

ANALYSIS OF THE INFLUENCE OF COSO'S INTERNAL CONTROL SYSTEM ON INVENTORIES OF A COMPANY

(Case Study at PT. Boltz Indonesia)

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Email: dian.hakipnurdiansyah@staff.unsika.ac.id**Article Info***Article History :**Received 16 Nov - 2022**Accepted 25 Nov - 2022**Available Online**30 Nov – 2022***Abstract**

This study aims to obtain evidence regarding the internal control system in PT. Boltz Indonesia regarding the inventory and system at the company whether it is in accordance with the procedures set by COSO or not. This research uses descriptive qualitative method. The data used in the research at the PT is primary data and also secondary data. Methods Data collection was carried out through direct interviews with Supervisors and HRD as well as observation. The results of the study show that PT Boltz Indonesia is almost in accordance with the procedures implemented by COSO starting from supplies, systems at the company and software at the company. This study examines the inventory at PT. Boltz Indonesia and also look at the risks that occur in the company and the results of research that have been carried out show that the COSO internal control system at PT. Indonesian Boltz. Fairly in accordance with the internal control components contained in COSO related to inventory although there are indeed some that are not in accordance with the COSO internal control system.

*Keyword :**Internal control system,**COSO, Inventory***1. INTRODUCTION**

Company is a business entity that has an organizational structure, management, location and employees and is profit-oriented or profit-oriented through its business activities. From the understanding of the company, it can be understood that every company that is established must have a clear goal, one of which is to obtain maximum profit or profit. According to Martono and Harjito (2010: 2), one of the company's goals is to obtain maximum profit or profit. Profit is the difference between income and expenses incurred. Profit is used by companies to assess management performance as well as to base decision making.

Internal control used in a company generally OF INVENTORY IN PT. BOLTZ comes from the COSO (The Committee of Sponsoring INDONESIA". Organizations of The Tradeway Commission) control framework. According to COSO (2013:3) internal control is designed to provide assurance about the achievement of objectives related to the effectiveness

and efficiency of operations, reporting reliability and compliance with laws and regulations. Internal control based on COSO's (2013: 4) exposure has 5 interrelated components. These components are control environment, risk assessment, control activities, information and communication and monitoring activities.

So based on the explanation above, it motivates researchers to conduct research again with different objects and research times but with the same research subject and analytical method, namely by using the COSO control framework to analyze the internal control system over inventory. The researcher decided to conduct a research with the title "ANALYSIS OF COSO INTERNAL CONTROL SYSTEM

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Definition of Manufacturing Company

Manufacturing Company is companies that sell a variety of raw or even semi-finished raw materials. The purpose of selling a manufacturing company is to provide raw materials to be managed into a product to meet market demand.

Definition of Internal Control

According to COSO (2013:3) the definition of internal control is "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and appliances". Meanwhile, Hery (2014: 11) explains the meaning of internal control as follows:

Internal control is a set of policies and procedures to protect company assets from all forms of misuse, ensure the availability of accurate company accounting information, and ensure that all legal or statutory provisions (regulations) as well as management policies have been complied with or carried out properly by all employees. company.

Component

According to COSO (2013: 4) internal control consists of several interconnected components, namely:

1. Control Environment

The control environment is the basic standard of internal control that has an overall impact on the organization. The control environment consists of the values of organizational integrity and ethics, supervisory responsibilities by the board of directors, as well as organizational structure and distribution of authority.

2. Risk Assessment

Risk assessment involves a dynamic and iterative process to identify, analyse risks and understand how to manage these risks. Risk assessment begins with the initial stage in the form of determining operating, reporting and compliance objectives that are aligned with company objectives.

3. Control Activities

Control activities are actions based on policies and procedures to ensure that management directives to reduce risk have been carried out. Control activities are carried out by all parties in a company where activities can be preventive in nature as well as detective.

4. Information and Communication

Relevant information is used by management to carry out its responsibilities in achieving company goals. While communication is an ongoing process used to share or obtain information to carry out internal control activities. Sources of information and communication can come from internal companies or from external companies.

