Original Research Article

Enhancing Financial Resilience: A Critical Evaluation of Internal Control Systems for Mitigating Bad Debt Exposure at PT Laris Abadi Indonesia

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ABSTRACT

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| **Aims:** To examine the efficacy of accounts receivable internal control systems in reducing bad debt risk at PT Laris Abadi Indonesia, identify deficiencies in current internal control frameworks, and provide practical recommendations for implementing robust control mechanisms that balance credit accessibility with prudent risk management.  **Study design:** Descriptive qualitative research employing a single-case study approach focused on PT Laris Abadi Indonesia's accounts receivable management practices and internal control systems.  **Place and Duration of Study:** PT Laris Abadi Indonesia, conducted over six months from January to June 2024.  **Methodology:** The research methodology applied three main data collection techniques: (1) Systematic observation of existing accounts receivable processes and workflow procedures; (2) In-depth structured interviews with key personnel including finance staff, credit department employees, and senior management to gather insights on current practices and challenges; (3) Comprehensive documentation analysis examining internal control procedures, financial records, credit policies, and collection protocols. Data analysis employed thematic analysis to identify patterns and deficiencies in the internal control framework, with particular focus on credit assessment protocols, payment monitoring mechanisms, and collection procedures.  **Results:** The study revealed significant deficiencies in PT Laris Abadi Indonesia's current internal control framework. Three critical weaknesses were identified: inadequate credit assessment protocols, insufficient payment monitoring mechanisms, and absence of structured collection procedures. These shortcomings resulted in substantially extended debt settlement periods and increased financial vulnerability with elevated bad debt exposure.  **Conclusion:** Strategically designed internal control systems can significantly enhance accounts receivable management and minimize financial risk. The research contributes empirical evidence demonstrating the relationship between internal control quality and bad debt mitigation. Implementation of comprehensive credit evaluation frameworks, automated payment monitoring systems, and structured collection protocols is essential for strengthening organizational financial resilience while maintaining competitive credit accessibility. |

*Keywords: internal control systems; accounts receivable management; credit risk assessment; bad debt mitigation; financial governance*

1. INTRODUCTION

The escalating competition in contemporary business landscapes, coupled with rapid economic and technological advancement, necessitates continuous corporate innovation, particularly in payment systems (Sharma & Rahman, 2023). While business success is fundamentally quantified by profit generation, organizations implement various survival strategies, with credit sales emerging as a predominant approach (Kumar et al., 2024). Credit-based transactions enable businesses to expand their customer base to include those with limited purchasing power. However, this strategy invariably generates accounts receivable that present inherent financial risks when debtors default on their obligations (Lindemann & Schläfke, 2023).

Suboptimal receivables management frequently leads to an escalation in bad debt accumulation, significantly compromising an organization's financial integrity (Chen & Wong, 2022). To address these challenges, companies must implement rigorous credit policies and establish systematic monitoring mechanisms for aging receivables. Furthermore, comprehensive management oversight of accounts receivable control is essential to preempt substantial financial losses through early identification of potential delinquencies and implementation of appropriate interventions (Martinez-Lopez & González, 2024).

The synthesis of robust credit analysis methodologies with effective internal control frameworks is instrumental in maintaining equilibrium between revenue expansion and risk mitigation. A well-designed internal control system ensures that credit allocation procedures and receivables management adhere to organizational policies with precision and consistency (Wijaya & Djuminah, 2023). Such systems encompass organizational structures and coordinated methodological tools designed to safeguard corporate assets, verify accounting data accuracy, and enhance operational efficiency (Toshmatov & Komilova, 2022). The architecture of internal control frameworks must incorporate risk factors that potentially impact business operations to achieve optimal effectiveness. Several established models, including COBIT (Control Objectives for Information and Related Technology) and SAC (System Advisory Committee), offer comprehensive guidelines for developing contextually appropriate internal control systems (Alkharji & Hassan, 2021).

