrative control is a mechanism that promotes operational efficiency and aims to achieve management policies or objectives.

According to Romney and Steinbart [5], internal control can be categorized based on its implementation function as follows:

1. Preventive control refers to the implementation of internal control measures before problems or issues occur. An example of preventive control is the establishment of rules that govern the operations of an organization.
2. Detective control refers to the implementation of measures aimed at identifying problems that have occurred, such as conducting regular and ongoing audits.
3. Corrective control is an internal mechanism designed to detect and correct problems and restore normal state after finding faults. An example of corrective control is the act of restoring a malfunctioning system.

Internal control is categorized into two main types: general control and application control. General control is a control that is specifically intended to ensure the stability and success of the management of the organization's control environment. These controls are implemented to support the effectiveness of overall application control. Application control is a mechanism used to proactively identify and correct errors and inconsistencies in transactions during processing.

Further, internal controls are often divided into two distinct categories:

1. Overall supervision Ensures the stability and effective management of the organization's control environment. Examples of surveillance include:
   a. Software supervision,
   b. Hardware supervision,
   c. Data and network security monitoring,
   d. Computer operation supervision,
   e. Supervision of administrative activities.
   f. Full authority over the entire system implementation process
2. Application Control Ensures the prevention, identification, and correction of transaction errors and fraudulent activity within the application program. This control specifically addresses the accuracy, completeness, authenticity, and credibility of data obtained, entered, processed, stored, communicated to other systems, and reported. App controls can be categorized into:
3. Input control Analysis of data is carried out to verify its correctness and completeness when the data is entered into the management information system. These checks include:
   1) Input authorization is done by assigning a sequence number to the form. Form authorizations are restricted to certain individuals. Forms can be grouped together.
   2) The conversion of data from the form into a computer transaction must be accurate, ensuring that the form number on which the transaction is based has been entered without errors.

3) Conduct regular checks to verify the accuracy of the data entered before processing.

4. Process Control is carried out with the aim of ensuring the accuracy and accuracy of data during the data update process by:
   1) Summing control
   2) Computer conformance is a mechanism that verifies whether the data entered corresponds to the information stored in the master file.
   3) Verification of programming
5. Output control is used to guarantee the accuracy and correct distribution of computer processing results. Output control includes the following components:
   1) Adapt to the interactions between all outputs, inputs, and processes.
   2) Testing and review of the implementation of the computerized calculation process is carried out to verify that all computer operations are executed effectively for processing purposes.
   3) Output reports are checked to verify the accuracy of the amount, format, and information.

2.3 Functions and Objectives of the Internal Control System

The Internal Control System (SPI) has several important tasks and objectives in a company's operations. The following are the duties of the Internal Control System as stated by Romney [5]:

1) Risk mitigation and control strategies.

The main objective of SPI is to monitor and mitigate risks in the context of the company. SPI assists companies in identifying potential risks that may exist in their operational processes, devising strategies and controls to mitigate risks such as fraud and errors, and ensuring constant compliance with these procedures.

2) Ensuring the reliability and accuracy of information SPI guarantees that the financial information generated by the organization is accurate and trustworthy. Proper financial information is essential for organizations as it allows for informed decision-making and ensures the smooth running of the company's operations.
3) Improve operational efficiency

SPI assists companies in improving operational efficiency by identifying inefficient business processes and implementing more effective systems and controls to optimize efficiency.

4) SPI assists companies in ensuring compliance with regulations and laws by ensuring that the policies and processes that have been established are in accordance with applicable legal requirements.
5) The use of SPI assists organizations in ensuring that the company's assets are adequately protected and not exploited by workers or external parties.

2.4 Responsibilities of Some Parties and Their Role in Control

The designers of an organization's internal control system have the exclusive responsibility to formulate procedures and regulations. They are not responsible for the efficient execution of their duties. As stated by Boynton, Johnson, and Kell [6], the various entities responsible for the successful implementation of internal controls and their respective responsibilities are as follows:

1. The creation of effective internal control is the task of management. In particular, the CEO is responsible for creating a culture of control throughout the organization and ensuring that all aspects of internal controls are implemented appropriately. An established control environment will reduce the likelihood of errors or fraudulent activity within the organization. Senior management who oversees the organizational units should be responsible for monitoring and regulating the operations of the units under their leadership.

