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The Importance of Internal Control in Accounting Information Systems

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ABSTRACT

The objective of this article is to examine the significance of internal control in an accounting information system. An accounting information system serves as a framework for conducting accounting operations within an organization. A structured accounting information system is the result of the interaction between individuals, instruments, and methods. In the creation of financial reports, accounting information must be guaranteed to be free of errors and fraud, regardless of whether it was intentionally or inadvertently committed. This article employs a descriptive methodology, with library data serving as some of the data sources. The article's conclusion is that financial reports are a method of accountability from management to interested parties. Consequently, the reports that are generated must be of the highest quality and devoid of errors. Internal control is a manifestation of management's endeavor to achieve this objective by utilizing five control elements: control activities, control environment, risk assessment, information and communication, and supervision.

Keywords: *Internal Control, Accounting Information System, Accounting*

1. INTRODUCTION

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 sales of goods, payment of employee wages, and purchase on credit. For an organization, accounting can also prevent and detect criminal acts of misuse of funds. Business organizations called companies even use accounting to streamline operational activities, make business decisions, and to account for the implementation of managers' duties. The accounting information system and the internal control system are closely related to one another thanks to their strong association. It is impossible to achieve the goals of the company without these two components, which are both important and mutually supportive [1].

The need for modern accounting information systems for companies is now increasing very rapidly, various conveniences in accessing data in carrying out company operations can be obtained by all employees. Conversely, it is imperative that the organization establish an internal control framework that is capable of effectively managing all existing hazards. The accounting information system's implementation in the organization is significantly influenced by the internal control system. The seamless operation of a modern and sophisticated computer-based accounting information system is contingent upon the presence of reliable internal controls [2].

The senior management of an organization is accountable for the internal control system. Its establishment and preservation are among the duties of management. It is imperative that the internal control system is designed to meet the requirements of the organization that employs it. It is evident that the absence of an adequate internal control system can result in an opportunity for unscrupulous employees to commit acts of theft, misappropriation, and fraud, which can be extremely hazardous and detrimental to the company in the future [3]. Companies that lack sufficient internal controls may also undermine the confidence of stakeholders in the organization.

Management is accountable for the provision of dependable information to shareholders, investors, creditors, and all other stakeholders in the organization they oversee. The internal control system is deemed significant due to the fact that numerous managements fail to fulfill their obligations in a timely manner.

The internal control system is composed of a coordinated set of methods, measures, and organizational structure that are designed to ensure the accuracy and reliability of accounting data, promote efficiency, and ensure compliance with policies [4].The objectives of internal control are to ensure the security of company assets, verify the veracity and accuracy of accounting data, enhance operational efficiency, and assist in the adherence to predetermined management policies.

It is possible to draw the conclusion that internal control is a design of organizational procedures that encourages the creation of management policies to create operational efficiency, protect assets, and most importantly, to prevent misappropriation of company assets. This conclusion can be reached based on the several definitions that have been explained above. By looking at the definition above, the internal control function can be identified as follows:

1) Protecting organizational assets from detrimental actions and circumstances, for example theft, loss and damage.
2) Checking for damage to accounting data, so that it can produce reliable data in decision making.
3) Improve the effectiveness of the operations of the firm. In every facet of the company, this is done with the intention of preventing wasteful work repetition and needless job repetition.

Encourage others to comply with the management policies that have been developed. In order to accomplish the objectives of the organization, management creates a variety of laws and systems.

2. LITERATURE REVIEW

2.1 Internal Control and its Important Role in Accounting Information Systems

[5] states that control is the process of influencing or directing an activity, object, organization or system. In an accounting information system (AIS), one of the control objectives is to assist management in directing or controlling a business organization. In order to preserve assets, verify correctness, and determine the extent to which accounting information can be trusted, the firm has introduced a number of coordinated techniques and provisions. These methods and provisions have the effect of increasing business efficiency and encouraging compliance with established corporate standards.

According to the definition provided by the Committee of Sponsoring Organizations (COSO) in [6], internal control is a process that is comprised of a variety of policies and procedures that have been created by the firm in order to accomplish the following broad objectives:

1. Maintain company assets;
2. Ensure the reliability and accuracy of accounting information;
3. Encourage company operational efficiency;
4. Measure the suitability of policies and procedures established by management.

2.2 *Types of Internal Control*

Based on its scope, internal control is divided into:

1) Accounting controls that function to secure organizational resources from misuse and maintain the accuracy of accounting data.
2) Administrative control which functions to encourage operational efficiency and ensure that policies or management objectives can be achieved.

