

# STUDY OF SUPPLIER RELATIONS MANAGEMENT (SRM) APPROACHES IN RELATION TO THE GENERAL LEDGER, SYSTEM CYCLE : TRADITIONAL VS DIGITAL AND INTERNAL CONTROL TO SUPPORT OF THE GRANTS REPORTING EFFICIENCY AND TRANSPARENCY (GREAT) ACT

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## ABSTRACT

Cultural differences, as well as geographical distance between companies and suppliers are very big challenges for companies to achieve better performance within the company. Apart from that, to achieve good record keeping, companies must be able to understand the process of moving ledgers in presenting financial reports from traditional to digital as well as knowing the forms of threats and controls that need to be implemented in the general ledger system and financial reporting. This shows the importance of consistent company relationships with suppliers as well as the company's internal controls to provide adequate assurance regarding stated objectives.

Keywords: Supplier Relationship Management (SRM), General Ledger, Reporting Cycle System: Traditional VS Digital and Internal Control

## 1. INTRODUCTION

The Grants Reporting Efficiency and Transparency (GREAT) Act, signed into law on December 30, 2019 mandating data standards for federal awards by 2022; and for Single Audit data in 2023. The Act states that data standards must make information reported by Federal awardees fully searchable and machine-readable; non-proprietary; incorporate standards developed and maintained by voluntary consensus standards bodies; consistent and applying applicable accounting and reporting principles; and implement data standards established under the Federal Funding Accountability and Transparency Act of 2006. With the increasing openness of international markets, such as the import of products from China for example, several difficulties arise which are particularly disturbing in relations with international suppliers and consequently in the process as a whole. "The last decades of the 20th century witnessed a significant expansion of supply chains in international locations" (Macchion, Laura, et al., 2015). In this scenario, it becomes important to employ relationships with suppliers, also known by the acronym SRM (Supplier Relationship Management). Supplier management provides a strategic level of supply chain management with the aim of generating value through products and services, Seri, Ibusuki and Capasso, 2018).

By presenting financial reports in accordance with Financial Accounting Standards, it will provide very useful information for investors and creditors, thus helping in assessing organizational performance (PSAK No. 1 of 2020). With the dependence of information on financial reporting, it is necessary to have a reporting design to produce regular reports and support the needs of those who need it (Mirandha et al., 2022).

Internal control is a prescribed procedure to be implemented by people to provide adequate assurance in achieving interrelated goals (Jonhson and Kell, 2006, Fahmi et al., 2022). Based on the description above, the research will focus on changes to ledgers in the presentation of technology-based financial reports as well as forms of threats and controls in ledgers and financial reporting systems. Based on the background description above, the research questions that will be discussed include (1) What is the general ledger transition process in presenting financial reports from traditional to digital in large textile companies in Indonesia? (2) What forms of threat and control need to be implemented in the company's general ledger and financial reporting system? (3) what are the challenges in managing relationships with international suppliers in companies?

## 2. STUDY OF LITERATURE

According to Vieira Júnior, Lucato, Vanalle and Jagoda (2014), because of the product imported from China and other Far Eastern countries, textile industry Brazil faces intense competition between national production and imports. Not yet according to the author, in the textile and

apparel sector, imports “mainly come from Asia (40% from China, 9% from India, and 8% from India)” (Vieira Júnior; Lucato; Vanal; Jagoda, 2014) which coincides with suppliers companies studied in this research. There is an increase in product imports textiles, it is very important to study international supplier relationship management. In the accounting records used in companies there are several forms of journals, namely general journals and special journals. A general journal is an activity of summarizing transactions carried out based on documents in look at the chronology plus the necessary explanations. The function of the journal is an activity that summarizes the forms of transactions that have been carried out. Meanwhile, accounts and ledgers are more concerned with recording transactions based on their type. The following is the general journal format . (Muda et al., 2017).

