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Analysis of the Internal Control System for Cash and Cash Equivalents at the Adi Jaya MSME Shop in Takalar Regency

Wahyuni, Mahfiza, Miftahul Janna, Nurhalima and Dinda
[1,2,3]Accounting Study Program, Faculty of Economics and Business, Universitas Muhammadiyah Makassar, Makassar, Indonesia
* email: wahyuni@unismuh.ac.id mahfiza81@gmail.com miftahuljanna260194@gmail.com nurhalimaima1103@gmail.com dindaadelia38003@gmail.com

Abstract: *Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in Indonesia's economy; however, weak internal control over cash and cash equivalents remains a significant challenge that threatens financial accountability and business sustainability. This community engagement study aimed to analyze the effectiveness of the internal control system for cash and cash equivalents at Adi Jaya MSME Shop in Takalar Regency and to formulate practical recommendations for improving financial governance. A qualitative case study approach was employed through observation, semi-structured interviews, and document analysis involving cash records, transaction evidence, and operational procedures. Data were collected during a six-day field assistance program and analyzed using descriptive analysis based on internal control principles, including segregation of duties, authorization procedures, documentation, and monitoring mechanisms. The findings revealed that cash management was still conducted through a centralized process without adequate segregation of responsibilities between cash receipt, custody, and recording functions. Transaction documentation was largely manual and inconsistent, while formal authorization procedures and periodic cash reconciliations had not yet been implemented. These conditions increase the risk of recording errors, cash discrepancies, and potential fraud. Nevertheless, the enterprise demonstrated a strong commitment to improving its financial administration and showed readiness to adopt recommended practices. The study proposes practical improvements, including the implementation of segregation of duties, standardized cash recording procedures, routine cash reconciliation, and the adoption of SAK EMKM-based financial reporting supported by digital payment systems. These recommendations are expected to strengthen internal control, enhance financial transparency, and improve the long-term sustainability of MSMEs.*

Keywords*: Internal Control; Cash Management; Cash Equivalents; Msmes; SAK EMKM.*

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) constitute the backbone of Indonesia's economy by contributing substantially to national economic growth, employment creation, and income distribution. The sector accounts for the overwhelming majority of business entities in the country and contributes approximately 60% of Indonesia's Gross Domestic Product (GDP), while absorbing around 97% of the national workforce. This strategic role makes MSMEs not only an important driver of economic resilience but also a key instrument for achieving inclusive and sustainable development. Their ability to survive periods of economic uncertainty, including the Asian Financial Crisis and the COVID-19 pandemic, demonstrates the flexibility and adaptability of small-scale enterprises compared with larger corporations (Hidayat et al., 2022; Vinatra, 2023; Ekonomi Bisnis et al., 2024).

Despite their significant economic contribution, many Indonesian MSMEs continue to experience weaknesses in financial governance, particularly in managing cash and cash equivalents. Cash represents the most liquid asset and is highly susceptible to misappropriation, recording errors, and fraud if not supported by an effective internal control system. Cash equivalents, including short-term highly liquid investments, also require proper monitoring to ensure business liquidity and operational continuity. Inadequate control over these assets directly affects financial accountability, decision-making quality, and long-term business sustainability. Consequently, strengthening internal control over cash has become one of the primary concerns in improving MSME financial management (Hafizah & Baridwan, 2021).

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO), an effective internal control system consists of five integrated components: the control environment, risk assessment, control activities, information and communication, and monitoring activities. These components collectively ensure the reliability of financial reporting, operational effectiveness and efficiency, and compliance with applicable regulations. Within MSMEs, however, the implementation of these principles is frequently constrained by limited financial literacy, insufficient human resources, and the absence of standardized accounting procedures. As a result, business owners often perform multiple financial functions simultaneously, including receiving cash, recording transactions, and safeguarding cash assets, thereby increasing opportunities for error and fraud (COSO, 2013). Previous studies consistently report that the absence of segregation of duties remains one of the most common weaknesses in MSME financial management. Hafizah and Baridwan (2021) found that many MSMEs still combine the functions of cash receipt, custody, and recording within a single individual, thereby weakening accountability mechanisms. Similarly, Rista and Azmiyanti (2025), in their study of Teko Teh MSME, identified several deficiencies, including manual bookkeeping, the absence of systematic journal entries, inadequate documentation, and discrepancies between recorded and physical cash balances caused by human error. Furthermore, Pratiwi et al. (2026) emphasized that implementing Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM), combined with stronger internal control practices, significantly improves the quality and reliability of MSME financial information.