5. Monitoring Activities

Monitoring activities can be interpreted as evaluation activities to see whether the five components of internal control already exist and are functioning properly

All findings during supervisory activities are communicated and reported to the company's senior management.

Definition of Inventory

Ristono (2013) states that the term inventory refers to goods that are stored for use or for sale in the future and are divided into raw material inventory, semi-finished goods inventory and finished goods inventory. According to the Indonesian Institute of Accountants (PSAK 14), the definition of inventory is:

Inventory is an asset:

1. Available for sale in the ordinary course of business
2. In the production process for the sale; or
3. In the form of materials or equipment for use in the production process or providing services.

Type

The type of inventory in each company varies depending on the type of company. Santoso (2010: 240) states that in trading companies, inventory owned is directly sold without having to be processed further and is referred to as merchandise inventory, while inventory in manufacturing companies must be processed further until it becomes finished goods. Manufacturing companies have several types of inventory, namely:

- a) Raw Material Inventory, namely inventory in the form of raw materials and must be processed further.
- b) Work in Process / Goods in Process Inventory, namely raw material inventory that has undergone processing but has not become a finished product.

- c) Finished Goods Inventories, namely inventories that are ready to be sold.

3. RESEARCH METHODOLOGY

This research uses descriptive qualitative method. Research with descriptive qualitative methods according to Danim (2002) collects data in the form of words and pictures not in the form of numbers.

This research was conducted using a qualitative approach because the researcher wanted to obtain scientific data. As for this type of descriptive research, it is done because the researcher tries to describe the symptoms, events and events that are happening without any special treatment from the researcher. The researcher intends to describe the internal control system for inventory at PT Boltz Indonesia

Object

The object of this research is PT. Boltz Indonesia which is located at Jln. Permata Raya Lot CA-2, KIIC Industrial Estate, Ds. Sukaluyu, District. Teluk Jembe Timur, Karawang, 41361, West Java, Indonesia. Phone +62- 267-8458133 Fax. +62-267-8458134.

Data source

This study uses two sources of data, namely primary and secondary. The primary data in this study were obtained by direct observation and interviews at PT. Indonesian Boltz. Secondary data comes from books, library materials.

Method of collecting data

This study uses the interview method by preparing questions to be asked to PT. Indonesian Boltz. Interviews in this study were conducted directly with the Supervisor and HRD.

Data analysis method

According to Sugiyono (2016: 400) qualitative research does not yet have a clear pattern for analyzing data because qualitative research produces data in the form of words and images so that they often experience difficulties in conducting analysis. The author of this study analyzed data on the internal control system for the inventory of PT. Boltz Indonesia with the following stages:

1. Data Collection Stages
2. Stages of data analysis of the internal control system for inventory.

This analysis analyzes the procedures for inventory at PT. Boltz Indonesia as well as analyzing the components of COSO's internal control related to:

- a. Risk Assessment
- b. Control activity
- c. Information and communication
- d. Monitoring activities

4. RESULT AND DISCUSSION

Procedure Analysis of Inventory at PT Boltz Indonesia

PT. Boltz Indonesia already has a standard operational procedure or SOP that is used as a reference in the company's operational activities. Here the author will analyze the application of procedures for inventory starting from the procedure for procurement of raw materials, procedures for purchasing raw materials, procedures for receiving and warehousing raw materials, warehousing procedures for finished goods, and procedures for releasing finished goods at PT Boltz Indonesia.

1. Analysis of Raw Material Procurement Procedure

Analysis from the researcher, the raw material procurement procedure carried out by PT Boltz Indonesia is in accordance with the SOP. There are marketing and supply chain / PPIC functions that have carried out their responsibilities. The purchase requirement document used in the procurement of raw materials has been authorized by the competent authority so as to improve the internal control system for inventory in accordance with the elements of internal control according to COSO.

2. Analysis of Raw Material Purchase Procedures

Analysis from the researcher, the procedure for purchasing raw materials at PT Boltz Indonesia in its application is in accordance with several principles in the COSO internal control framework. The purchasing function has carried out its responsibilities according to the organizational structure. In the purchase order there is an authorization that proves the application of the principles of internal control indicators in accordance with COSO principles. There is a signature of the party who authorizes the purchasing procedure, namely the supply chain department manager in charge of the purchasing department.

