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The Role of Internal Control in Managing Accounts Receivable Effectively in PT. Serumpun Indah Lestari

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***Abstract*— Accounts receivable (AR) represents a significant asset for many organizations. Proper management and control of receivables are essential to ensure liquidity, profitability, and accurate financial reporting. An effective internal control system (ICS) for accounts receivable is crucial to mitigate the risks of fraud, errors, and uncollectible debts. This analysis explores the key elements, risks, and effectiveness of internal controls related to AR. The purpose of this study is to determine whether the internal control system for receivables implemented by PT. Serumpun Indah Lestari is adequate. This study uses a descriptive research approach, namely a study to compile, classify, interpret and interpret data so as to provide an overview of the problems of the internal control system for receivables. The data analysis technique uses a descriptive accounting approach method, which is a method used by formulating attention to solving the problems faced, where the data is collected, compiled and interpreted so as to provide information about the recording, acquisition and classification of problems that exist in the company. Based on the data analysis and discussion, it can be seen that the internal control system for receivables implemented at PT. Serumpun Indah Lestari Medan is quite good and adequate. However, several elements still need to be improved, such as risk assessment and information, to ensure that credit distribution is targeted and profitable for the bank.**

Keywords*— Internal Control, Accounts Receivable, Financial Reporting, Fraud Prevention, Operational Efficiency

I. Introduction

In corporate financial management, accounts receivable represents a significant portion of current assets and plays a crucial role in maintaining an organization's liquidity and operational continuity. The larger the receivables, the higher the risk of losses if not properly managed. Therefore, companies must establish a strong and reliable internal control system to reduce the risks of misstatement, uncollectible debts, and asset misappropriation. Companies that can increase their sales will generate greater profits [1]. This is because sales are a key factor in achieving profits. However, in reality, sales increases are dominated by credit sales, which create accounts receivable, preventing companies from converting their sales into cash as quickly as possible.

In today's profit-oriented companies, sales are one of the primary activities to achieve this goal. Sales are the backbone of trading companies in developing their businesses to achieve greater profits. Sales are considered the spearhead in marketing products to consumers [2]. Accounts receivable are a company's current assets that can be collected into cash at some point. Companies with high receivables also have a high risk of uncollectible receivables [3,4]. Therefore, companies must be able to manage their receivables optimally to minimize the occurrence of debt collection failures.

In practice, many companies continue to suffer losses due to weak internal control systems over accounts receivable. Internal audits conducted in various manufacturing and distribution firms in Indonesia have revealed several common issues (1) Discrepancies between recorded receivables and actual customer balances; (2) A large portion of receivables is past due for more than 90 days without adequate collection efforts; (3) Credit is extended without proper creditworthiness analysis; (4) Instances of fictitious sales to inflate revenue (window dressing). These conditions indicate fraud risks, inefficiencies, and mismanagement in receivables, which not only affect liquidity but also undermine the reliability of financial reporting [5].

PT. Serumpun Indah Lestari Medan is a company engaged in the sale of palm oil processing machinery. The company's primary activity is the sale of factory machinery such as hammer mills, bunch crushers, and winches, which can be used for milling palm oil. Transactions arising from these sales activities naturally generate estimates of receivables for the company, thus requiring a system for recording and managing receivables accurately and adequately. This is intended to prevent the company from various losses and simultaneously enable it to present fair and appropriate financial reports. Inadequate receivables management can also result in a large number of uncollectible receivables, which will result in less than optimal revenue [6].

Based on the existing phenomena in the company, it shows that there is a problem that occurs in the company, namely the increase in bad debts in 2012 by 12% indicating the company is experiencing problems in the collectibility of receivables where the company is unable to collect receivables immediately. Even though, based on the payment terms, the company has provided a sales discount of 5% if paid before maturity, the company has not yet received (realized) its receivables. This situation illustrates that the company in implementing an internal control system for receivables has not met the SPI standards proposed by Arens and Loebbecke (2002, p. 293) who said that there needs to be a risk assessment in internal control so that company management can identify and manage risks that can minimize failure. This is caused by the inability of customers to pay receivables immediately, resulting in receivables bills of more than 1 year uncollected.