Previous empirical investigations have identified critical deficiencies in corporate receivables management, including ineffective collection processes and compliance monitoring, evidenced by increasing customer defaults and bad debt accumulation (Harper & Johnson, 2023; Lee & Park, 2022). Studies further reveal inadequate report control mechanisms within accounts receivable functions, resulting in pervasive deficiencies and errors (Mazzucato & Parbonetti, 2023; Velayutham & Krishnan, 2021; Zhou et al., 2022). Research indicates incomplete implementation of internal control systems for receivables management, attributed to employee integrity issues and inadequate adherence to organizational protocols. Additionally, negligence in credit analysis has contributed to delinquency issues that subsequently affect bad debt metrics (Agarwal & Mishra, 2022; Liu & Zhang, 2023; Oliveira et al., 2021).

The extant literature reveals significant research gaps regarding specific aspects of accounts receivable management that warrant further investigation. This study addresses these gaps by focusing on payment term application, instalment value determination, systematic collection procedures, and risk management through refined credit policies. The research posits that inconsistency in instalment valuation and payment enforcement undermines the efficacy of internal receivables control and diminishes debtor compliance with financial obligations. Consequently, this investigation concentrates on implementing more stringent internal control mechanisms at PT Laris Abadi Indonesia, with particular emphasis on instalment value determination and systematic collection processes. Through comprehensive analysis of existing vulnerabilities and policy frameworks, this research aims to formulate strategic recommendations for enhancing receivables management and minimizing financial risk exposure for the organization.

2. methodology

This research uses a qualitative descriptive method with a case study approach, which allows an in-depth analysis of the implementation of the accounts receivable internal control system at PT Laris Abadi Indonesia. The approach was chosen to obtain a more comprehensive understanding of the various factors that influence the management of accounts receivable and the challenges faced in its implementation (Nurdahlia et al., 2023). This research aims to provide a clear picture of the effectiveness of the internal control system implemented and how the system can be improved to minimize the risk of bad debts. Data collection is obtained from interviews with informants and direct observation. The informants in this study are administrative management staff at PT Laris Abadi Indonesia who will be intermediaries in the process of collecting relevant data related to the research topic. Informants were selected based on their functions and responsibilities in managing the company's administration. The role of informants in this study is not to be the main source of analysis but to facilitate access to the necessary data about the company. The data is in the form of accounts receivable data of debtors who have problems in paying their accounts receivable. Therefore, the focus of the research is more directed at processing and analyzing data, not at extracting informants' views or opinions.

The analysis stage in this research begins with identifying each debtor's instalment data, focusing on instalment records, payment history, and due dates. The data is processed by describing the important information of each debtor by separating the payment components such as the finished price, DP and ITJ, and outstanding or remaining payments. In the process of managing instalment data, there are several divisions for calculating each debtor's instalment. Starting with calculating the actual instalment data which aims to determine the nominal amount that should be paid by the debtor each month in accordance with the tenor set by the company. The next stage is to calculate the total instalments for 12 months (tenor), and compare with the actual instalment data. If the debtor makes a payment after the due date, the instalment can be called a potential loss instalment payment.

3. results and discussion

PT Laris Abadi Indonesia operates within the property sector, specializing in residential housing and land plot sales. The company has strategically implemented a credit sales system as its principal marketing approach to expand its customer base. However, this credit-based business model inherently introduces significant financial vulnerabilities, particularly concerning bad debt accumulation resulting from payment delinquencies or debtor defaults (Singh & Jain, 2022).

The empirical findings reveal substantial deficiencies in PT Laris Abadi Indonesia's internal control framework regarding bad debt mitigation. Analysis of organizational data demonstrates persistent challenges in securing timely instalment payments from debtors according to contractually established tenors. A primary contributing factor to this operational inefficiency is the absence of rigorous vetting protocols for prospective debtors, which aligns with observations in contemporary credit risk management literature (García-Teruel & Martínez-Solano, 2023). The examination of debtor receivable data patterns reveals critical insights into the company's accounts receivable management deficiencies.