3. Analysis of Raw Material Receipt and Warehousing Procedures

The procedure for receiving and warehousing raw materials is carried out after the procedure for purchasing raw materials has been completed and the goods will be received by the warehouse. The analysis of the researcher is, in its implementation, there are additional Stock Taking Report documents that are used regularly by the company. In addition, in its implementation, the warehouse admin creates a Receiver document that is used as a receipt for raw materials that enter the warehouse. The warehouse admin also

updates the amount of raw materials in the MFG/PRO QAD system. The amount of incoming raw materials is reconciled with the physical amount in the warehouse by the warehouse department and warehouse admin to avoid out of stock or overstock. The delivery order document in its application is in accordance with the principles of good control according to the COSO framework, namely selecting and developing supervisory activities through proper authorization because there are four parties who must provide signatures when the goods are released, namely Warehouse Staff, Warehouse Manager, Driver, and the customer / recipient. All documents used in the process of receiving and warehousing raw materials already have a printed serial number, this makes internal control stronger because it makes it easier to track if an error occurs. Documents with serial numbers printed on their use can be accounted for by the authorities. and the customer/recipient. All documents used in the process of receiving and warehousing raw materials already have a printed serial number, this makes internal control stronger because it makes it easier to track if an error occurs. Documents with serial numbers printed on their use can be accounted for by the authorities. and the customer/recipient. All documents used in the process of receiving and warehousing raw materials already have a printed serial number, this makes internal control stronger because it makes it easier to track if an error occurs. Documents with serial numbers printed on their use can be accounted for by the authorities.

4. Analysis of Finished Goods Warehousing Procedures

Analysis from the researcher, the finished goods warehousing procedure carried out by PT Boltz Indonesia is in accordance with the principles of internal control in the risk assessment component according to COSO. There is a function of the finished goods warehouse which has carried out its responsibilities in accordance with those specified in the organizational structure. Storage of finished goods inventory is carried out by taking into account the date and type of finished goods. This is done to anticipate the risk of difficulty in finding goods and to improve the internal control system for inventory in accordance with the principles of internal control according to COSO.

5. Analysis of Finished Goods Expenditure Procedure

The procedure for releasing finished goods is carried out manually and computerized. There are documents for

releasing goods that are made manually by the warehouse department and computerized updates are made to the amount of finished goods inventory. The analysis from the researcher is that the document for releasing goods is in accordance with the principles of good control according to the COSO framework, namely selecting and developing supervisory activities through proper authorization because there are two parties who must provide signatures when the goods are issued, namely the part that issues the goods and the part that issues the goods. known to higher officials / head of the warehouse. The existence of documents for releasing goods has an impact on internal control to be more controlled.

Analysis of the Internal Control System for Inventory at PT Boltz Indonesia

This analysis is based on components according to the COSO internal control framework related to inventory, namely: risk assessment, control activities, information & communication and monitoring activities.

Risk Assessment

The description of the risk assessment component in the internal control system for merchandise inventory at PT Boltz Indonesia is as follows:

1. Clear goal setting

Analysis from the researcher, the principle of setting clear goals in the internal control system for PT Boltz Indonesia's inventory is in accordance with the COSO internal control principle because the purchasing department in the Supply Chain department of PT Boltz Indonesia has operational goals by making routine shopping activity plans based on the amount of inventory in the warehouse. to anticipate excess inventory and shortage of inventory. In addition, the Supply Chain department has made an activity report every six months to be evaluated by the company's management.

2. Risk identification and analysis for management basis

The analysis of the researcher, the principle of identification and risk analysis for the basis of management of the internal control system over inventory at PT Boltz Indonesia is in accordance with the COSO principle because the company has carried out risk identification and analysis actions based on the possibilities

and impacts caused by these risks. The risks faced by the company come from inside and outside the company.

Risks originating from within the company include:

- Difficulty for the warehouse to issue goods so that it has an impact on delays in delivery of ordered goods, purchasing inventory
- Possible excess or shortage of raw materials.