According to [7] Based on its implementation function, internal control can be divided into:

1) Preventive control is an action to carry out internal control before a problem arises. An example of carrying out preventive control is making regulations that regulate the running of an organization.
2) Detective controls, namely controls carried out to detect problems that have already arisen, for example conducting regular and continuous audits.
3) Corrective control is internal control to identify and correct problems and recover from these errors. For example, corrective control is repairing a damaged system.

General controls and application controls are two other categories that fall under the umbrella of internal controls. Controls that are meant to ensure that the control environment of an organization is stable and effectively maintained in order to support the efficacy of application controls are referred to as general controls. Application controls, on the other hand, are controls that are utilized to avoid, identify, and fix mistakes and deviations in transactions while they are being handled.

Furthermore, internal control systems can also be classified into input control, process control and output control. Input controls are controls designed to ensure that the data entered into the system is accurate, valid and has been authorized by the authorized party. Process control is control designed to ensure that all transactions are processed accurately and completely, so that all archives and records can be updated properly. Output control is a form of control designed to ensure that system output can be controlled properly.

Regardless of the classification of internal control systems, they all have the same objective, which is to protect the assets of the organization, guarantee the accuracy and dependability of accounting records and information, promote efficiency in the operations of the organization, and evaluate the degree to which the organization adheres to the policies and procedures that have been established by management. There are fundamental presumptions regarding internal control that can serve as a guide for designers of internal control systems to improve it. These assumptions will include:

1) Creating and maintaining an internal control system is the responsibility of management (management responsibility).
2) The internal control system must provide reasonable assurance that the four general internal control objectives are met cost effectively. This means that no internal control system is perfect and that the costs of achieving better controls should not exceed the benefits.

3) Every internal control has limitations in its effectiveness. This includes: the possibility of error (no system is perfect), management violations (management is in a position to violate control procedures by personally distorting transactions or directing subordinates to do so), and changing conditions (conditions can change over time until existing controls are not working).

2.3 Responsibilities of Several Parties and Their Roles in Internal Control

Internal control system designers in an organization are only tasked with creating procedures and rules. They are not responsible for the effectiveness of its implementation. According to [8] The various parties responsible for the effective implementation of internal control and their roles are as follows:

1) Management, it is the job of management to establish an efficient internal control system. Specifically, the chief executive officer is responsible for designing the environment at the top of the company to generate awareness of control at the top across the whole business. Additionally, the chief executive officer must ensure that all control components have been positioned appropriately. Controlling the environment effectively will lessen the likelihood of mistakes or fraudulent activity occurring within an organization. Those members of senior management who are in charge of organizational units are obligated to take responsibility for managing the actions of the units that they oversee.
2) It is the job of the board of directors and the audit committee, which are members of the board of directors as part of the general governance and responsibility for errors, to decide whether or not management has fulfilled its responsibilities to establish and maintain internal control. The audit committee ought to be diligent in discovering the presence of management's denial of fraudulent financial controls or reporting, and it ought to swiftly take the required procedures to minimize incorrect activities taken by management.
3) The third group is the internal auditors. It is the role of internal auditors to analyze and evaluate the adequacy of an organization's internal controls on a periodic basis and to provide suggestions for improvement; nonetheless, however, internal auditors do not have primary responsibility for the creation and maintenance of internal controls.
4) Other entity staff. When it comes to the roles and responsibilities of all other personnel who provide information to or use information provided by systems that include internal controls, they must be aware that they have a responsibility to communicate any concerns they have regarding non-compliance with controls or unlawful acts that they come across to the appropriate level. upper management within the company.

2.4 Componentinternal Control

According to the Committee of Sponsoring Organizations (COSO), the internal control component consists of five elements, namely as follows.

1) The control environment: The people who operate a company are the most important aspect of any corporation. Individual traits, such as integrity, ethical

ideals, and competences, in addition to the environment in which they function, are taken into consideration. They are the foundation upon which everything on the organization is built, as well as the engine that propels the company.

2) Control activities: Control policies and procedures need to be developed and put into place in order to assist in ensuring that the acts that have been identified by management as being potentially detrimental to the accomplishment of organizational goals are successfully executed.
3) Risk assessment: The organization was required to be aware of the dangers it confronts and to take action to address them. In order to ensure that the organization functions in a manner that is harmonious, it is necessary for organizations to establish goals that are integrated with areas such as sales, production, marketing, and finance, among other activities. In addition to this, organizations are required to have procedures for identifying, analyzing, and managing risks associated with their operations.
4) Information and Communication: Information and communication systems are located in the vicinity of control operations. They make it possible for individuals within an organization to acquire and share the information that is required to carry out, manage, and control the activities of the business.
5) In the fifth step, supervision, the entire process must be supervised, and adjustments must be made as required. In this manner, the system is able to behave in a dynamic manner, adjusting itself in accordance with the requirements of the scenario.

