

## EVALUATION OF CONTROL ACTIVITIES IN THE INVENTORY PURCHASING SYSTEM (CASE STUDY AT PT. GSI)

Aura Azzalea Andini<sup>1)</sup>, Siswandaru Kurniawan<sup>2)</sup>

<sup>1)</sup> Department of Accounting, Faculty of Economics, Universitas Terbuka, Indonesia

<sup>2)</sup> Department of Accounting, Faculty of Economics, Universitas Terbuka, Indonesia

Corresponding author: siswandaru@ecampus.ut.ac.id

### Abstract

*Purchasing inventory is a critical aspect of the production process in any company. PT GSI conducts purchasing from suppliers to meet its production needs. This research aims to evaluate the control activities of the inventory purchasing system implemented at PT GSI. Using a qualitative approach, interviews were conducted with relevant departments to gather data. The study evaluates the system based on the COSO framework, which revealed several inconsistencies. A significant finding is that there is no adequate separation of duties at PT GSI, with administrative and financial tasks often handled by the same staff. Additionally, there is a lack of access control to the system, as tasks are still performed manually without sufficient safeguards. The research suggests that improvements are needed in terms of task separation and system access control to align with COSO standards. Implementing these improvements would help PT GSI minimize risks such as fraud and operational inefficiencies. Moreover, operational control would be better facilitated, ensuring smoother processes without interruptions. This study emphasizes the importance of internal control systems, especially in purchasing operations, to prevent potential financial and reputational losses. Ensuring compliance with COSO and other industry standards would enhance the company's overall operational effectiveness.*

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**Keywords:** Control Activities, COSO, Purchasing System, Internal Control, Inventory Management

### Introduction

The procurement of inventory in a company is a key aspect of the production process. Inventory is a crucial factor in distribution companies to ensure that inventory procurement is conducted in accordance with established procedures, where the goods or services received are of good quality, payments are made on time, and the production process is not disrupted. Therefore, a purchasing system is created to facilitate the company in conducting efficient inventory procurement. The purchasing system is part of the expenditure cycle. Zamzami, Nusa, and Faiz (2021, p.194) explain that the expenditure cycle is a series of actions and processes for managing information related to purchases and cash disbursements for goods purchased by the company.

Sri Mulyani (2023, p. 6.25) mentions that one of the risk weaknesses that can occur in the expenditure cycle is either the shortage or overstock of inventory. Therefore, internal control over the inventory purchasing system is needed, as inventory procurement is one of the key aspects of company operations. One of the key components of COSO is internal control, which helps companies minimize risks, including fraud risks, that can lead to financial loss and reputational damage. The Committee of Sponsoring Organizations (COSO) is an important framework that serves as a reference in improving and enhancing company performance.

The Committee of Sponsoring Organizations (COSO) (2013, p.1) explains that internal control is a process influenced by the board of commissioners and management of the organization, which is designed to provide assurance of the achievement of company goals. According to Romney and Steinbart (2019, p. 226), internal control consists of five components: control environment, information and communication, control activities, risk assessment, and monitoring. One of the internal control components is control

activities. Titis Wahyuni (2019, p.18) mentions that control activities are a set of policies and procedures established by management to ensure that actions taken in addressing the risks of an organization or company are appropriate.

PT. GSI is a newly established company in September 2023. This company focuses on trading and providing services, with most of its operations related to fulfilling the demands for medical equipment and other needs supporting various hospitals in Indonesia. PT GSI uses a manual system for recording each transaction. Therefore, the researcher is interested in conducting research on the control activities of the inventory purchasing system applied by PT GSI.

### Methods

This research uses a qualitative approach. The qualitative approach is applied through interviews with related divisions.

**Table 1.** Informant Overview

| No. | Initials | Gender/Age | Position                 |
|-----|----------|------------|--------------------------|
| 1   | AAF      | Male/25    | Operational Director     |
| 2   | ZY       | Female/32  | Administration & Finance |
| 3   | HM       | Male/35    | Warehouse Manager        |
| 4   | TC       | Male/38    | Purchase Manager         |

### Results and Discussions

#### Procurement System Procedure at PT. GSI

1. The purchasing department receives a purchase request (PR). The purchase request can be made by the Warehouse Manager and then sent to the purchasing department. The purchase request is approved by the Warehouse Manager.
2. After receiving the purchase request, the purchasing department selects the supplier with the best price and quality, then the purchasing department creates a purchase order (PO) sent to the supplier via email. The purchase order is approved by the head of the warehouse department.
3. After receiving the purchase order from the purchasing department via email, the supplier prepares the items listed in the purchase order and arranges the delivery schedule. Once the items are complete, they are sent directly by the supplier.
4. The warehouse department receives the items along with the delivery note and checks the quantity and quality of the items based on the purchase order. Once checked and accepted by the warehouse, the supplier sends an invoice.
5. The purchasing department receives and checks the purchase invoice and the number of goods via the attached delivery note (which has been stamped and signed by the warehouse department).
6. Once the goods are received in full and safely, the purchasing department makes a payment request containing the invoice, delivery note, purchase request, and purchase order for payment to the administration and finance department.
7. Once all payment request documents are complete, the purchasing department submits the payment request to the administration and finance department, and the administration and finance department makes the payment to the supplier in cash.

