

Analyze The Internal Control Of Raw Material Inventory at PT Toba Pulp Lestari, Tbk Habinsaran Sector

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ABSTRACT

This study aims to analyze the internal control of raw material inventory at PT. Toba Pulp Lestari, Tbk Habinsaran Sector. Raw materials such as eucalyptus wood, fuel, fertilizers, and pesticides play a role in supporting the production process. The research uses a descriptive qualitative approach, with data collection techniques including interviews, observation, and documentation. The analysis is based on the five components of the COSO framework: control environment, risk assessment, control activities, information and communication, and monitoring. The results show that internal control has been implemented ineffectively, although there are still some weaknesses in supervision and distribution.

INTRODUCTION

Internal control is a key element in ensuring smooth operations, reliability of financial statements and regulatory compliance. Therefore, internal control is a crucial factor in maintaining cost efficiency and product quality. Through the implementation of effective internal control, companies can reduce the possibility of unexpected errors such as shortages or excess inventory of raw materials. Internal control must be implemented properly and appropriately to avoid irregularities in the company.

The inventory problem is one of the important elements faced by the company. Without inventory, entrepreneurs will be faced with the risk that the company may not be able to fulfill the wishes of its customers. Inventory is an asset owned by a company in the form of raw materials, goods in process, or finished goods that are stored for use in production or sale to customers. Inventory is very important for companies in business operations because it affects costs, cash flow, smooth production. Effective inventory management can improve operational efficiency, reduce costs, and ensure product availability for customers.

Raw materials are one of the most important factors in ensuring a smooth production process. Raw materials must be available at the required time with adequate quantity and quality. Raw material inventory should be able to meet the needs of the production plan, at least the inventory of raw materials will hinder the production process, if the inventory is too much it will take additional storage and maintenance costs in the warehouse (Tauva, Kelvin Ardana; Chamidah, Siti; Pristi, n.d.). Procurement of raw material supplies is important for companies, because it ensures the smooth running of the production process (Andika, 2020).

PT Toba Pulp Lestari Tbk is a company that produces pulp and one of the subsidiaries of Raja Garuda Emas (RGE). The pulp produced by the company is made from *Eucalyptus* sp wood, which must be managed properly so that the production process runs smoothly and efficiently. In the operation of PT Toba Pulp Lestari, Tbk, Industrial Forest Plantation (HTI) based plant cultivation activities have 5 sectors located in North Sumatra, namely: Aek Nauli, Habinsaran, South Tapanuli, Aek Raja, Tele.

PT Toba Pulp Lestari's timber is sourced from its own industrial timber plantation (HTI) areas spread across 12 districts of North Sumatra and collected in 5 wood stacking sectors with a logging time of once a month. Each sector has supervision to monitor and maintain the stacked wood (How is the process of sending wood from the forest to the factory, who sends the wood). Wood stacking in 5 sectors is done to reduce the moisture content of wood so that the wood is better for processing, the length of wood stacking is about 45 days before being transported to the factory wood storage.

What needs to be considered in material procurement is the control of raw material inventory, because it can determine the amount of raw material inventory and affect the smooth production process. Without inventory control, wood will experience excess material (overstock material) or lack of material (understock material). Overstock conditions result in increased storage costs in

the maintenance of raw materials, while understock material will hamper the process of operational activities.

For the growth process of Eucalyptus in meeting the needs of plant maintenance requires fertilizers and pesticides. However, there are some mistakes in supervision, namely the use of the amount of fertilizers and pesticides, resulting in insufficient supplies of fertilizers and pesticides that will be used for the growth of Eucalyptus and the land will be overgrown with grass that interferes with plant growth. If Eucalyptus does not run according to plan, then Eucalyptus cannot be harvested as targeted, resulting in the amount of Eucalyptus does not match the inventory recorded by the company and increase the cost of care and maintenance of wood.

Fuel Oil (BBM) is a crucial component in forestry sector operations. In the production process, fuel is used as an auxiliary material for various purposes, such as: transportation of fertilizer to the field, daily work operations, operation of heavy equipment, and use of wood cutting tools. The efficient use of fuel is an important factor that has an impact on operational costs, productivity, and environmental aspects. Unstable or difficult to distribute fuel supply to the location can hamper operational activities.