The rapid digitalization of business activities has created both opportunities and challenges for MSMEs in managing financial transactions. The increasing adoption of digital payment systems such as QRIS, mobile banking, and electronic wallets has improved transaction efficiency while simultaneously requiring stronger internal control mechanisms to ensure transaction security and financial transparency. Although digital financial technology has the potential to automate recording processes and reduce manual errors, many MSMEs continue to rely on conventional cash management practices without integrating digital financial administration into their operational systems (Bakrie et al., 2024). This condition highlights the need to evaluate whether existing internal control practices remain adequate in supporting increasingly digital business environments. The Adi Jaya MSME Shop in Takalar Regency represents a typical retail MSME experiencing similar governance challenges. Preliminary observations conducted during the community engagement program revealed that cash management activities were still centralized under a limited number of individuals without clear segregation between authorization, custody, and recording functions. Cash transactions were documented manually with inconsistent recording practices, while formal authorization procedures and periodic cash reconciliation had not yet been established. These conditions expose the enterprise to risks of recording inaccuracies, cash discrepancies, and potential fraud, potentially limiting its capacity to produce reliable financial information and maintain sustainable business operations.

Although numerous studies have examined internal control implementation in MSMEs, most previous research has primarily focused on evaluating accounting practices or the implementation of SAK EMKM without integrating a comprehensive assessment of cash and cash equivalent controls through direct field assistance. Moreover, limited studies have investigated how practical community engagement interventions can contribute to strengthening internal control systems in small retail enterprises at the local level. This research therefore addresses an important gap by combining qualitative case study analysis with community engagement activities to evaluate the effectiveness of cash internal controls and formulate practical recommendations that can be directly implemented by MSME practitioners. The novelty of this study lies in integrating the COSO internal control framework with SAK EMKM principles within a community engagement context, emphasizing practical improvements in segregation of duties, authorization procedures, transaction documentation, cash reconciliation, and digital payment adoption. Unlike previous studies that primarily assess accounting compliance, this research provides an implementation-oriented evaluation that translates internal control concepts into practical financial governance improvements suitable for small retail enterprises.

Based on the identified research gap, this study addresses the following research questions: (1) How effective is the existing internal control system for cash and cash equivalents at the Adi Jaya MSME Shop in Takalar Regency? (2) What practical improvements can be implemented to strengthen financial governance and reduce risks associated with cash management? Accordingly, this study aims to analyze the effectiveness of the internal control system for cash and cash equivalents and to formulate practical recommendations for improving financial governance within the enterprise. The findings are expected to contribute theoretically by enriching the literature on internal control implementation in MSMEs and practically by providing a replicable model for strengthening cash management systems among Indonesian MSMEs through improved financial governance and sustainable accounting practices.

2. Research Methods

2.1 Research Design

This study employed a qualitative case study approach within a community engagement (Pengabdian kepada Masyarakat/PKM) framework to analyze the implementation of the internal control system for cash and cash equivalents at the Adi Jaya MSME Shop in Takalar Regency. A qualitative case study was considered appropriate because it enables an in-depth understanding of organizational practices, financial management behavior, and internal control implementation within a real business setting. Rather than testing causal relationships, this study sought to explore existing control procedures, identify weaknesses, and formulate practical recommendations to improve financial governance.

2.2 Research Site and Period

The community engagement program was conducted at Adi Jaya MSME Shop, located in Pattallassang District, Takalar Regency, South Sulawesi, Indonesia. Field activities were carried out over six consecutive days, from 20 to 25 June 2026, covering preliminary observation, interviews, documentation review, analysis of cash management practices, and presentation of recommendations to the business owner.

2.3 Participants and Sources of Data

The study used purposive sampling to select participants who possessed direct knowledge of cash management activities within the enterprise. The primary informants consisted of:

- The owner of Adi Jaya MSME Shop;
- Employees responsible for daily cash transactions and operational activities; and
- Members of the PKM implementation team who conducted observations throughout the assistance program.

Data were obtained from two sources:

- Primary data, collected through direct observation, semi-structured interviews, and field discussions with the owner and employees.
- Secondary data, consisting of cash books, sales receipts, purchase invoices, payment evidence, transaction records, and other financial administration documents available during the field activities.

The combination of multiple data sources enabled triangulation and enhanced the credibility of the research findings.