Risk management from within the company carried out by PT Boltz Indonesia is:

- Anticipating the occurrence of difficulties in removing inventory from the warehouse, the company establishes an inventory storage system based on type and date. The inventory warehouse also has codes to indicate the type of goods stored in each section.
- To avoid shortages or excess inventories, PT Boltz Indonesia sets a minimum inventory limit in the warehouse so that it does not hamper the production process or other company operational activities. In addition, the company also conducts periodic stock taking to anticipate excess or shortage of inventory.

The external risks faced by the company are:

- Competitors in the same field, resulting in a decrease in income
- Natural disasters that have an impact on damage to company assets including inventories and cause losses for the company

Risk management from outside the company carried out by PT Boltz Indonesia, namely:

- Facing competitors in the same field, PT Boltz Indonesia conducts research and competitor analysis to improve the company's products so that the products can compete with competitors' products.
- Anticipating the possibility of natural disasters, the company has collaborated with the insurance company to minimize the losses incurred.

All risk management actions carried out by PT Boltz Indonesia are based on the results of identification and analysis so that the actions taken can minimize the impact of these risks.

1. Considering the possibility of fraud in risk assessment

The researcher's analysis on the principle of considering the possibility of fraud in the risk assessment of the internal control system over inventory at PT Boltz Indonesia is in accordance with the COSO internal control principles because the company has formed an internal audit team tasked with monitoring to anticipate and detect possible fraud in inventory. The company's internal audit team has gone through ISO 9001

training so that they know the latest updates to ISO standards that are used as supervision guidelines. In addition, as an affiliated company of PT Boltz Pharmaceutical Japan, the audit is also carried out by an internal audit team from Japan, the audit is carried out as a form of supervision from the Boltz Group.

2. Identify changes that have a significant impact on internal control

The researcher's analysis on the principle of identifying changes that have a significant impact on internal inventory control at PT Boltz Indonesia is in accordance with COSO's internal control principles because there have been periodic evaluations on the Supply Chain/PPIC section. Periodic evaluation is carried out with a semester period or every six months. If the results of the evaluation show that there is a significant change affecting the inventory, it will be communicated to all parties related to the change.

Control Activities

The description of the components of control activities in the internal control system for inventory at PT Boltz Indonesia is as follows:

1. Select and develop control activities

The researcher's analysis on the principle of selecting and developing activities in inventory internal control at PT Boltz Indonesia is sufficient in accordance with the COSO internal control principles because the company has established an authorization range for each transaction involving inventory, for transactions of Rp. 0 to Rp. 5,000,000 is authorized by the department manager while for transactions Rp. 10,000,000 to Rp. 100,000,000 authorized by the Plant Director. If in an urgent situation and urgently needed authorization from the related party but the party concerned is not able to give authorization, then there is already a carter in charge of temporarily replacing the authority of the related party. All documents regarding inventories that have been authorized and are in process or have been completed are stored by filling using an order and inputted into the computer system. The company has also used the QAD MFG/PRO software, which is a type of ERP (Enterprise Resources Planning) software for the effectiveness and efficiency of the internal control system for inventory. In addition, there is CCTV in the inventory warehouse. However, based on the organizational structure chart, the separation of positions and segregation of duties in the supply chain / PPIC department is not yet clear because it has

not shown that the logistics section and the warehouse section are parallel to or under the supply chain department. The company has also used the QAD MFG/PRO software, which is a type of ERP (Enterprise Resources Planning) software for the effectiveness and efficiency of the internal control system for inventory. In addition, there is CCTV in the inventory warehouse. However, based on the organizational structure chart, the separation of positions and segregation of duties in the supply chain / PPIC department is not yet clear because it has not shown that the logistics section and the warehouse section are parallel to or under the supply chain department. The company has also used the QAD MFG/PRO software, which is a type of ERP (Enterprise Resources Planning) software for the effectiveness and efficiency of the internal control system for inventory. In addition, there is CCTV in the inventory warehouse. However, based on the organizational structure chart, the separation of positions and segregation of duties in the supply chain / PPIC department is not yet clear because it has not shown that the logistics section and the warehouse section are parallel to or under the supply chain department.