Good internal control will provide reasonable assurance of the achievement of company objectives, both in terms of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable regulations. Therefore, it is important for companies to have internal controls that are able to identify potential risks and provide preventive measures and supervision of raw material supplies. Internal control that is implemented can support smooth operations and prevent losses due to inventory mismanagement (Roberto et al., 2023).

Internal Control

Internal control in a company involves understanding various concepts, theories, and existing research on the implementation and effectiveness of internal control systems in a business environment. Internal control is needed in a company. The more developed the activities of a company, the more internal control will be needed to assist management in assessing company operations. Internal Control according to the Committee Of Sponsoring Organizations (COSO) according to (Susanto & Meiryani, 2019) is: COSO states that internal control is an encouragement given to a person or employee of a certain part of the organization as a whole to run in accordance with the objectives.

Internal Control Objectives

Every company that runs its operations really needs good internal control to avoid all forms of data leakage, misappropriation or deviation. The existence of internal control in a company is one of the efforts to achieve the goals set by the company and ensure that all operational activities run in accordance with the goals that have been set, and to keep the company on the right track to achieve its success. According to (Mulyadi, 2016) the objectives of the internal control system are:

1) Maintaining Organizational Wealth

Protecting organizational assets from the risk of loss, theft, or misuse. Proper control will ensure that organizational assets are managed properly and remain safe. Company assets that are not physically tangible will be vulnerable to leaks if important documents and records are not maintained.

2) Checking the Accuracy and Reliability of Accounting Data

Ensuring that the financial data collected and recorded in the accounting reports is accurate and reliable. So that the information used in decision making is valid and in accordance with established standards. Internal control is designed to provide assurance of accounting data processing.

3) Encourage Efficiency

With good internal control, companies can improve operational efficiency. A well-structured process will help optimize existing resources and minimize waste or duplication of work.

4) Encourage Compliance with Management Policies

Play a role in ensuring that policies and procedures set by management are followed by all parts of the organization. This is important to achieve organizational goals and ensure operational sustainability in accordance with applicable regulations.

Elements of Internal Control

According to (Mulyadi, 2016) the main elements of internal control in a company include:

1. Organizational Structure That Clearly Separates Functional Responsibilities.

The organizational structure is a framework for dividing functional responsibilities to organizational units formed to carry out the company's main activities. In carrying out activities, several financial and general departments, production departments and marketing departments are needed, then the departments are divided into smaller organizational units to carry out each of their activities.

2. Authority System and Recording Procedures That Provide Adequate Protection for Assets, Debts, Income and Expenses.

Every company must require a system that regulates the division of authority to be able to carry out transactions that require approval from the authorizing party. Good procedures will ensure that recorded data is recorded in the accounting records with a high level of accuracy and reliability. That way, the authorization system will guarantee reliable input for the accounting process.

3. Healthy Practices in Carrying Out the Duties and Functions of Each Organizational Unit.

The division of functional responsibilities and the authority system and established recording procedures will not run well if healthy practices are not created in their implementation.

4. Employees Have Qualities That Match Their Responsibilities.

Employees have adequate qualities and competencies to carry out the tasks and roles given by the company or organization. Employees who are not only able to do work according to the expected standards, but can also develop, adapt and make positive contributions to the company's goals.

Components of Internal Control

The internal control component according to COSO (Committee Of Sponsoring Organizations of the Treadway Commission) in (Foster, Philip L; Schandl, 2019) consists of five components that are interrelated with each other.

1. Control Environment

The control environment reflects the attitudes and actions of owners and managers, and provides awareness of the importance of internal control for a company, which is the basis for all other internal control components that create a hierarchy in the form of an organizational structure. The control environment includes the following, namely:

- a) Integrity and ethical values
- b) Commitment to competence
- c) Organizational structure
- d) Division of authority and responsibility
- e) Personnel policies and practices

2. Risk Assessment

Identifying and analyzing the risk of relevant changes can reduce indications of fraud risk. Estimate the risks in each operational activity and determine the response and actions to these risks. Here are five reasons why risk assessment is so important:

- a) Changes in accounting standards
- b) New laws and regulations
- c) Changes related to system revisions and new technology
- d) Rapid growth of the entity that demands changes in task functions
- e) New areas of business that require accounting procedures that have never been applied before.