2.4 Data Collection Procedures

Data collection was conducted systematically through four sequential stages. First, preliminary observations and semi-structured interviews were conducted to understand daily operational activities, identify cash management procedures, examine the segregation of responsibilities, and evaluate existing financial recording practices. Second, the research team documented the flow of cash receipts and cash disbursements by reviewing supporting financial documents, including sales invoices, purchase receipts, and manual cash records. This stage aimed to map the overall cash cycle within the enterprise. Third, the collected information was compared with generally accepted internal control principles, particularly those related to segregation of duties, authorization procedures, documentation, safeguarding of assets, and monitoring activities. This comparative analysis enabled the identification of strengths and weaknesses in the existing internal control system. Finally, the findings were communicated directly to the business owner through a consultation session, during which practical recommendations for strengthening internal control over cash and cash equivalents were presented.

2.5 Data Analysis

The collected data were analyzed using descriptive qualitative analysis. The analytical process consisted of four stages adapted from the interactive model of qualitative data analysis:

1. Data collection, through interviews, observations, and documentation;
2. Data reduction, by selecting, classifying, and organizing information relevant to internal control practices;
3. Data display, through narrative descriptions and process mapping of cash management activities; and
4. Conclusion drawing and verification, by interpreting findings and comparing existing practices with established internal control principles.

The evaluation framework referred primarily to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Framework, emphasizing five components: control environment, risk assessment, control activities, information and communication, and monitoring activities. Particular attention was given to operational aspects directly related to cash management, including segregation of duties, authorization procedures, transaction documentation, physical safeguarding of cash, periodic cash reconciliation, and supervisory mechanisms.

2.6 Trustworthiness of the Study

To ensure the rigor and credibility of the findings, this study employed several validation strategies. Source triangulation was performed by comparing information obtained from interviews, observations, and financial documents. Method triangulation was achieved through the integration of multiple data collection techniques. In addition, the research team conducted member checking by discussing preliminary findings with the MSME owner to verify the accuracy of interpretations and ensure that the reported results reflected actual business practices. These procedures enhanced the validity, dependability, and confirmability of the study findings.

2.7 Ethical Considerations

Prior to data collection, the researchers obtained permission from the owner of Adi Jaya MSME Shop to conduct observations, interviews, and document reviews. Participation was voluntary, and all information collected was used solely for academic and community engagement purposes. The confidentiality of business information was maintained throughout the research process, and the findings were reported objectively without compromising the interests of the participating enterprise.

3. Results and Discussion

3.1 Results

3.1.1 Overview of the Existing Cash Management System

The field observations revealed that the Adi Jaya MSME Shop has implemented a relatively simple cash management system that is typical of small retail enterprises. Daily cash receipts originate primarily from direct cash sales and digital payment transactions, while cash disbursements are mainly allocated to inventory purchases, operational expenses, transportation costs, and miscellaneous business expenditures. Although transaction evidence such as sales receipts and supplier invoices was generally retained, financial administration remained predominantly manual and had not yet been standardized according to SAK EMKM.

Cash management activities were highly centralized, with the business owner simultaneously performing multiple responsibilities, including receiving cash, authorizing expenditures, maintaining cash custody, and recording financial transactions. This concentration of responsibilities simplified daily operations but significantly weakened the effectiveness of internal control because no independent verification mechanism existed. The analysis also indicated that financial records were prepared only when considered necessary by the owner rather than on a routine daily basis. Consequently, several transactions were recorded retrospectively, increasing the possibility of recording inaccuracies and reducing the reliability of financial information for managerial decision-making.

3.1.2 Evaluation Based on the COSO Internal Control Framework

The effectiveness of the internal control system was evaluated using the five components of the COSO Internal Control Framework. The findings are summarized in Table 1.

Table 1. Evaluation of the Internal Control System for Cash and Cash Equivalents

COSO Component	Existing Condition	Evaluation
Control Environment	Business owner demonstrates commitment to financial management, but organizational responsibilities are informal.	Moderately Effective
Risk Assessment	Financial risks are recognized intuitively without formal risk identification or documentation.	Less Effective
Control Activities	No segregation of duties, limited authorization procedures, and absence of periodic reconciliation.	Ineffective
Information and Communication	Cash records are maintained manually with inconsistent documentation.	Less Effective
Monitoring Activities	Financial supervision depends solely on the owner without regular evaluation or internal review.	Ineffective

The results indicate that the control environment represents the strongest component because the owner demonstrates a high level of commitment toward maintaining business continuity and financial discipline. Nevertheless, the remaining components require considerable improvement to establish a comprehensive internal control system.