2. The board of directors and the audit committee, which are part of the board of directors, have the duty to ensure that management has successfully fulfilled its responsibilities in establishing and maintaining internal controls. The audit committee must be diligent in detecting instances when management denies control or engages in improper financial reporting, and promptly responds by taking appropriate action to limit improper activities by management.
3. Auditors who work within the organization. Internal auditors are responsible for regularly assessing and assessing the adequacy of an organization's internal controls and providing suggestions for improvement. However, their main duties do not include establishing and enforcing internal controls.
4. Personnel from other entities. All personnel who provide or use information in an internal control system should be aware that they are responsible for reporting any problems with illegal controls or activities to a higher level within the organization.

2.5 Internal Control Components

The COSO Internal Control Framework is a body established in 1985 by sponsored organizations. AICPA, AAA, FEI, IIA, and IMA support this committee. The main objective of COSO is to uncover the fundamental issues that contribute to financial reporting inaccuracies and provide solutions to reduce and minimize these errors.

1) COSO–*Internal Control* (IC)

The COSO framework is a comprehensive framework that describes the concept of internal control and offers recommendations for assessing and improving internal control systems. The internal control framework has five interconnected components, namely:

Figure 2.4 COSO Framework

1. **Control Environment**
2. ***Risk Assessment***
3. **Control *Activities***

It is a set of policies, procedures, and regulations designed to ensure that control objectives are successfully achieved and appropriate actions are taken to address risks. Usually, activity control techniques are currently categorized into:

1) Adequate transaction permissions
2) The application of division and separation of roles or activities, such as the separation of the Company's recording department from the individuals responsible for handling cash.
3) Supervision of project development and procurement
4) Protect company assets and data records by attaching permanent labels to each company's equipment and restricting access to the master inventory file.
5) Maintain comprehensive records and documents by assigning a sequence number to each document.

4. **Information and Communication**

The implementation of computer-based Accounting Information Systems (CBIS) improves the efficiency of information exchange between internal and external entities. Some of the tools that can be used for the purpose of maintaining and identifying abnormalities include:

a) Debit and credit analysis
b) Chart of account
c) Journal Voucher
d) Trial Balance

e) Control Account

5. **Monitoring**

Evaluating the effectiveness of the internal control system can be done through supervision of current operational activities or by involving independent auditors and internal auditors.

2) **COSO–*Enterprise Risk Management* (ERM)**

ERM, an extension of the previous COSO framework, is a framework used by the board of directors and management to establish strategies, identify potential events that may impact the organization, evaluate and control risks, and ensure that the company successfully achieves its goals and objectives, within the COSO framework. ERMini incorporates three additional components from the previous COSO IC, namely [7]:

a. *Internal Environment*

Company culture is the fundamental foundation for all other parts of Enterprise Risk Management (ERM) because company culture shapes organizational strategies and goals, governs business operations, and evaluates and handles risks. An inadequate or ineffective internal environment often leads to failures in risk management and control. The internal environment includes the following components:

1. The principles that guide management, the way operations are performed, and the level of willingness to take risks.
2. Dedication to upholding integrity, ethical principles, and proficiency
3. Supervision of internal control by the board of directors
4. Organizational structure
5. Approach to allocating power and accountability
6. Standards for human resources that recruit, develop,
7. Retaining capable workers.
8. Factors from external sources that have an impact

b. *Objective Setting*

Management sets the goals that the organization wants, which are often known as the company's vision and goals. Usually, management sets goals at the organizational level and then breaks them down into more appropriate goals for the organization's sub-units. When setting organizational goals, organizations often categorize them into four different levels of goals:

1. Strategic Objectives
2. Purpose of Operation
3. Reporting Objectives
4. Compliance Objectives

c. *Event Identification*

Management must proactively anticipate all potential favorable and unfavorable events, assess the probabilities of each, and understand the linkages between these events.