#### 1. Ledger and the relationship between Ledger and Supporting Ledger in reporting

A general journal is a ledger which is also called the General Ledger, *which* is a summary of the accounts used to summarize financial data that has been previously carried out. Ledger accounts can be used as a container for classifying financial data which is seen as a source of financial information in presenting financial reports . (Muda et al., 2017)

#### Ledger and its Uses

The general ledger system explains the General Ledger transaction process and the Financial Reporting Cycle. The general ledger system has the following objectives:

- All transactions are recorded accurately and correctly ;
- Transactions are posted to the correct account ;
- There are debit and credit balances ;
- Make the necessary adjusting journals ;
- The financial reports produced are reliable and timely .

Apart from the general ledger, there is also a subsidiary ledger. A subsidiary ledger can be used to detail certain accounts in the general ledger. The subsidiary ledger has two accounts, namely receivables and liabilities. The subsidiary ledger has advantages that are very helpful in preparing financial reports consisting of:

- There is convenience in preparing financial reports because it can reduce fatal errors that can impact the ledger ;
- There must be accuracy in bookkeeping in comparing the balances of accounts in the general ledger with the balances in the subsidiary ledger;
- There is a division of tasks ;
- There is evidence supporting these transactions in the subsidiary ledger ;
- Can know the elements needed .

Below in Figure 1 you can see the general ledger cycle in accounting.

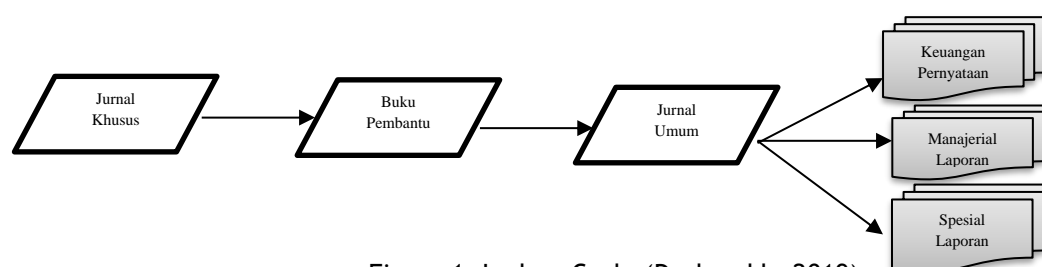


Figure 1: Ledger Cycle (Deshmukh, 2019)

### 2.1. Internal Control in Reporting

The company carries out operational activities to prevent system error rates. Internal control is a form of process carried out by the board of directors, management and other personnel in an entity to provide adequate assurance regarding the objectives that have been set. Internal control has categories consisting of: reliability of financial reporting, compliance with applicable laws and regulations and operational effectiveness and efficiency. Meanwhile, according to (Hall, 2011), internal control is a form of method used to control an entity's activities to help ensure that the activities carried out can ultimately achieve the desired goals. Based on the description above, internal control can be interpreted as a form of procedure established to be carried out by people to provide adequate confidence in achieving interrelated goals. Having internal controls can reduce things that can cause losses to the company, one of which is reducing the level of fraud, both intentional and unintentional.



The implementation of internal control is necessary to produce a good system that complies with established procedures. The objectives of internal control include: Safeguarding company assets and checking the accuracy and reliability of accounting data.

## 2.2. Supplier relationship management (SRM)

According to Murad, Lima E Neto, 2015 " Geographical barriers (imports), low purchasing power, the presence of intermediaries (distributors), the lack of systems that support partnerships (use of telephone, fax and email) and the lack of strategies to support partnerships with suppliers ." SRM appears to mitigate obstacles and challenges in relationships with suppliers, as well as "in recognition of the strategic value of relationship management with suppliers there is a perception that purchasing costs represent more than half of a company's revenue" (Murad, Lima E Neto, 2015) . " ... . SRM emerged with the aim of producing actions and procedures aimed at controlling and managing companies in the supply chain, assisting in decision making and negotiations" (Seri; Ibusuki; Capasso, 2018).