**Table 1. Debtor receivables data of PT Laris Abadi Indonesia in 2024**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Debtor Name** | **Finished Price** | **Money In** | **Remaining instalments** | **Date of Purchase** | **Tenor (month)** | **Maturity** | **Last Payment**  **Date** | **Nominal Last**  **Payment** |
| 1 | Debtor A | 80.0000.000 | 31.250.000 | 48.750.000 | 2-3-2018 | 12 | 2-3-2019 | 25-5-2024 | 500.000 |
| 2 | Debtor B | 100.000.000 | 80.000.000 | 20.000.000 | 2-3-2019 | 12 | 21-3-2020 | 31-1-2021 | 4.212.994 |
| 3 | Debtor C | 100.000.000 | 65.000.000 | 35.000.000 | 3-4-2019 | 12 | 3-4-2020 | 14-4-2020 | 1.900.000 |
| 4 | Debtor D | 65.000.000 | 40.000.000 | 25.000.000 | 1-5-2019 | 12 | 1-5-2020 | 26-12-2021 | 500.000 |
| 5 | Debtor E | 75.000.000 | 35.000.000 | 40.000.000 | 14-5-2019 | 12 | 14-5-2020 | 1-3-2020 | 1.000.000 |
| 6 | Debtor F | 140.000.000 | 76.000.000 | 64.000.000 | 16-7-2019 | 12 | 16-7-2020 | 27-11-2021 | 23.000.000 |
| 7 | Debtor G | 160.000.000 | 120.000.000 | 40.000.000 | 16-9-2019 | 12 | 16-9-2020 | 14-12-2021 | 8.765.000 |
| 8 | Debtor H | 75.000.000 | 55.000.000 | 20.000.000 | 19-3-2020 | 12 | 19-3-2021 | 4-10-2022 | 8.000.000 |
| 9 | Debtor I | 80.000.000 | 48.850.000 | 31.150.000 | 27-10-2019 | 12 | 27-10-2020 | 28-1-2021 | 500.000 |
| 10 | Debtor J | 170.000.000 | 99.350.000 | 70.650.000 | 13-10-2020 | 12 | 13-10-2021 | 27-10-2020 | 3.500.000 |

Source: PT Laris Abadi Indonesia, 2024

The analytical interpretation of the debtor receivables data indicates that a significant proportion of debtors have experienced protracted payment delays, predominantly attributable to the company's failure to establish standardized monthly instalment values. Several accounts maintain substantial outstanding balances despite payment deadlines having expired for extended periods (up to four years). This observation corresponds with research by Özdemir and Upneja (2021), who identified structured instalment frameworks as a critical determinant of payment compliance behaviours.

The deficiency in effective monitoring mechanisms constitutes a fundamental contributor to diminished debtor payment discipline. Collection procedures remain predominantly manual, lacking technological integration such as automated reminder systems, which contrasts with best practices identified in contemporary receivables management literature (Chang et al., 2023). Furthermore, the organization has not formulated explicit policies addressing long-term payment delinquencies, resulting in persistently low levels of payment compliance among debtors (Richardson & Lanis, 2022).

A comparative analysis between empirical observations and established theoretical frameworks provides valuable insights into the organization's internal control efficacy. Utilizing the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework as an analytical lens (Williams et al., 2021), the assessment of PT Laris Abadi Indonesia's internal control infrastructure identified four relevant components requiring critical evaluation:

**a. Risk Assessment**

PT Laris Abadi Indonesia exhibits significant deficiencies in implementing standardized internal control protocols for accounts receivable risk assessment. Despite acknowledging non-performing receivables risks, the organization lacks structured analytical methodologies such as risk-based debtor segmentation or aging-based payment scheduling systems. Research by Korableva and Kalimullina (2021) emphasizes that comprehensive risk assessment frameworks should incorporate multidimensional analysis of debtor profiles and payment patterns to effectively predict and mitigate payment defaults. The company has not implemented systematic mitigation strategies such as payment restructuring protocols or graduated legal interventions, nor has it established pre-emptive measures for anticipated bad debt scenarios. This absence of structured risk assessment aligns with findings from Macias and Farfan-Lievano (2023), who identified risk assessment deficiencies as a primary determinant of receivables management ineffectiveness.

