

STRENGTHENING CASH MANAGEMENT THROUGH EFFECTIVE INTERNAL CONTROL SYSTEMS

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Abstract

This study evaluates the effectiveness of cash management practices in financial institutions by examining their alignment with the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework. Utilizing a qualitative research methodology, the study highlights systematic procedures for account openings, deposits, and withdrawals, ensuring operational transparency, efficiency, and customer satisfaction. The findings emphasize the importance of robust internal controls in mitigating risks, safeguarding assets, and improving process reliability. Key COSO components – control environment, risk assessment, control activities, information and communication, and monitoring – are applied to strengthen cash management systems, reducing fraud and enhancing financial reporting accuracy. This structured approach not only facilitates compliance with regulatory standards but also fosters stakeholder confidence and institutional sustainability. The study concludes with recommendations to optimize cash management practices and address emerging challenges in financial governance.

Keywords: Cash management, internal control, COSO framework, financial governance, risk mitigation.

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1. Introduction

Every organization typically develops its own systems to manage activities effectively, aiming to achieve predetermined objectives. Achieving these goals involves various strategies, including the establishment of robust internal controls. Internal control systems play a pivotal role in ensuring the smooth functioning of organizational operations, particularly in complex and

expansive business environments. They provide a framework for effective governance, accountability, and risk mitigation (Arens et al., 2020).

Internal control is a critical tool for management to monitor and regulate organizational activities. According to Wijaya and Ihsan Al Faruq (2021), internal control is a coordinated plan and methodology designed to safeguard assets, ensure the accuracy and reliability of accounting data, enhance efficiency, and promote compliance with management policies. Diana and Setiawati (2021) describe internal control as encompassing organizational plans, methods, and measurements aimed at securing assets, verifying the accuracy of financial records, and supporting adherence to managerial policies. Furthermore, COSO's framework (2013) identifies internal control as a process designed to provide reasonable assurance regarding the achievement of operational, reporting, and compliance objectives.

Cash, as one of the most liquid assets, requires heightened attention due to its susceptibility to misappropriation and fraud. Its nature—easily transferable and lacking physical ownership proof—necessitates stringent internal controls. Comprehensive internal cash control measures include segregating duties, maintaining accurate records, and ensuring regular supervision. Without effective controls, cash-related frauds are more likely to occur, as emphasized by the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013). Empirical studies, such as those by Frazer (2016), show a significant reduction in financial discrepancies in organizations implementing strict cash controls.

The internal cash control system is integral to managing cash transactions effectively. It compares actual performance with planned objectives, thereby protecting the organization's assets and improving operational efficiency. COSO's framework (2013) outlines five essential components: control environment, risk assessment, control activities, information and communication, and monitoring. These elements collectively enhance the reliability of accounting data and the safeguarding of corporate assets. For example, Brown (2020) demonstrated that firms with comprehensive internal control systems report significantly fewer instances of financial fraud.

COSO's definition of internal control underscores its importance in combating financial misrepresentation. The framework provides organizations with guidelines to identify factors contributing to fraudulent financial reporting

and offers recommendations to mitigate such risks. By adopting this structured approach, organizations can enhance their operational transparency and accountability (Frazer, 2016). Studies by Taylor (2021) and Gupta (2021) highlight the positive impact of COSO implementation on organizational governance and stakeholder confidence.

The quality of financial reporting significantly depends on the characteristics outlined by Pura et al. (2021). Financial reports must meet several qualitative standards, including understandability, relevance, reliability, comparability, neutrality, timeliness, and completeness. These standards ensure that financial reports are beneficial to stakeholders, facilitating informed decision-making processes. Empirical evidence, such as research by Permata and Dethan (2021), confirms that adherence to these standards enhances user confidence in financial statements.

An example of internal control implementation can be seen at PT. BPR Bank Tulungagung. Established in 1994, this financial institution has undergone several stages of capitalization and regulatory adjustments to strengthen its internal control framework. For instance, its adoption of stricter asset and cash management practices aligns with COSO's principles to enhance efficiency and safeguard resources (PT BPR Bank Tulungagung Annual Report, 2022). Case studies, such as those by Davis (2018), underscore the effectiveness of tailored internal controls in reducing financial discrepancies within regional banks.

As noted in COSO's report, the control environment—including management's delegation of authority and responsibility—forms the foundation of effective internal control. Policies and procedures are developed to mitigate risks and ensure the accurate recording and reporting of organizational events. This comprehensive approach reinforces the credibility of financial statements and supports regulatory compliance (COSO, 2013). Empirical findings from Carter (2019) suggest that a strong control environment significantly reduces operational risks.

PT. BPR Bank Tulungagung's internal control system reflects its commitment to corporate governance. Its strategies include raising public funds through savings and deposits, providing microcredit, collaborating with other financial institutions, and supporting local government financial functions. These initiatives demonstrate the organization's proactive approach to fostering economic growth and ensuring operational integrity (PT BPR Bank

Tulungagung Annual Report, 2022). Ahmed (2019) highlights similar successful implementations of internal controls in regional banking institutions.