3. METHODS

The method of research that was utilized in this investigation was library research. The method of data collecting that is utilized is known as literature research, which is a method of data collection that involves studying reference books that are located in the library. Secondary data, which are books that are linked to the topic of discussion, are the type of data that is employed. The analysis of data makes use of descriptive approaches, specifically detailing the findings of the investigation and then drawing conclusions.

4. RESULTS AND DISCUSSION

Sub-systems that come together to form an internal control system are referred to as internal control components. The existence of these individuals is of utmost significance since, in the case that even one of them is absent, the internal control system will become feeble and ineffectual in its ability to prevent mistakes and fraud. Detailed explanations of the components of the internal control system are provided in the following:

4.1 Control Environment

The control environment is responsible for establishing the tone of an organization, which in turn influences the controls that its employees are aware of. In order to provide both structure and discipline, the control environment serves as the foundation for all of the components that make up internal control. At the same time as it impacts the control awareness of the individuals working inside the organization, the control environment is responsible for providing the organization with direction. Integrity and ethical principles, dedication to competence, board of directors and audit committee, management style and operational style, organizational structure, assignment of power and responsibility, human resource practices and policies are some of the additional elements that have an impact on the control environment. There are also some that explain, in a slightly different style but yet with the same meaning, that the control environment is comprised of the following factors:

1) Commitment to integrity and ethical values.

The establishment of an organizational structure that places an emphasis on integrity and ethical standards is an essential step for management to take in order to demonstrate their dedication to these principles. Using integrity as a fundamental operational concept, actively teaching it, and practicing it are all things that organizations may do.

2) Management philosophy and operating style

Managerial philosophy and operating style: the more responsible the management philosophy and operating style, the higher the possibility that workers would behave responsibly in an effort to fulfill the goals of the organization being managed. Employees will become less conscientious and less successful in accomplishing particular control objectives if management pays less attention to internal control. As a result, management will be less effective.

3) Organizational structure

Structure of the organization: the organizational structure outlines the lines of power and responsibility, as well as the broad framework for planning, directing, and regulating the activities of the organization. There are a number of important aspects of organizational structure, such as the centralization and decentralization of authority, the assignment of responsibility for particular tasks, and the manner in which responsibility is distributed, all of which have an impact on the demand for information from management, as well as the organization of information systems and organizational functions.

4) Audit body and board of commissioners

The Audit Committee and the Board of Commissioners: The audit committee is made up of commissioners who are not affiliated with the organization. A company's internal control structure, financial reporting procedures, and compliance with applicable laws, rules, and standards are all under the purview of the audit committee, which is responsible for monitoring and ensuring compliance.

5) Methods for assigning authority and responsibility.

Management is required to delegate responsibility for specific business goals to appropriate departments and individuals, and then hold those persons and departments accountable for accomplishing those business goals. This is the method by which authority and responsibility are assigned. The assignment of responsibility and authority may be accomplished through the use of job descriptions, staff training, as well as operational plans, timetables, and budgets. The rules address concerns of ethical standards, reasonable business practices, legal obligations, and conflicts of interest, which is one of the very essential things that the regulations do.

6) Policies and practices in human resources.

The ability of a company to reduce dangers and risks is impacted by the policies and procedures that pertain to human resources. These policies and practices include those that pertain to contracting, training, assessing, paying, and promoting personnel.

4.2 Control Activities

Policies and procedures that assist guarantee that management directions are followed out are referred to as control activities inside the organization. For the purpose of ensuring that the essential steps are made to address risks in the process of attaining the entity's objectives, these activities are helpful. There are many different goals that control operations are intended to accomplish, and they are carried out at a range of organizational levels and roles.The rules and regulations that constitute control activities are those that offer a reasonable confidence that the control objectives set out by management will be accomplished. In general, control methods may be broken down into the five types that are listed below:

1) Proper authorization of transactions and activities: workers are responsible for carrying out duties and making decisions that have the potential to harm the assets of the firm. It is not possible for management to personally monitor all of the activities that employees are engaged in. In order for management to develop policies and procedures that are adhered to by employees and giving employees the authority to put such policies and procedures into effect. This type of empowerment is referred to as authorization, and it is an essential component of the controls and processes that are included in an organization. Typically, authorization is accomplished by signing, initialing, or entering an authorization code on papers or transaction records. Additional methods of authorization include initialing.
2) Segregation of duties: Good internal control requires that no employee is given too much responsibility. Such conditions will give employees the opportunity to commit fraud, hide fraud, or make unintentional mistakes. For this reason, effective separation of duties is needed by separating functions:
   a) The authorization process, which includes the approval of transactions and decisions
   b) The preparation of source documents, the upkeep of records journals, ledgers, and other files, the preparation of reconciliations, and the preparation of performance reports are all included in the category of record keeping.
   c) Storage, which includes the management of funds, the upkeep of inventory storage, the receipt of checks from consumers, and the writing of checks on the organization's bank account.
3) The creation and use of appropriate papers and records: the creation and utilization of appropriate records contributes to the guarantee of accurate and comprehensive recording of all transaction data relevant to the transaction.. A good document is one that covers all the necessary aspects, but is kept as simple as possible. This simplicity creates efficiency, reducing recording errors. Documents used to record a transaction must have space for authorization. Documents to record the transfer of assets must have space for the signature of the party receiving the assets. A good document must have a serial number printed first, so that if fraud occurs it can quickly be detected.
4) Asset custody and adequate record-keeping: when people think of asset custody, the connotation is of cash and inventory and equipment. As time and conditions develop, information has become an important asset. Physical assets and information need good care to prevent or prevent damage or loss.
5) Independent inspection of performance: audits will be more effective if carried out by an independent party, namely a person who is not responsible for the operation being inspected.

4.3 Risk Assessment

Through the process of identifying and analyzing the risks that are pertinent to the accomplishment of an entity's goals, risk assessment serves as a foundation for determining the appropriate manner in which risks should be handled. The process of risk management involves doing an analysis of the risk link between certain assertions made in financial statements and actions such as recording, processing, summarizing, and reporting reports on financial data. These risks are significant to financial reporting because they comprise both internal and external events and situations that have the potential to take place and have a negative impact on the entity's capacity to record, process, summarize, and present financial data in a manner that is consistent with the claims made by management in the financial statements.

Risks can arise or change due to various circumstances, including changes in the operating environment, new personnel, new or improved information systems, new technology, new product lines, products, or activities, corporate restructuring, foreign operations, and new accounting standards. .There are several stages in risk assessment, including:

1) Estimate the risk: the greater the level of probability of occurrence, then it is said that something has a greater risk.
2) Identification of controls: management needs to identify controls that are appropriate to the risks that may occur. The controls selected must take into account their effectiveness and timing. There are three types of control that can be used and complement each other, namely preventive control, inspection control and corrective control. What must be implemented first is preventive control, because it can prevent something that has not yet happened.
3) Estimate costs and benefits: in implementing controls to prevent possible risks, reasonable costs must be taken into account. It is impossible to control one hundred percent of the risks that may occur.
4) Establish cost-benefit effectiveness: the controls implemented must benefit the organization. This means that the costs incurred to create controls cannot be greater than the consequences caused by the risk if it actually occurs.

4.4 Information and Communication

The identification and sharing of information in a form and at a time that enables individuals to carry out their obligations is exactly what we mean when we talk about information and communication. The provision of a description of individual roles and responsibilities in relation to the internal control system in financial reporting is an essential component of communication. Internal control relies heavily on information and communication as two of its most crucial components. For the purpose of directing activities and ensuring compliance with applicable requirements, management need information concerning the control environment, risk assessments, control processes, and monitoring.

4.5 Monitor Performance

Over the course of time, the quality of the performance of internal controls may be evaluated through a process known as performance monitoring. There is another term for monitoring, which is performance monitoring. Monitoring entails establishing whether or not controls are being designed and operated in a timely manner, as well as taking remedial action. Both continuous actions and distinct assessments, as well as a variety of combinations of the two, are utilized in the execution of this procedures.

CONCLUSION

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. Financial reports are the final result of the accounting process, in the form of a financial position report (balance sheet) and a business results report (profit/loss report). Whatever the form and name, financial reports are a tool of accountability from organizational managers to parties who have interests.

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 applies within the organization will be controlled fairly, so that records in the form of financial reports are also free from errors. According to [4] One of the goals of internal control is to prevent fraudulent activity from occurring. Fraud is defined as the act of one party intentionally misrepresenting a fact to another party with the intention of deceiving and misleading the other party into believing the information, despite the fact that it is damaging to the other party. Simply put, fraud is the same thing as cheating. Control environment, risk assessment, information and communication, supervision, and control actions are the five primary components that must be carried out in their whole for an internal control system to be effective in preventing fraud.

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