3. Control Activities

Activities of policies and procedures designed to assist management in risk reduction efforts to achieve an objective and ensure the implementation of management policies. This includes physical supervision, transaction authorization, and documentation. Control activities can be classified as follows:

- a) Information processing of transactions and activities
- b) Independent examination of performance
- c) Control over assets and records
- d) Adequate segregation of duties.
- e) Adequate documents and records

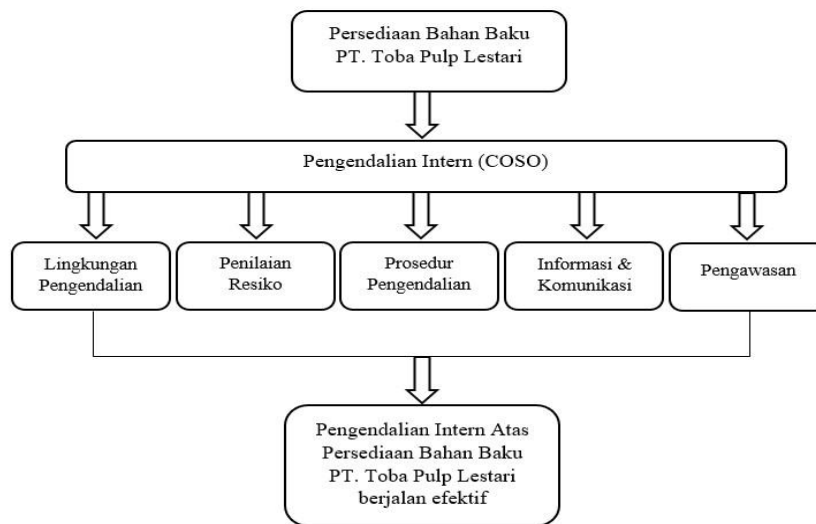
4. Information and Communication

The process of collecting, managing, and disseminating information within an organization or system to ensure that all parties involved can understand and act on relevant information. Emphasizes the importance of effective information systems to identify, record, and report relevant information in a timely manner. Maintaining accountability of related assets.

5. Monitoring

The process of continuously monitoring or overseeing activities, projects or systems to ensure that established goals, standards or criteria are being achieved. Monitoring can be done through regular evaluations, internal audits, or policy reviews.

Framework of Thinking



METHODOLOGY

Scope of Research

The type of research used in completing the thesis is descriptive qualitative research. Qualitative research is obtained through observation, interviews, discussions and observations. This research was conducted in the form of an overview of the object of research, namely: geographical location of the object, a brief history of the establishment of the company and the organizational structure.

Operational Definition of Variables

Variable operation is the process of defining a variable in research so that it can be measured concretely. The operational variables used in this study are:

1. Internal control is a system or process designed to ensure the reliability of financial statements, compliance with regulations, and the effectiveness and efficiency of operations in an organization.
2. Raw material inventory is a material that can be raw material used in the production process to produce finished goods.

Data Collection Method

The data collection technique used is to collect in-depth data on the phenomenon under study (Sitanggang, Debora Danisa Kurniasih Perdana; Ditamei, 2022). The following are some of the collection method used:

- a) Literature technique, research conducted by collecting existing secondary data based on book references and literature relevant to the author's title. Literature research by reviewing, analyzing, and compiling existing information to provide a deeper understanding, accompanied by other written sources relevant to the research topic.
- b) Field Techniques, collecting data directly from the field, namely by observing, interviewing, or conducting surveys related to the object of research and the material needed in the preparation of this thesis.
 - a. Observation method, the data to be obtained in the observation technique is to use tools (camera, video or audio recording) or existing records to be analyzed.
 - b. Interview method is a communication between two or more parties that can be done face-to-face where one party acts as an interviewer and the other party acts as an interviewee with a specific purpose, for example to obtain information or collect data.
 - c. Documentation method, carried out by collecting data on the history of the company's establishment, organizational structure, and Eucalyptus wood inventory data contained in PT Toba Pulp Lestari, Tbk Habinsaran Sector. Looking for the necessary data related to employees by looking at documents and records that exist in the company.