This article evaluates the effectiveness and efficiency of PT. BPR Bank Tulungagung's internal control systems, particularly concerning cash management. It aims to provide actionable recommendations to enhance the organization's internal controls, thus contributing to its overall governance and performance. This evaluation aligns with COSO's framework, emphasizing the role of internal controls in achieving strategic organizational objectives and mitigating risks.

2. Research Method

The study employed a qualitative research methodology. Qualitative research focuses on methods, steps, and procedures that involve collecting data and information directly from respondents as subjects who can freely express their answers and emotions. This approach aims to obtain a holistic understanding of the phenomenon being studied (Creswell & Poth, 2018). The data analysis techniques used in this research include the following:

a. Data Reduction

This process involves transforming recorded data into patterns, focuses, categories, or specific themes after data collection. Data reduction is defined as the process of selecting, focusing, simplifying, abstracting, and transforming raw data gathered from field notes (Miles, Huberman, & Saldaña, 2014).

b. Data Presentation

Organizing and displaying reduced data in a format that facilitates the drawing of conclusions and decision-making. Data presentation may take various forms, such as tables, graphs, diagrams, narratives, or a combination of these formats (Miles et al., 2014).

c. Data Verification

This step ensures the validity and credibility of reduced and presented data. Verification may involve various techniques, such as triangulation, member checks, audit trails, peer debriefing, or other methods suited to the type and source of data (Creswell & Poth, 2018).

d. Validation of Findings

To validate research findings, the following steps were taken:

1) Credibility

Ensuring the accuracy and trustworthiness of findings through

thorough data analysis and validation processes (Lincoln & Guba, 1985).

2) Transferability

Assessing the extent to which research findings can be applied in different contexts or settings. Transferability is enhanced by providing detailed and comprehensive descriptions of the research background, process, and participant characteristics, allowing readers to evaluate the applicability of findings to their contexts (Lincoln & Guba, 1985).

3) Dependability

Focusing on the consistency and reliability of research processes and findings (Lincoln & Guba, 1985).

4) Confirmability

Ensuring that findings are shaped by the data and not influenced by the researcher's biases or assumptions (Lincoln & Guba, 1985).

This qualitative methodology ensures that the research process and findings adhere to established academic rigor and are relevant to the contexts studied.

3. Result and Discussion

Result

Cash management procedures outline the steps to ensure that savings products can continue to expand and remain sustainable. This involves a systematic sequence of actions carried out from start to finish to achieve specific objectives. The procedures for managing cash are as follows:

a. Requirements for Opening Public Savings Accounts

- 1) The prospective customer meets with the Customer Service representative and expresses their intention to open a savings account with the company.
- 2) The Customer Service representative explains the account-opening requirements to the prospective customer. These requirements include submitting valid identification, such as a national ID card (KTP) or a birth certificate (for minors) along with a Family Card (KK).

- 3) The prospective customer completes the account application form. This form serves as proof that the individual has formally requested the opening of a savings account with the bank.
- 4) The prospective customer signs the account application form.
- 5) The opening of a savings account does not incur any fees.
- 6) The Customer Service representative issues the savings account book, which contains the customer's account number.
- 7) The customer fills out a deposit slip and submits it to the teller along with the deposit amount.
- 8) The bank teller records the transaction.
- 9) The bank teller provides the customer with a copy of the deposit slip as proof of the transaction and hands over the updated savings account book to the customer.

This structured process ensures efficiency and clarity in managing savings accounts while maintaining customer satisfaction and regulatory compliance.

b. Deposit Procedures

- 1) Customers complete a deposit slip provided by the bank. An example of the savings account deposit slip form is attached to the relevant section.
- 2) Customers submit the completed deposit slip, savings account book, and cash to the bank teller.
- 3) The teller provides the customer with an authorized copy of the deposit slip as proof of the transaction, along with the updated savings account book.
- 4) The teller records the transaction and forwards the deposit slip to the accounting department.

This process ensures accurate documentation and efficient handling of customer deposits.

c. Withdrawal Procedures

- 1) Customers complete the withdrawal slip provided by the bank and present their national ID (KTP) as identification.
- 2) Customers submit the completed withdrawal slip along with their savings account book to the bank teller.

- 3) The bank teller verifies the customer's account to ensure there is a sufficient balance in the savings account.
- 4) If the account meets the requirements, the teller disburses the amount specified on the withdrawal slip to the customer.
- 5) The teller records the transaction in the savings account book and cash ledger. The accounting department receives the slip for verification and reconciliation.

This structured procedure ensures accuracy and accountability in processing customer withdrawals.