According to Lambert and Schwieterman (2012), the relationship management process in the supply chain consists of two processes. The first is a strategic process in which relationship and process metrics are managed. Some authors discuss, at this stage, five subprocesses. Many Lambert and Schwieterman (2012), Quanto, Oghazi, Zaefarian, Beheshti and Mortazavi (2016 address sub following process, as shown in the following table.

**Table 1. Relationship Management Subprocesses in the Supply Chain**

<b>Strategic Sub Process</b>	<b>Activities Involved</b>
Overview of company strategy, product or service identification	The main ones are marketing, manufacturing, and resources, important to the company today and possibly in the future
Identify criteria for categorizing suppliers	Profitability, technology, capacity, quality, purchasing volume, sustainability, innovation and compatibility
Provide guidance on customization levels in product and service contracts	This involves differentiating the quality and cost of products and determining the limits of differentiation
Develop a metrics structure	Define the metrics of interest and relate them to the supplier's impact on the company's profitability
Develop guidelines for sharing the benefits of process improvements with suppliers	Defining options for sharing the benefits of process improvements

Source: Processed Data (2023)

The second process, the operational process, which is actually put into practice, is in seven steps determined at the strategic level. Oghazi, Zaefarian, Beheshti and Mortazavi (2016) state that the operational subprocess is the result of the strategic subprocess. "Supplier Relationship Management (SRM) plays an important role in reducing costs and optimizing the performance of industrial companies" (Mettler; Rohner, 2009). After defining supplier relationship management, it is worth highlighting some of the important elements mentioned in the theoretical basis. The key elements revealed, formed the basis for developing the interview questionnaire, established as the research instrument for this work. As explained in the literature, there are not only geographic differences between national and international suppliers, but also some challenges with international suppliers due to physical and cultural distance (Davis, 2008) . Finally, many authors mention the benefits of long-term basic supplier relationships. "If the level of trust is high then the buyer will have a greater desire to continue the relationship in the future" (Jiang; Henneberg; Naudé, 2010).

## 3. METHOD

The research method used is literature study. Library study is a series of activities related to methods of collecting library data, reading and taking notes, and managing research materials. The literature study method is a series of activities carried out by researchers by collecting several books and magazines related to research problems and objectives (Ferdinand , 2014).

## 4. RESULTS AND DISCUSSION

### 4.1. RESULTS

#### 1. Ledger Change Process in Presenting Traditional and Digital Financial Reports

One of the digital ledgers is *Blockchain*. *Blockchain* is a decentralized, distributed and public digital ledger, jointly managed by multiple parties, using cryptography to ensure the security of transmission and access, to achieve consistent data storage, data tamper proof and denial of denial (Yaqoob et al., 2022, Lubis et al., 2022). This is also known as *Distributed Ledger Technology* (DLT). A typical *blockchain* stores data in blocks. Each block includes a cryptographic hash of the previous block in *the blockchain* to connect two adjacent blocks. The linkage of blocks is a “chain”. *Blockchain*, as a new computing paradigm and collaboration model in a trustless competitive environment, changes application scenarios and operating rules in many industries with its unique trust-building mechanism (Reegu et al., 2022).

SAP AG is a German company founded in 1972 in Waldorf, Germany, by several IBM employees. Their opening goal was to create an integrated business package that could serve large companies in the manufacturing industry. This software, called SAP, supports various processes related to sales, marketing, production and human resources. In English, SAP is an abbreviation for *Systems, Applications, and Products in Data Processing* (systems, applications, and products in data processing). (Hall, 2019).