RESEARCH RESULT

Internal Control of Raw Material Inventory

1. Control Environment

The Company is committed to the values of integrity, ethics and social responsibility. This is reflected in the existence of a code of ethics that regulates employee behavior, including maintaining honesty and professionalism in carrying out tasks. Employees are expected to adhere to these principles, especially in the management of company assets such as raw materials and supplies. The company has a governance structure that involves the Board of Commissioners and the Audit Committee in the process of overseeing management. Although under the operational structure, a vertical reporting and supervision system is in place so that internal control in the sector remains under central supervision. The division of duties and authority is carried out strictly, so that control can be carried out easily and accountably. Each level of position and responsibility is well-defined. The company has established written policies and procedures in the form of SOP's (Standard Operating Procedures) that regulate the procurement, storage, distribution and reporting of raw materials. This SOP is the main guideline in maintaining the consistency and accuracy of internal control (Simangunsong, 2024).

2. Risk Assessment

The Company regularly identifies potential risks arising in the management of raw materials. The company has also established appropriate control measures to minimize the impact of these risks, such as through documentation procedures, division of tasks, and periodic physical checks. This shows that PT Toba Pulp Lestari Tbk Habinsaran Sector is committed to building an internal control system that is responsive and adaptive to potential risks that may occur in its operational environment.

3. Control Activities

The company has implemented various control activities such as segregation of duties, authorization, physical inspection of inventory, and the use of information systems for transparent and accurate recording. This aims to ensure that every use of raw materials is in accordance with established procedures.

4. Information and Communication

The information and communication system implemented by the company supports the smooth reporting process and the exchange of information between sections, both through written reports and direct communication. This ensures that relevant information can be accessed appropriately by those who need it.

5. Supervision

Supervision of the implementation of internal control is carried out periodically through internal audits, physical inspection of inventories, and evaluation of reports. Findings from these monitoring activities are used to make continuous improvements, reflecting the company's commitment to the efficiency and effectiveness of raw material management.

Inventory of Raw Material Accounting Information System

The raw material inventory accounting information system applied to the company uses an automated system where the calculation and recording system for raw materials in the form of Eucalyptus uses a manual system but the calculation of the amount of raw material inventory uses computerization. The inventory recording system of PT. Toba Pulp Lestari, Tbk Habinsaran Sector uses the perpetual inventory method in recording its inventory. In the recording method regarding the amount of inventory that is carried out continuously so that the amount of existing inventory can be known. While for the assessment of inventory the company uses the FIFO method. By implementing the FIFO method, it means that the first to enter is processed first. By using the FIFO method, which will be the final inventory value of the last incoming raw material. This is done so that every raw material that arrives first is used first. This aims to avoid reducing the quality of the raw materials to be processed, if stored too long in the warehouse it can reduce the content of raw materials and affect the quality of the pulp made. Likewise with the next eucalyptus which will enter into the stock of raw material inventory in the next management.

Raw Material Issuance Procedure from Warehouse

Issuance of materials from warehouse is a process involving the distribution of raw materials from the warehouse for use by other divisions in the company. The issuance of materials is carried out and must go through appropriate procedures to maintain order and accountability in inventory management.

Manual Process Testing

Testing is conducted to evaluate the effectiveness and efficiency of existing processes. This testing aims to identify problems, such as excess or shortage of stock, recording errors, or inefficient processes.

Warehouse Security

In maintaining the security and accuracy of raw material inventory, PT. Toba Pulp Lestari, Tbk Habinsaran Sector implements comprehensive warehouse security. From the physical side, the warehouse is equipped with double-locked doors, as well as a CCTV surveillance system in strategic areas. In addition, security personnel conduct routine patrols to monitor conditions around the warehouse.