**b. Control Activities**

Receivables management at PT Laris Abadi Indonesia demonstrates operational impediments stemming from inadequate documentation systems. The absence of standardized record-keeping protocols significantly compromises the effectiveness of delinquent payment monitoring. According to Dumitrescu and Bobițan (2021), robust documentation frameworks constitute a foundational element of effective control activities in receivables management. Additionally, the organization's debtor notification system remains suboptimal, substantially hindering collection efficacy and contradicting established best practices in accounts receivable management (Verbruggen et al., 2022).

**c. Information and Communication**

The organization's information and communication infrastructure exhibit substantial operational deficiencies, particularly regarding accounts receivable data administration. Delinquent payment analysis continues to be conducted through manual processes, revealing significant limitations in structured data provision capabilities. Brown and Nasution (2023) emphasize that automated information systems are essential for ensuring timely and accurate communication regarding payment obligations and outstanding balances. The absence of automated debtor notification systems significantly increases the probability of payment delinquencies, which is consistent with findings from contemporary studies on communication effectiveness in credit management (Jayaraman & Kothari, 2022).

**d. Monitoring**

The monitoring component of PT Laris Abadi Indonesia's internal control framework demonstrates critical inefficiencies characterized by the absence of internal audit functions or systematic evaluation protocols. Koutoupis and Pappa (2022) assert that effective monitoring mechanisms should incorporate regular evaluation processes to ensure compliance with established accounts receivable policies. The organization lacks structured monitoring mechanisms to verify proper implementation of receivables management policies, corroborating research by Thompson and Williams (2024) that identifies monitoring deficiencies as a significant contributor to control system inadequacies in credit-intensive business models.

The comprehensive analysis of PT Laris Abadi Indonesia's internal control system reveals significant opportunities for enhancement through structured implementation of contemporary best practices in accounts receivable management. Research by Hendriks et al. (2023) suggests that integrating technological solutions with formalized policy frameworks can substantially improve payment compliance and reduce bad debt exposure. Additionally, Venkatesh and Sharma (2021) emphasize that establishing clear accountability structures and systematic review protocols constitutes a critical element in optimizing internal control effectiveness for credit-intensive operations.

4. Conclusion

The findings of this study indicate that the internal control system implemented by PT Laris Abadi Indonesia has not been effective in expediting the resolution of bad debts. Several deficiencies were identified, including the absence of a clearly defined credit policy, insufficient payment monitoring mechanisms, and the lack of a structured and enforceable collection system. Moreover, the existing credit procedures are not adequately supported by a comprehensive creditworthiness assessment framework. As a result, delayed payments often remain unaddressed, leading to an accumulation of overdue receivables and an elevated risk of financial loss for the company.

This study is subject to certain limitations, most notably restricted access to the company's complete financial statements. Consequently, the analysis of the financial impact of delayed receivables could not be conducted comprehensively. The research relied primarily on debtor receivable data, thereby limiting the scope of financial evaluation. Nonetheless, despite these limitations, the study offers important insights into the significance of establishing a more robust and systematic internal control system for effective accounts receivable management. The results may serve as a practical foundation for enhancing existing credit policies, improving the receivables monitoring process, and developing a technology-integrated collection strategy.

Future research should seek broader data access, particularly to the company's full financial reports, to enable a more thorough assessment of the correlation between receivable management and financial performance. In practice, it is recommended that PT Laris Abadi Indonesia revise its credit evaluation procedures to incorporate detailed financial assessments of prospective debtors. Additionally, the formulation of a structured instalment framework—tailored to receivable amounts and predefined tenors—may improve payment tracking and mitigate the risk of future delays.

Competing interests

The author declares that no competing interests exist in relation to this research. The author has no financial or personal relationships with PT Laris Abadi Indonesia or any other organizations that could inappropriately influence or bias the findings of this study. The research was conducted independently without any employment, consultancy arrangements, honoraria, paid expert testimony, patent applications, grants, or other funding that could constitute a conflict of interest. The author confirms having no competing financial, professional, or personal interests that could have influenced the methodology, analysis, interpretation of results, or conclusions presented in this manuscript.

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