#### Documents Used in the Inventory Purchasing System at PT. GSI

1. Purchase Requisition  
A document that contains purchase requests from departments that require goods or services.
2. Purchase Order  
A document that lists the quantities and descriptions of each item included in the purchase.
3. Receiving Report  
A document that contains information about the goods received by the warehouse.
4. Delivery Note  
A document that contains all the information regarding the goods shipped by the supplier.
5. Vendor Invoices  
A document from the supplier that provides information to the purchasing department about the amount to be paid and the payment instructions.

Evaluation of Inventory Purchasing Control Activities at PT. GSI

**Table 2.** Evaluation of Control Activities

| Control Activity   | In Accordance with COSO – Effective | Not In Accordance with COSO – Ineffective |
|--|-------------------------------------|---|
| Authorization of Transactions and Appropriate Activities | V                                   |   |
| Task Separation  |                                     | V   |
| Adequate Documentation                                   | V                                   |   |
| Safeguarding of Assets, Data, and Records                | V                                   |   |
| Independent Performance Review                           | V                                   |   |

Source : Interviews with the related division at PT. GSI.

- a. **Authorization of Transactions and Appropriate Activities**  
According to COSO (2013, p. 92), authorization is usually manifested in the form of approval through a signature to indicate approval or legitimacy of a transaction. When conducting activities, PT. GSI has complied with COSO. This can be seen from the purchase request and purchase order documents, which have been approved (authorized) by the warehouse head.
- b. **Task Separation**  
According to COSO (2013, p. 92), there are two concepts of task separation. First, the separation of duties between the party performing the transaction and the party recording, approving the transaction, and managing assets. This is aimed at preventing risks such as fraud (e.g., collusion). Second, the separation that governs system (computer) access limits. This is done to reduce threats and prevent unauthorized system access. Each person has appropriate access according to their role without unrestricted access to computers. At PT. GSI, the organizational structure is already in place, but some employees still have double jobs. At PT. GSI, the staff who handle administration and finance are still held by one person, so there is a possibility of fraud. Moreover, task separation in PT. GSI still does not comply with COSO, as transaction recording is still done manually.
- c. **Adequate Documentation**  
According to COSO (2013, p. 92), using adequate documentation can support comprehensive and accurate records. When conducting activities, the documents used by PT. GSI have complied with COSO because these documents are complete and adequate, so the purchasing activities conducted by PT. GSI run smoothly. This can be seen from the documents used, such as purchase request, purchase order, and receiving report documents, which include serial numbers, item names, item quantities, and have authorization from the responsible party to facilitate verification.
- d. **Safeguarding of Assets, Data, and Records**  
According to COSO (2013, p. 92), safeguarding assets, data, and records is essential to prevent asset theft or mistakes caused by employee negligence, such as the loss of company data. PT. GSI has implemented access restrictions to storage areas where only warehouse staff is allowed inside to safeguard inventory security. Meanwhile, to protect PT. GSI's data and records, they have a file backup stored in the computer.
- e. **Independent Performance Review**  
According to COSO (2013, p. 93), performance reviews are conducted by parties with no direct interest in the operations being reviewed. The purpose of this review is to verify that transactions have been conducted accurately. The review carried out by PT. GSI has complied with COSO. This is explained as follows:
  - Comparison of actual amounts with recorded amounts:  
The warehouse admin regularly performs physical inventory checks to compare them with the stock card records.

- Independent Review:  
The administration and finance staff participates in physical checks with the warehouse admin periodically and also performs bank reconciliations to verify accuracy.

### Conclusion

Based on the previous discussion, the conclusion obtained is that the purchasing system control activities carried out by PT. GSI still show discrepancies with COSO, particularly in the task separation aspect. This can be seen from:

- a. PT. GSI's documents have been authorized by the responsible parties.
- b. The documents used are adequate.
- c. The task separation at PT. GSI still needs improvement, as there are still staff members with double jobs. Additionally, access separation to the system at PT. GSI is still insufficient, as records are still done manually.
- d. There are already access restrictions in place to secure inventory and independent performance reviews are conducted, resulting in better employee performance.

Based on the conclusion above, the author suggests that task separation should be implemented between administrative and financial staff, as well as access separation to the system (computer). These restrictions should be applied once PT. GSI transitions from manual to digital recording methods to reduce the possibility of errors and improve efficiency in conducting activities.

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