Companies often use many strategies to find events, such as using an extensive catalog of prospective events, conducting internal assessments, monitoring events to find causes and trigger points, conducting seminars and interviews, using data mining tools, and analyzing business processes.

d. *Risk Assessment*

The risks associated with an identified event are evaluated using a variety of methods, including assessing the likelihood of occurrence, determining positive and negative impacts, analyzing them individually and by category, considering their impact on other organizational units, and considering the nature of inherent risks (such as weaknesses in the assignment of accounts or transactions that could lead to significant control problems in the absence of controls internal) and also residual risk (risks that still exist after management implements internal control or other risk management measures). The components of a risk assessment include:

1. Assessing probabilities and consequences
2. Determining control
3. Evaluate costs/benefits
4. Addressing risks

e. *Risk Response*

To align the risks that have been identified, management must adopt a comprehensive perspective on risks by evaluating the probabilities and potential consequences. Management has the option of handling risk by using one of the following four methods:

1. Subtract
2. Receive
3. Distribute
4. Avoid

f. ***Control Activities***
g. ***Information and Communication***
h. ***Monitoring***

3) COBIT– Control Objectives for Information and Related Technology

An IT ecosystem security and control framework that allows management to assess and compare security and control practices. 2) Users should be assured that IT controls and security measures have been implemented. 3) Auditors are responsible for improving their assessment of internal controls and providing guidance on security and IT-related controls.

3. METHODS

The research methodology used in this study is literature-based research. The data collection method used is a literature study, which collects data by examining reference books in the library. The data used is secondary data in the form of books related to the topic of discussion. Data analysis uses a descriptive approach, namely by describing the results of the research and then drawing conclusions.

4. RESULTS AND DISCUSSION

Internal control components are subsystems that make up the internal control system. The existence of each component is very important because the absence of one component will result in the internal control system being disrupted, making it useless in its ability to prevent errors and fraud. The following sections describe the components of an internal control system.

4.1 Control Environment

The control environment shapes the atmosphere within the organization, shaping the level of awareness and commitment to control among its personnel. The control environment serves as the foundation for all elements of internal control, providing order and organization. The control environment provides guidance for the organization and influences the level of control awareness among individuals within the organization. The control environment is influenced by many key variables, including integrity and ethical principles, dedication to competence, board of directors and audit committees, management style and operational style, organizational structure, delegation of authority and responsibility, and HR practices and policies.

4.2 Control Activity Control activity

These rules and procedures are designed to guarantee the effective implementation of the management directives. These rules and procedures help ensure that important actions have been implemented to reduce risks to the achievement of organizational goals. Control measures have several objectives and are applied at different levels and departments within an organization. Typically, control activities that are important for audits can be categorized as rules and procedures related to performance evaluation, data processing, physical security, and division of responsibilities.

4.3 Risk Assessment

Risk assessment is the process of identifying and analyzing risks that are important to the objectives of the entity. This serves as a basis for determining how these risks should be handled. Risk management assesses the risk relationship between certain financial statements and actions such as recording, processing, overviewing, and reporting financial data. Financial reporting risks include internal and external events and conditions that have the potential to impede an entity's ability to accurately record, process, summarize, and present financial data in accordance with management's claims in financial statements.

4.4 Information and Communication

Information and communication refer to the process of identifying and exchanging data in a way and time frame that allows individuals to fulfill their duties. Information systems related to financial reporting include accounting systems that incorporate techniques for identifying, consolidating, examining, categorizing, recording and disclosing transactions, as well as ensuring responsibility for assets and liabilities. Communication includes the delivery of a detailed explanation of specific duties and obligations related to the internal control framework in financial reporting.

4.5 Keeping an Eye on Performance

Performance supervision refers to the continuous evaluation of the effectiveness of internal control measures. Monitoring includes an immediate assessment of the control structure and functions and implementing corrective measures. This procedure is carried out through continuous activities, separate assessments, or a combination of both.