#### 2. Threats and Controls in Preparing Financial Reports

There are several relationship actions with suppliers developed and implemented in the supply chain. One of the actions is “formalizing the commitments and ethical behavior expected from suppliers”, through these contracts the company reinforces ethical and integrity issues in this partnership. It is still up to international supplies, “working conditions monitoring” carried out from certification and audits carried out by companies, especially in the market externally so that illegal and irregular types of work do not occur (Shulha et al., 2022). “In accordance with the Current legislation is the basic foundation for building a relationship of mutual trust with this network” (Annual Report, 2018). Industry directors, as well as buyers and highlighting coordinators the importance of this reduction work in the supplier base, since this can be done realizing profits in various aspects, according to Vieira Júnior, Lucato, Vanalle and Jagoda (2014):

- a. reduction of effort used in supplier management;
- b. agility in finding attractive prices for new products;
- c. ease in negotiating product *mix development* ;
- d. closer and stronger relationship.

Table 2. Threats and Controls in Preparing Financial Reports

Activity	Threat	Control
Problems that arise in the preparation of financial reports are seen from the process	1. Invalid data from general journal 2. The financial reports presented are not reliable 3. Insufficient backup data	1. The need for supervision in data processing 2. There are limitations on the ledger 3. Reviewing changes to general ledger <i>data</i> 4. There is data <i>backup and recovery</i>
Problems in updating the ledger	1. Invalid presentation ledger 2. Invalid journal entry	1. There are data entry controls 2. Control of financial reconciliation of statements 3. The need for a review regarding step audits
Problems in customizing data entry	1. It is not valid to adjust the journal	1. There are data entry controls 2. Control of financial reconciliation of statements 3. The need for a review regarding step audits
The need to improve the presentation of financial	1. Invalid financial reports 2. Fraud in presenting	1. Use of accounting software for preparing financial

statements	financial statements	reports 2. Evaluation of the implementation of SAK 3. Financial report audit
Generated financial reports	Presentation of financial reports that are not in accordance with SAK	There is accountability for the presentation of the resulting financial reports

Source: Processed Data (2023)

#### 4.2. DISCUSSION

The general ledger has two approaches, namely the business processing approach and the general ledger approach. The business processing approach better embraces the limitations associated with traditional approaches and systems in these business activities (Nurhayati, et al., 2022). The general ledger approach focuses on adding financial information. There are problems in implementing the chart of accounts in terms of application by account, where the focus is the application of each chart of accounts and business data according to a specific account. Meanwhile, the determination of the coding scheme is based on the preparation of financial reports. Although in reality the general ledger system is more about account numbers, debit or credit entries and other information that is not used. (Gelinas & Dull, 2018). Closing the period end of the general ledger system, data from business processes will be broken down from the system to maintain the correct current balance for each entry. Currently, decision-making information is only limited to the information contained in the specified account. Information will be obtained at a later date if changes are made to the account and the programs that support the account.

Based on the current scenario, it is clear that optimizing the number of key suppliers and structuring relationships is based on a long-term ideology are two fundamental aspects of the customer-supplier relationship that characterize an effective supplier management.


#### 5. CONCLUSION

Journals and ledgers are financial reporting systems that summarize to help present financial reports. A general journal is an activity of summarizing transactions carried out based on documents seen chronologically plus the necessary explanations. And the general ledger is also known as the general ledger, which is a description of the accounts used to summarize financial data that has been done previously. The company carries out operational activities to prevent system error rates. Internal control is a form of process carried out by the board of directors, management and other personnel in an entity to provide adequate assurance regarding the objectives that have been set. Internal control has categories consisting of: reliability of financial reporting, compliance with applicable laws and regulations and operational effectiveness and efficiency.

Success International supplier management for companies is directly related to several aspects, such as investment in a strong structure focused on its management, existence and implementation well-defined policies, ideology of working with a reduced number of suppliers to strengthen relationships and also prudence when implementing division of demand by supplier, always considering volume and price. These practices present as a solution that meets the demands and expectations of these target companies studied, and only needs to be maintained and improved. Three main indicators are unanimously highlighted in this research showing indicators of quality level, delivery time and product price as the main support for decision making in choosing which supplier to choose. Furthermore, they claim that they still have a long way to go until they reach a level of maturity in partner segmentation, and emphasize that improvement is constant and cannot stop.

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