2. Select and develop general control over technology

The researcher's analysis on the principle of selecting and developing general control over technology in the internal control system over inventory at PT Boltz Indonesia is in accordance with the principles of internal control because in the *supply chain* has used a password to secure the inventory data stored on the computer. ERP (Enterprise Resources Planning) software that used for companies have servers that are directly supervised by the IT department. The server records all transaction data and data including inventory data. However, the company stipulates that there are restrictions on data access on the server, inventory data on the server can only be accessed by the relevant department.

3. Deploy control activities through policies and procedures

The analysis on the principle of spreading control activities through policies and procedures in the internal control system for PT Boltz Indonesia's inventory is in accordance with COSO's internal control principles because the company already has standard operating procedures that regulate inventory procedures. The inventory procedures that are set and run at PT Boltz Indonesia are the raw material procurement procedure, the raw material purchase procedure, the raw material receipt and warehousing procedure, the finished goods warehousing procedure and the finished goods release procedure. All procedures for inventory at

PT Boltz Indonesia have been carried out in accordance with the company's SOP.

Information and Communication

The description of the information and communication components in the internal control system over inventory at PT Boltz Indonesia is as follows:

1. Relevant and quality information

The researcher's analysis on the principle of relevant and quality information in the internal control system for inventory at PT Boltz Indonesia is in accordance with the COSO internal control principle because the company has used QAD MFG/PRO Software for the inventory control system. QAD MFG/PRO software records all inventory transaction data. This software is centered on one server that is directly supervised by the IT department so that the quality of inventory information can be maintained.

2. Effective internal communication to support the internal control function

The researcher's analysis on the principle of effective internal communication in the internal control system for inventory at PT Boltz Indonesia is in accordance with the COSO internal control principle because the communication of inventory in the company's internal including the purchasing and warehousing department has been carried out by utilizing information technology for the effectiveness of delivering inventory information, but still there are official documents submitted for every inventory transaction that occurs because information technology is only used as a means to facilitate the delivery of information. Inventory information communication is also carried out by taking into account the responsibility or level of position.

3. Effective external communication regarding matters relating to internal control

The researcher's analysis on the principle of effective external communication in terms of internal control over inventory at PT Boltz Indonesia is in accordance with COSO's internal control principles because communication with external parties for purchasing supplies is done using e-mail accompanied by the submission of official documents. In addition, communication with external parties is carried out when permission or authorization has been obtained from the responsible party because not all information

regarding inventory can be conveyed to external parties, such as information on the amount of inventory owned by the company. PT Boltz Indonesia never informs external parties about the amount of inventory the company has because the information is considered confidential.

Monitoring Activities

The description of the components of supervision activities in the internal control system over inventory at PT Boltz Indonesia is as follows:

1. Select and evaluate control components

The researcher's analysis on the principle of selecting and evaluating control components in the internal control system over inventory at PT Boltz Indonesia is sufficient in accordance with COSO's internal control principles because the company requires periodic evaluations of the supply chain department / PPIC and other departments. Evaluation is carried out every six months or every semester, but the evaluation has not been effective and efficient because the internal audit team does not directly evaluate the performance of the supply chain department but evaluates the results of the performance assessment of the department manager.

2. Communicating controls with responsible parties

The researcher's analysis on the principle of communicating control with the party responsible for the internal control system for inventory at PT Boltz Indonesia is in accordance with the COSO internal control principle because the company will communicate the internal control system for inventory with the responsible party through meetings if there are inappropriate actions. thus having an impact on the effectiveness of the internal control system over inventory. However, not all deviant actions are communicated through meetings, if it is still within the authority of the supply chain department manager, it will be followed up by the supply chain department manager itself.

5. CONCLUSION

Conclusion

Based on the results of the above research on the internal control system for the inventory of PT. Boltz Indonesia can be concluded that the inventory control system at PT. Boltz Indonesia is quite in accordance with the internal control component (COSO) but is not always appropriate because there are also weaknesses in PT. Indonesian Boltz. So it needs to be improved again so that it is in accordance with the COSO internal control system framework.

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