3.1.3 Segregation of Duties

One of the most significant weaknesses identified during the field observations concerns the absence of segregation of duties. The owner personally receives customer payments, stores cash, authorizes expenditures, records transactions, and verifies cash balances. Such concentration of responsibilities eliminates the internal checking mechanism that normally reduces the likelihood of fraud and recording errors. Interviews with the owner revealed that this practice has been maintained because the enterprise operates with a limited number of employees, making functional separation difficult to implement. While this arrangement may improve operational efficiency in the short term, it substantially increases operational risk as the business expands.

3.1.4 Authorization and Documentation Procedures

The study further revealed that authorization procedures were conducted informally. Most operational expenditures were approved verbally by the owner without written documentation or supporting authorization forms. Likewise, although receipts and invoices were generally retained, transaction recording lacked standardized procedures and chronological consistency. Cash books were updated manually and occasionally completed several days after transactions occurred. This delayed recording practice increases the possibility of omitted transactions and reduces the accuracy of financial reporting.

3.1.5 Cash Reconciliation and Monitoring

Another important finding concerns the absence of periodic cash reconciliation. Physical cash balances were rarely compared systematically with recorded balances, and no scheduled reconciliation process had been established. Instead, discrepancies were identified only when they became noticeable during routine operations. Similarly, monitoring activities remained informal. Financial performance was evaluated primarily based on the owner's experience rather than through structured financial analysis or regular review of accounting records. Consequently, opportunities to identify errors at an early stage remained limited.

3.2 Discussion

The findings indicate that the internal control system for cash and cash equivalents at the Adi Jaya MSME Shop remains at an early stage of implementation. Although the enterprise has established basic administrative practices necessary for daily operations, several essential control mechanisms recommended by the COSO framework have not yet been fully implemented. The absence of segregation of duties represents the most critical weakness observed in this study. According to COSO, separating authorization, custody, and recording responsibilities is one of the fundamental principles for minimizing fraud risk and improving accountability. The concentration of financial responsibilities within a single individual creates opportunities for both intentional manipulation and unintentional recording errors. This finding supports Hafizah and Baridwan (2021), who reported that limited human resources frequently prevent Indonesian MSMEs from implementing effective segregation of duties.

The manual recording system identified in this study also reflects the broader financial administration challenges experienced by many MSMEs. Although manual bookkeeping remains common because of its simplicity and low implementation cost, inconsistent recording practices reduce the reliability of financial information. Similar findings were reported by Rista and Azmiyanti (2025), who observed that manual bookkeeping frequently results in discrepancies between accounting records and physical cash balances. From a financial governance perspective, accurate and timely documentation represents the foundation of reliable financial reporting and effective managerial decision-making. The lack of formal authorization procedures further weakens internal control effectiveness. Without documented approval mechanisms, it becomes difficult to trace financial responsibility or verify the legitimacy of individual transactions. As emphasized by COSO, authorization procedures serve not only as administrative controls but also as preventive mechanisms against unauthorized expenditures and financial irregularities.

Another important issue concerns the absence of routine cash reconciliation. Cash reconciliation enables organizations to identify recording errors, missing transactions, or potential misappropriation before financial discrepancies accumulate. The findings suggest that reconciliation activities at the Adi Jaya MSME Shop remain reactive rather than preventive, thereby increasing operational risk. Similar conclusions were presented by Putri and Widodo (2023), who emphasized that routine reconciliation significantly reduces human error in MSME cash management. Despite these weaknesses, the enterprise demonstrates several positive characteristics that support future improvements. The owner expressed strong willingness to enhance financial administration and welcomed recommendations provided during the community engagement activities. Such organizational commitment represents an essential element of the control environment, which forms the foundation of effective internal control according to the COSO framework.