Most previous studies have addressed internal control systems in general or focused on other business cycles such as procurement and expenditures, with limited attention to the specific internal control mechanisms in the accounts receivable cycle. There is a notable gap in depth analysis of internal control components (e.g., based on the COSO framework) specifically applied to accounts receivable processes. Empirical studies linking weak internal controls to high levels of doubtful debts, particularly in the Indonesian business context [7,8]. Case-based or comparative studies that demonstrate practical consequences of internal control weaknesses in receivables management. This study seeks to address these research gaps by providing a structured conceptual analysis of how a well-designed internal control system can mitigate risks in the accounts receivable cycle and enhance financial efficiency and accuracy.

II. LITERATUR RIVIEW

1. Internal Control System

In an abstract sense, control is the process of implementing and influencing the restraint or direction of the activities of an object, organism, or system. Assisting management in controlling a company's organization is one of the primary functions of accounting information systems [9,10]. Accountants often use the term internal control as a synonym for control within a company's organization. A brief history of the concept of internal control is important. The term was first defined in 1949 by a Committee of the American Institute of Accountants (now the American Institute of Certified Public Accountants or AICPA) [11]. Internal control comprises the plan of organization and all the coordinated methods and measures adopted within a company to safeguard its assets, check the accuracy and reliability of its accounting data, promote efficiency, and encourage adherence to policies established by management [12,13].

In computer-based accounting systems, automation is widely used in system components. Once data is entered for processing, it disappears from human reach. This underscores the importance of designing controls; they are generally more effective when built into a system than when added after the system is implemented. Therefore, developing a computer-based accounting system also integrates internal controls within the system [14]. In electronic data processing (EDP), document handling is reduced and human involvement in data processing is diminished. This necessitates internal control methods to ensure the accuracy of the information [15].

The complexity of a computer environment, such as online processing, communication systems, distributed data processing, and database management systems, can lead to undetected errors and deficiencies [16]. The elements of internal control are essentially components designed to achieve control objectives. These elements are generally sufficient to achieve control objectives, provided they are implemented effectively. Supporting control elements can be tailored to the needs of a company.

According to Arens and Loebbecke, the COSO elements of internal control emphasize five elements of internal control [17]:

a. Control Environment
b. Risk Valuation
c. Activity Control
d. Information
e. Monitoring.

2. Accounts Receivable Monitoring

Instructor performance is the result of overall Supervision is one of the functions of company management. Supervision (control) is everything involved in determining whether company operations are in accordance with planning and whether company assets have been properly monitored. Supervision must be implemented as effectively as possible for every company, both small and large [18]. In large companies, organizational networks are increasingly extensive, and therefore, supervision must be carried out through a monitoring system. Monitoring of receivables actually begins early, before approval to ship merchandise, through the preparation and sending of invoices, and ends with the collection of sales proceeds. Several factors must be considered with customers before credit is granted to mitigate the risk of uncollectible accounts. These factors are known as the five Cs: Character, Capacity, Capital, Collateral, and Conditions. These factors are further reinforced by monitoring management's credit policy [19,20].

3. Accounts Receivable Internal Control System

For credit sales, an audit must be conducted by the credit department to minimize the risk of uncollectible accounts. Therefore, the company must have complete data regarding prospective debtors, including their competence, ability to repay debts, credit limits, and so on. Furthermore, an accounts receivable subsidiary ledger is necessary for each debtor, which must be reconciled with the control account [21].

The role of internal control is crucial in achieving business goals [22]. Similarly, the business world is increasingly focusing on internal control structures. Internal control is necessary for several reasons [23]:

a. The size and scope of business entities have become so complex and expanding that management must rely on a variety of reports and analyses to effectively control operations.

b. Supervision and review based on a sound internal control system can protect against human weaknesses and reduce the likelihood of errors or irregularities.

c. It is impractical for accountants to conduct comprehensive audits with limited cash (fees) without relying on the company's internal controls.

III. Methodology

This study uses a descriptive research approach, namely a study to compile, classify, interpret, and interpret data to provide a picture of the internal control system for receivables. This study describes the internal control system for receivables. The data analysis technique uses a descriptive accounting approach method which is a method used by formulating attention to solving the problems faced, where the data is collected, arranged and interpreted so that it can provide information about recording, obtaining and classifying problems that exist in the company.

