

IMPLEMENTATION OF INTERNAL CONTROL IN THE INVENTORY TO DETECTING AND PREVENTING FRAUD IN UMKM LACAFACA BANDUNG CITY

Eldina Alipphia¹, Andhika Ligar Hardika^{*2}

^{1,2} Program Studi Akuntansi, Fakultas Ekonomi dan Bisnis Universitas Widyatama

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ABSTRACT

This study aims to find out how fraud can be detected and prevented by using internal control measures in the inventory and storage (warehousing) cycle. The research method used is qualitative research where the results of the qualitative study have a meaningful unique understanding. Data collection techniques were carried out using triangulation (a combination of observation, interviews, documentation). Data analysis is qualitative or inductive. Then the place used in the initial research was the Lacafaca UMKM. The results showed that internal control was not effective in preventing and detecting fraud in the inventory and warehousing cycle at UMKM Lacafaca. If the risk of fraud cannot be handled and prevented adequately, this risk can harm the company. The application of written ethical standards to companies can be a solution to prevent fraud in Lacafaca SMEs

E-mail:

Andhika.ligar@widyatama.ac.id
eldina.alipphia@widyatamac.id

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1. INTRODUCTION

The role of MSMEs in Indonesia's economic growth is very large, reaching 99% of all business units. The MSME share in GNP is also 60.5 percent of employment, accounting for 96.9 percent of the country's total workforce. According to the Indonesian Joint Funding Fintech Association (AFPI) [1]. Therefore, future challenges for MSMEs that must be addressed jointly by all relevant stakeholders include innovation and technology, digital literacy, productivity, legality or licensing, financing, branding and marketing, human resources, standardization and certification, fair development and training [2]. The problem that is often encountered by SMEs is the difficulty in expanding the market. This is due to the lack of effective oversight on aspects of internal control. There are still many MSME actors who are not aware of fraud committed by employees while working. Fraud problems need to be detected and prevented, one of which is internal control [3]–[5].

Internal control has an important contribution to business continuity, because it is a supervisory process carried out by the company's internal aims to find out whether all activities have been carried out effectively and efficiently with the applicable rules and regulations, so that the company can achieve the goals that have been set [6], [7] a good internal control system does not provide opportunities for everyone in a position to make mistakes and actions, it is necessary to carry out internal control so that the company can control the company's activities and aims to find out which company's activities can be carried out effectively and efficiently with the applicable laws and regulations, so that company goals can be achieved [2], [6], [8].

The results of previous research conducted by [8] show that the case that occurred in the UMKM Warung Kopi Limarasa according to a statement from the Chief Operating Officer (COO) in an interview on 7 February 2021, namely when checking was carried out by comparing the records of the calculation results Physical records and raw material inventory records often contain discrepancies in the number of recorded stocks. This happened due to a recording error and the employees were not careful when recording manually (human error) so that it was necessary to check twice during stock taking.

UMKM Lacafaca is a business engaged in the sale of milk drinks which focuses on providing dishes with the main ingredient of fresh cow's milk from local Garut farmers. UMKM Lacafaca was founded in 2015 in the city of Garut, where sales were only sold in grocery stores, over time Lacafaca UMKM had sales outlets in several areas, one of which was in Bandung. One of its developments is that Lacafaca SMEs always manually record the supply of raw materials needed, where this is done to make it easier for Lacafaca when selling milk drinks runs out of the raw materials that have been provided. In addition, the

existence of a recording system makes it easier for Lacafaca to check the goods available in the warehouse and the records made, whether there is a discrepancy or not, if there is a discrepancy between the records and the existing inventory it allows recording errors, losses and fraud to occur.

The case that happened to the Lacafaca MSMEs was that there were recording results that did not match the evidence of existing inventory stocks. After being checked by the supervisor that this happened due to the mistake of a new employee who made original records and guessed the available stock without seeing evidence of raw material stock data available at the Lacafaca outlet inventory warehouse. So it is necessary to rewrite and re-check the inventory raw materials available in the warehouse before being recorded back into the stock taking report which is done manually every day. This error occurs due to lack of supervision and control from superiors which is still not optimal so that it is prone to errors, losses or fraud by employees. Another allegation is that the employee also made the recording not based on the cash sales memorandum/purchase invoice document, which resulted in the employee making the recording by guessing. Therefore, this research examines how to detect and prevent acts of fraud using internal control at UMKM Lacafaca Bandung City.

2. METHOD

The author has developed a hypothesis to find out how the potential for fraud risk exists in the inventory and warehousing cycle. This research is a qualitative research, data collection techniques were carried out using triangulation (a combination of observation, interviews, documentation). The data obtained is usually qualitative in nature. Data analysis is inductive/qualitative in nature and the results are qualitative to understand meaning, understand uniqueness. Then, the object used in the early research was the Lacafaca community. This research data collection method is as follows:

- a. Observation is a data collection technique that has unique characteristics compared to other techniques.
- b. An interview is a meeting between two people to exchange information and ideas through question and answer so that the meaning of the given topic is built [9].
- c. Literature review, literature research related to theoretical research. and values, culture, and other norms that develop in social situations under references related to studies [10].