DISCUSSION

The findings of the previously mentioned studies are further analyzed individually to gain a more comprehensive understanding. The first element of the internal control system is the control environment, which can be described as follows:

1) A strong dedication to integrity and ethical values is essential for management to build an organizational structure that prioritizes these principles. Organizations can include integrity as a fundamental element of their operations by actively instilling and implementing it.
2) The level of responsibility demonstrated by the ideology and operational style of management directly affects the likelihood of workers behaving correctly to achieve organizational goals. If management neglects internal control, staff will show less diligence and inefficiency in meeting certain control objectives.
3) The organizational structure describes the hierarchy of power and accountability, and establishes an overall framework for strategizing, leading, and overseeing its activities. Key elements of an organizational structure include the centralization and decentralization of authority, the delegation of responsibilities for specific tasks, the impact of the allocation of responsibilities on management information needs, and the regulation of information systems and organizational functions.
4) The audit committee consists of external commissioners who are not part of the organization. The audit committee is responsible for overseeing the company's internal control framework, financial reporting procedures, and compliance with applicable laws, regulations, and standards.
5) The allocation of authority and responsibility can be done through several methods. Management must delegate responsibility for specific business objectives to the right departments and people, and ensure that they are responsible for the successful achievement of those goals. Responsibilities and authority can be delegated through job descriptions, staff training, and operational plans, schedules, and budgets. Regulations relating to ethical standards, fair corporate practices, legal obligations, and conflicts of interest are essential.
6) Human resources policies and practices: An organization's capacity to mitigate hazards and risks is influenced by policies and procedures related to employee hiring, training, performance appraisals, compensation, and promotion.

5. CONCLUSION

The Internal Control System as a managerial system designed to oversee and control a company's operations, ensuring its effectiveness, efficiency, and accountability. The goal is to guarantee that operations operate smoothly and minimize risks that may hinder the achievement of business objectives.

An internal control system is a mechanism that aims to ensure the achievement of organizational goals by mitigating risks, protecting assets, improving operational efficiency, and ensuring compliance with relevant laws and policies. Here are some of the last observations regarding the internal control system:

1) The Importance of Internal Control

Internal controls are essential for organizations to uphold the integrity and accuracy of financial statements, mitigate fraud risks, and ensure that activities are in line with the objectives that have been set. By implementing a robust internal control system, organizations can effectively detect and deal with hazards that may arise.

2) Internal Control System Elements

Internal control systems have five main components that interact with each other: the control environment, risk assessment, control measures, information and communication, and monitoring. The control environment includes the cultural and organizational frameworks that facilitate internal control. Risk assessment is the identification and analysis of potential hazards that can hinder the achievement of organizational goals. Control activities refer to specific actions and processes that are implemented to guarantee that the directions set by management are implemented effectively. The main purpose of information and communication is to provide relevant information throughout the organization. Monitoring includes the implementation of periodic assessments to evaluate the efficiency of internal controls.

3) Difficulties in implementing the plan

The implementation of internal controls often faces several obstacles, although internal controls are essential. The main obstacle is resistance to change, where workers may experience discomfort with the introduction of new processes. In addition, the effectiveness of internal control can be hampered by the scarcity of resources, including financial resources and human resources. Therefore, it is important for top management to demonstrate strong dedication to guarantee the implementation of an efficient and long-lasting internal control system.

4) Improving and Perfecting

Internal control systems must have the ability to be flexible and adapt to changes in the external and internal environment. This includes adapting to changing regulations, technology, and market situations. Organizations must consistently monitor and assess the efficacy of internal controls, and implement necessary improvements and modifications to ensure continued relevance and effectiveness.

5) Internal Auditor Function

Internal auditors have a very important function in assessing and improving the efficiency of internal control. Their responsibilities are to conduct impartial and autonomous audits, provide suggestions for improvement, and verify the effectiveness of internal controls. Internal audit reports serve as an important instrument for management and the board of directors to inform their decision-making process.

6) Advantages of Efficient Internal Control

An efficient internal control system offers many benefits to organizations, such as improving the reliability of financial statements, protecting assets from misuse, ensuring compliance with laws and regulations, and improving operational efficiency and effectiveness.

The internal control system is an important component in organizational management. Its primary function is to protect assets, maintain compliance, improve operational performance, and increase reliance on information used for strategic decision-making. Building and maintaining a good internal control system requires dedication from every echelon of the organization, from senior management to frontline staff.

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