IV. Discussion

The findings suggest that a well-structured internal control system—comprising policy enforcement, process automation, segregation of roles, access control, and regular monitoring—is essential to improving the performance of accounts receivable. Furthermore, organizational culture and top management support play a critical role in ensuring that internal control policies are not only implemented but also followed consistently. This conceptual analysis identifies several key findings related to the implementation and effectiveness of internal control systems for accounts receivable:

1. Segregation of Duties Reduces Fraud Risk

One of the most consistently effective internal control practices is the segregation of duties among employees involved in the accounts receivable process. By separating responsibilities for sales authorization, invoicing, payment collection, and ledger posting, organizations significantly reduce opportunities for fraud and collusion. Companies that enforce strict functional separation in the AR cycle report lower incidents of misappropriation and more accurate financial records.

2. Weak Authorization Procedures Lead to Uncollectible Receivables

Many organizations fail to implement adequate credit approval procedures, resulting in the extension of credit to customers with poor payment histories or unverified financial backgrounds. Lack of formal credit policies correlates with a higher rate of overdue and uncollectible accounts, especially in SMEs.

3. Poor Documentation Increases Risk of Errors and Disputes

Inconsistent or missing documentation—such as sales orders, delivery notes, or payment receipts—can lead to billing errors and customer disputes, which delay collections and affect customer satisfaction. Organizations that use standardized and automated documentation systems show improved collection rates and fewer disputes.

4. Reconciliation and Monitoring Improve Collection Efficiency

Regular reconciliation of subsidiary AR ledgers with the general ledger and frequent aging analysis are vital to tracking collection performance and identifying at-risk accounts. Businesses that monitor their receivables monthly and follow up on overdue accounts promptly exhibit better cash flow and lower Days Sales Outstanding (DSO).

5. Lack of Access Control Encourages Data Manipulation

Without proper access restrictions to accounting systems and customer databases, employees may manipulate data or hide irregularities. Firms that implement access controls (e.g., user roles, audit trails) minimize the risk of data tampering and maintain greater auditability.

6. Internal Audits Enhance Control Environment

Companies that regularly conduct internal audits of the accounts receivable process are more likely to identify control weaknesses and implement corrective measures. A proactive internal audit function contributes to the early detection of fraud, reduction in bad debt expenses, and improvement in compliance with company policies.

The management of accounts receivable constitutes a fundamental component of organizational financial stability and sustainability. As a current asset, receivables are not only instrumental in generating short-term liquidity but also serve as an indicator of the company's operational efficiency and credit risk management [24]. However, in the absence of an effective internal control system, accounts receivable can become a source of financial vulnerability, leading to misstatements in financial reporting, cash flow problems, and increased exposure to fraud.

A robust internal control system—structured according to established frameworks such as COSO—plays a pivotal role in ensuring that accounts receivable are recorded accurately, collected in a timely manner, and protected from misappropriation. The COSO framework provides a multidimensional approach to control, incorporating elements such as the control environment, risk assessment, control activities, information and communication, and continuous monitoring. When applied specifically to the accounts receivable cycle, this framework enhances procedural integrity, promotes accountability, and mitigates operational risks [25,26].

The existing literature has extensively explored internal control systems in the context of inventory management, procurement, and cash disbursement cycles. However, research that systematically examines the internal control mechanisms specific to the accounts receivable process remains limited [27,28]. This research aims to address that gap by presenting a structured conceptual analysis that highlights the components, effectiveness, and challenges of internal controls related to accounts receivable.

From a practical standpoint, this analysis offers valuable recommendations for enhancing internal control systems. Organizations are encouraged to implement automated receivables management systems, enforce segregation of duties, regularly reconcile customer balances, and conduct periodic internal audits. Additionally, top management must foster a control-oriented culture and ensure that policies are clearly communicated and consistently applied across departments.

In conclusion, effective internal control systems over accounts receivable are indispensable to ensuring accurate financial reporting, optimizing cash flow, and safeguarding organizational assets. As such, organizations should not treat internal control as a static compliance requirement but as a dynamic and strategic function that supports long-term financial health.

V. CONCLUSSION

In conclusion, the discussion reveals that internal control systems over accounts receivable must be treated as dynamic, organization-wide mechanisms. They require commitment from top management, alignment with strategic goals, and adaptability to external and internal changes. A well-designed and consistently applied control system will not only protect assets but also enhance decision-making, financial transparency, and business resilience.

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