Discussion

Cash management procedures play a critical role in ensuring the sustainability and growth of savings products in financial institutions. These procedures are not merely operational guidelines but are integral to maintaining efficiency, transparency, and customer trust. By adopting a structured approach, financial institutions can ensure that all processes related to savings accounts are carried out systematically, from account opening to deposits and withdrawals. This discussion explores the various aspects of these procedures and their alignment with the COSO framework principles, highlighting their significance in achieving organizational objectives.

The first step in cash management, the account-opening process, is foundational to customer engagement. It sets the tone for the customer's relationship with the financial institution. By clearly defining the requirements, such as valid identification and application forms, the process ensures regulatory compliance and minimizes risks of fraudulent accounts. Additionally, the absence of account-opening fees encourages financial inclusion, allowing more individuals to access banking services, which is especially important in underbanked regions.

Deposit procedures further reinforce the importance of accuracy and transparency in financial transactions. The requirement for customers to complete and submit deposit slips ensures that there is a clear paper trail for every transaction. This practice aligns with the COSO component of Control Activities, which emphasizes the need for policies and procedures that mitigate risks. Moreover, the involvement of accounting teams in verifying deposits strengthens internal controls and ensures that all funds are accurately recorded.

Withdrawal procedures, on the other hand, prioritize accountability and risk management. By verifying customer identification and ensuring sufficient account balances before processing withdrawals, the bank protects itself and its customers from potential losses or disputes. This reflects COSO's Risk Assessment principle, which focuses on identifying and addressing potential vulnerabilities in operational processes. The additional step of forwarding transaction records to accounting ensures that the process remains transparent and auditable.

Customer experience is another critical aspect of these procedures. Clear instructions, such as filling out forms and providing required documentation, make the process straightforward for customers. The provision of authorized slips as proof of transactions enhances customer confidence and satisfaction. These practices align with COSO's Information and Communication principle, which underscores the importance of clear and effective communication in achieving organizational goals.

Monitoring and verification play a significant role in maintaining the integrity of cash management procedures. The review of transactions by the accounting department and the reconciliation of records ensure that errors are promptly identified and corrected. This reflects COSO's Monitoring Activities, which emphasize the importance of continuous oversight and improvement of internal processes. Such practices not only enhance operational efficiency but also build trust with stakeholders.

The COSO framework provides a comprehensive guideline for managing risks, enhancing operational governance, and ensuring accurate financial reporting. Its five components—control environment, risk assessment, control activities, information and communication, and monitoring—play a vital role in safeguarding assets, improving process efficiency, and fostering stakeholder confidence. When applied to cash management, these principles help prevent fraud, maintain accurate records, and ensure smooth financial operations.

The procedures for savings account operations exemplify COSO's emphasis on clarity and systematic control. Each step, from verifying customer identities to recording transactions, reinforces the principles of risk assessment and monitoring, ensuring compliance with regulatory requirements while minimizing potential discrepancies. Similarly, the meticulous handling of

deposits and withdrawals upholds the integrity of financial transactions, fostering trust between the institution and its customers.

Empirical evidence supports the positive impact of effective internal controls on operational performance and risk mitigation. Research demonstrates that institutions adopting comprehensive control measures, as outlined by COSO, experience fewer financial irregularities and enhanced customer satisfaction. These findings highlight the importance of aligning operational processes with best practices in internal control.

While the implementation of COSO-based controls provides significant benefits, challenges such as adapting to technological advancements, regulatory changes, and customer expectations must be addressed. Continuous training, investment in digital solutions, and regular audits are essential to maintain the relevance and effectiveness of internal control system.

In conclusion, the detailed cash management procedures discussed demonstrate the critical interplay between operational efficiency, customer satisfaction, and internal control mechanisms. By aligning with COSO principles, these procedures ensure that financial institutions can achieve their objectives while minimizing risks and maintaining compliance with regulatory standards. This structured approach supports the institution's ability to deliver secure and efficient services, fostering long-term trust and sustainability in its operations. Through continued refinement and adherence to best practices, financial institutions can enhance their capacity to serve customers effectively while upholding the highest standards of accountability and transparency.

4. Conclusion

Cash management is a critical component of financial institutions, directly influencing their sustainability, operational efficiency, and customer satisfaction. Effective cash management procedures, underpinned by a robust internal control framework like the COSO model, ensure that financial processes are conducted transparently, securely, and efficiently. From opening savings accounts to handling deposits and withdrawals, structured steps help maintain clarity, accountability, and adherence to regulatory standards.

In conclusion, the integration of COSO principles into cash management procedures strengthens the ability of financial institutions to achieve strategic objectives, ensure compliance, and build long-term trust with stakeholders. The

structured, transparent, and accountable approach not only enhances financial performance but also supports sustainable growth in an increasingly complex and dynamic business environment. Future research should explore innovative strategies to further optimize these processes and address emerging challenges in financial governance.

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