The type of data used in this study is primary data, which the researcher obtained directly through three methods, namely interviews, observation and documentation. This research uses 2 (two) categories of variables, namely the dependent variable which is fraud and the independent variable, which is internal control.

This study used a qualitative method, namely analyzing observation and observation data on the research object of lacafaca cafe and matters relating to the formulation of the problem in this study. Data analysis used NVIVO data analysis to see and measure various results of observations and interviews on research subjects related to qualitative variables.

3. RESULT AND DISCUSSION

Request Cars in Indonesia as Sample Data

Based on the results of observations and interviews, it was found that the strongest aspect of internal control found in Lacafaca is the monitoring aspect so that mistakes made by new employees regarding recording product stocks can be identified quickly. This signal is able to be caught quickly by supervisors after using analytical procedures, namely audit actions carried out by looking at product sales patterns, raw material requests with a glance at the warehouse section [11]–[13]. Because of the analytical procedures carried out, a re-check was carried out.

The second best aspect of internal control is regarding risk assessment with an average value of 83%. One aspect of the weakness in the risk assessment aspect is not the risks that have been identified or the mitigation action plan, but rather the consistency of adequate control or supervision of incoming and outgoing stock [14], [15]. The third aspect of internal control is environmental control with an average of 80%, several aspects that need improvement are the need to write ethical standards, define clearer job functions such as separation of billing functions, record inventory, record transactions and payments. Another thing that must be considered in the future is regarding training if one day the company grows.

The fourth aspect of internal control is information and communication with a value of 75%. Some of the components that should be considered are optimizing the use of software and making copies of recording data so that there is an archive that can be viewed if the first document is lost. The worst aspect of control is contract activities with an average value of 58%. Some things that must be improved are the separation of the goods recording section with sales, all of which are carried out by the service

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department. Therefore, recording incoming goods should be done in the inventory section. Another factor that is no less important is limiting access to inventory items that should only be entered by the company owner and inventory department, as well as filing cabinets that should be restricted by operations with the use of keys.

Risk Assessment

The company is able to identify risks that are considered to hinder the achievement of company goals. This assessment is carried out by the business owner who directly acts as a board of directors who also acts as the company's operational director who carries out direct oversight of the company's operations. Through this assessment, an internal control system has been designed that is expected to be able to mitigate the risks of fraud.

Control Activities

1. The company has adequate records related to purchasing inventory, removing stock from the warehouse, storing inventory and receiving inventory. This indicates that the company has established adequate authorization procedures. The authorization procedure is complemented by a sanction policy for employees who do not comply with the rules and procedures established by the company.
2. Every transaction that occurs with inventory in the warehouse will be recorded in the documents provided by the company, such as inventory purchase documents, inventory receipts, inventory storage, inventory issuance, and stock taking results which are carried out periodically. Documents related to inventory are checked periodically and routinely by the finance department. Document filling is carried out by the inventory section according to the amount of inventory used each month. In the event of loss, damage or lack of regular record keeping, a procedure has been established that must be followed for employees who repeat it.
3. The company's inventory in the storage warehouse has been monitored using the complete access keys found in the warehouse and some of the company's operational areas so that the supervision that occurs can be properly monitored by the business owner, and key access can only be accessed by the business owner. Stock taking is carried out routinely according to a predetermined schedule. Documents related to transactions in the inventory and warehousing cycle of the Lacafaca MSMEs have been stored in a filing cabinet in the work room of the finance section whose access is restricted and supervised by the finance department. The door in the work room of the finance section is always locked every time the financial personnel leaves their work space. This is regulated and required by the company's operational standards.

4. CONCLUSION

Based on the results and discussion that has been described, it can be concluded that the implementation of internal control in the inventory and warehousing cycle applied to the Lacafaca MSMEs has not been effective for the detection and prevention of fraud that occurs within the scope of the business. If the risk of fraud cannot be adequately handled and prevented, one of the impacts that will occur is the occurrence of losses.

Based on the description of the results and discussion, several suggestions can be given that can be implemented to develop and improve the company's internal controls in overcoming and preventing the possibility of fraud. Companies should make ethical standards in writing so that their understanding can be done more easily. In addition to setting ethical standards, business owners must also set a good and correct example so that employees can emulate business owners. Companies must separate functions related to inventory control such as: custody, recording, authorization. The company must use a formal inventory release document to ensure that the inventory used for the company's production needs has received clear approval from the company manager. Companies must use inventory cards that contain information about the name, type, starting level, and the last stock quantity in inventory.

The company should urge the cashier team to keep an eye on the stock taking by comparing reports on the results of the stock taking with physical counts, on a monthly basis for the inventory owned by the company. This is shown as a form of internal inspection to review the credibility and accountability of preparing monthly stock taking reports carried out by the admin for inventory management responsibilities in the company. Companies must organize special training courses for employees of the administrative section or cash team about using the software used in the company, so that they are more confident in using the accounting software used.

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