In this section, each statistical test you perform should be thoroughly explained. This section is very important to describe the research methodology used. Each statistical finding should be summarized and presented in a table or graph; not just copy-paste from your statistics tool.

Communication and Information on Raw Materials

Every movement of raw materials, whether receiving, storing, or issuing, is fully documented, both manually and through a computerized system. Information related to inventory conditions, such as stock quantities and physical conditions of raw materials, is reported perpetually to the administration and other related departments. Communication between departments is carried out daily, weekly, and monthly, as well as informally through direct coordination in the field to ensure smooth operations. In addition, every employee is required to immediately report any discrepancies, damage, or loss of raw materials, so that they can be followed up immediately.

DISCUSSION

Based on the results of the research that has been conducted, the following conclusions can be drawn regarding internal control over raw material inventory at PT. Toba Pulp Lestari, Tbk Habinsaran Sector, which can be concluded as follows: Internal control that fully adopts COSO is ineffectively, where the company's management has implemented the concept and principles of internal control, and there are several procedures that already reflect the concept of internal control that adopts COSO. In the process of procuring raw materials, the company is dependent on weather conditions and field infrastructure. In addition, the availability and distribution of fertilizers and pesticides also experience obstacles in maintaining the quality of Eucalyptus growth. Management and implementation of raw material inventory at PT. Toba Pulp

Lestari, Tbk Habinsaran Sector is not yet effective, starting from planting, maintenance, to harvesting. Inventory is recorded using perpetual, which is done manually through stock cards and digitally using the SAP system. Inventory assessment is carried out using the FIFO method to maintain the quality of raw materials such as eucalyptus wood so that they remain suitable for production. However, improvements are needed in routine supervision and evaluation to prevent waste and maintain the quality of raw materials in accordance with production standards. The company has established SOPs in the procurement and distribution process of raw materials, however, supervision of implementation in the field still requires improvement, especially in terms of monitoring usage and calculating remaining inventory..

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

Based on the results of the research that has been conducted, the following conclusions can be drawn regarding internal control over raw material inventory at PT. Toba Pulp Lestari, Tbk Habinsaran Sector, it can be concluded as follows: Internal control over raw material inventory has been implemented ineffectively. This is indicated by a clear organizational structure, a defined system of authority and responsibility, and the existence of a Standard Operating Procedure (SOP) which is used as a guideline for implementing activities. However, there are still some weaknesses in supervision and utilization of technology. Suboptimal recording and assessment cause errors in raw materials. This can be seen using manual recording so that it takes a long time. Raw material inventory uses a computerized system where the receipt of wood raw materials until the pulp process. Monitoring of Eucalyptus stock is carried out periodically, both through physical inspection and reporting systems. This helps the company identify and address potential differences between records and actual conditions.

Recommendations

Improve the accuracy of wood inventory recording by integrating manual and SAP systems more optimally to reduce data discrepancies. Conduct routine training, especially those directly involved in recording and managing raw material inventory. This training is important so that personnel have a good understanding of monitoring procedures, the use of information systems, and the importance of internal control. The company is also advised to develop a technology-based stock monitoring system such as the use of barcode scanners or RFID to speed up the counting process and minimize human error. In general, the main causes of damage or defects come from environmental factors, humans, machines, and raw materials. Therefore, this needs more attention to reduce damaged products. The manager of PT. Toba Pulp Lestari, Tbk Sekor Habinsaran should improve internal control to ensure that all procedures are carried out in accordance with established policies and regulations and to detect shortages/excesses of goods.

ADVANCED RESEARCH

This study has several limitations that can be considered in future research. The analysis was limited to one sector (Habinsaran) within PT. Toba Pulp Lestari, Tbk, which may not reflect the conditions in other sectors of the company. Further research can expand the scope by including multiple sectors or comparative analysis between different companies in the same industry.

ACKNOWLEDGMENT

This journal entitled Analysis of internal control over raw material inventory of PT Toba Pulp Lestari, Tbk Habinsaran Sector is a study using qualitative methods. The data used were obtained through observation, interviews, and documentation. Hopefully, this journal can provide useful insights and contribute to understanding how the implementation of internal control affects raw material inventory in manufacturing companies.

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