Based on the field findings, several practical improvements can be recommended. First, even with limited personnel, partial segregation of responsibilities can be introduced by assigning employees to assist in transaction recording while maintaining owner authorization for cash disbursements. Second, standardized daily cash books should be implemented to ensure timely and complete recording of all cash transactions. Third, weekly or monthly cash reconciliation should become a routine procedure to verify consistency between physical cash and accounting records. Fourth, the enterprise should gradually adopt SAK EMKM-based financial reporting to improve the quality and comparability of financial information. Finally, greater utilization of digital payment systems, such as QRIS and mobile banking, may reduce dependence on cash transactions while simultaneously improving transaction traceability and financial transparency. Overall, this study demonstrates that strengthening internal control over cash and cash equivalents does not necessarily require sophisticated accounting systems or substantial financial investment. Rather, improvements in organizational discipline, standardized documentation, segregation of responsibilities, periodic reconciliation, and consistent monitoring can substantially enhance financial accountability and support the long-term sustainability of MSMEs. These findings contribute to the growing literature on MSME financial governance by illustrating how practical community engagement activities can facilitate the implementation of internal control principles in small retail enterprises.

5. Conclusion

5.1 Conclusion

This study examined the implementation of the internal control system for cash and cash equivalents at the Adi Jaya MSME Shop in Takalar Regency through a qualitative case study conducted within a community engagement framework. Using the COSO Internal Control Framework as the analytical basis, the findings indicate that the enterprise has established basic financial administration practices but has not yet implemented a comprehensive internal control system. The most prominent weaknesses include the absence of segregation of duties, informal authorization procedures, inconsistent manual documentation of transactions, and the lack of periodic cash reconciliation and systematic monitoring. These deficiencies increase the risk of recording errors, cash discrepancies, and potential fraud while reducing the reliability of financial information for managerial decision-making. Nevertheless, the study also revealed that the owner demonstrates a strong commitment to improving financial governance and is receptive to implementing recommended control practices. This organizational commitment represents an important foundation for strengthening the internal control environment. Overall, the findings suggest that practical improvements in financial governance can significantly enhance accountability and business sustainability without requiring sophisticated accounting systems or substantial financial investment.

5.2 Theoretical Contributions

From a theoretical perspective, this study contributes to the literature on internal control and MSME financial governance by demonstrating the applicability of the COSO Internal Control Framework within small-scale business environments. The findings confirm that the five COSO components—control environment, risk assessment, control activities, information and communication, and monitoring—remain relevant for evaluating internal control effectiveness in MSMEs despite their relatively simple organizational structures. Furthermore, this study extends previous research by integrating internal control principles with community engagement activities, illustrating how practical field assistance can facilitate the adoption of better financial management practices. The results also reinforce prior evidence suggesting that organizational commitment alone is insufficient to ensure effective financial governance unless accompanied by structured control procedures and standardized financial documentation.

5.3 Practical Implications

The findings provide several practical recommendations for improving cash management and internal control within MSMEs. Business owners should gradually implement segregation of duties by separating responsibilities for cash receipt, custody, authorization, and recording, even when operating with limited personnel. Standardized documentation procedures should also be introduced through daily cash recording, systematic filing of supporting documents, and regular updating of financial records. In addition, routine cash reconciliation should become an integral part of financial administration to verify the consistency between physical cash balances and accounting records. MSMEs are also encouraged to adopt financial reporting practices based on SAK EMKM while increasing the utilization of digital payment systems such as QRIS and mobile banking to improve transaction traceability, operational efficiency, and financial transparency. Implementing these recommendations is expected to strengthen internal control and improve the long-term sustainability of MSMEs.

5.4 Research Limitations

Several limitations should be considered when interpreting the findings. First, the study focused on a single MSME operating in the retail sector, limiting the generalizability of the results to other business sectors and organizational contexts. Second, the relatively short implementation period of six days restricted the opportunity to observe the long-term effectiveness of the recommended improvements. Third, this qualitative study relied primarily on interviews, observations, and document analysis without incorporating quantitative financial performance indicators that could measure the economic impact of improved internal control systems.

5.5 Directions for Future Research

Future research should involve a broader sample of MSMEs representing various industries and regions to obtain more comprehensive evidence regarding internal control practices in Indonesian small businesses. Researchers are also encouraged to employ mixed-method or quantitative approaches to examine the relationship between internal control effectiveness, financial reporting quality, operational efficiency, profitability, and business sustainability. In addition, future studies may investigate the long-term effects of implementing SAK EMKM, digital accounting applications, enterprise resource planning (ERP) systems for MSMEs, and digital payment technologies on strengthening internal control and improving financial governance. Comparative studies between digitally managed MSMEs and conventionally managed enterprises would also provide valuable insights into how digital transformation influences the effectiveness of internal control systems and financial accountability.

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