EVALUATION OF INTERNAL CONTROL ON EXPENDITURE CYCLE AT PT. MEDIA TELEKOMUNIKASI MANDIRI

SKRIPSI

By

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Herewith, the Panel of Examiners declares that the skripsi entitled “Evaluation of Internal Control on Expenditure Cycle at PT. Media Telekomunikasi Mandiri” submitted by Gina Eka Jati majoring in Accounting, Faculty of Economics has been assessed and proved to have passed the Oral Examination on February 28, 2013

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Cikarang, Indonesia, 11 February 2013

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DECLARATION OF ORIGINALITY

This thesis entitled “Evaluation of Internal Control on Expenditure Cycle at PT. Media Telekomunikasi Mandiri” prepared and submitted by Gina Eka Jati in partial fulfillment of the requirements for Bachelor Degree in Economics Major in Accounting has been reviewed and found to have satisfied the requirements for a thesis fit to be examined. I therefore recommend this thesis for Oral Defense.

Cikarang, Indonesia, 11 February 2013

Writer,

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This study intends to observe and examine of a growing telecommunication consultant and IT service which also provides power installation service and consultation, focusing on the internal control of its expenditure cycle which requires a good system to support the growth of the company. Currently, it still uses manual operation. The writer would like investigate the existing procedures of expenditure cycle used by the company and evaluate its internal control using COSO Frameworks.

In this research, the writer uses qualitative method to collect the information related to the objectives. The writer gathers the primary data through inquiry the key roles in the operations in the expenditure cycle and observing the expenditure procedures by comparing with five components of COSO Frameworks.

After analyzing all the information, the environment control of the study object indicates that the current organizational structure is not clearly defined the current positions in the company; Some personals are not having proper education background, knowledge or skills required for their positions; the company provides lack training for all categories of personnel. For risk assessment, division objectives have not been established and the company has not categorized risks into some levels. The company has lack of segregation of duties and lack of document duplication. Lack of periodically evaluating effectiveness of policies and procedures. Lack of periodically evaluating effectiveness of policies and procedures. However, due to the size of the company which is small, it is enable the company to have good communication and information.

Hence, as the company business keeps growing, it is important to make improvement to eliminate the weakness. The researcher recommends to the company to establish and communicate the job and responsibilities clearly, hire employee selectively, provide training for the staff, established and communicate the objectives that have to be achieved by every staff, identify fraud risk due to a lack of segregation of duties, minimize of losing document by duplicating the documents, and conduct periodic evaluation on effectiveness of policies and procedures.

Key words: Expenditure Cycle, Internal Control, Accounting Information System, COSO Frameworks.
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Alhamdulillahi robbil’alamin, only because of Allah the Almighty’s bless, I could finish this thesis. Finally, I successfully pass through the hard times and arrive to the moment I complete this research entitled “Evaluation of Internal Control on Expenditure Cycle at PT. Media Telekomunikasi Mandiri”.

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I realize this writing is not perfect due to the limitation that I have during the research. Hopefully, it can be used for advance future research that can give more benefits for people.

Thank you.
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CHAPTER I

INTRODUCTION

1.1. Background

Nowadays, development in Indonesia shows progress quite rapidly. This because of economic growth that gives maximum contribution to the development of business in Indonesia. Global competition is also believed to make the entrepreneurs always maintain its business from bankruptcy. This increases competition among employers. For that, they need reliable management can take appropriate strategic efficiently and effectively.

Reliable management decisions can not be separated from the development of information technology. Management today is aware that a good information system will help decision makers to do their job faster, more precise and more accurate. Good accounting information system is also able to organize the use of economic resources owned companies more efficiently and effectively.

The continued development of the company also should be balanced with a better system. Information systems in an organization are used to view, process data to produce information that supports not only company, employees, customers, suppliers but also business associates.

All companies make expenses to run the company's operations. For instance purchasing material. To conduct a purchase process, there are several sub-processes that are related to each other and the absence of an alignment can cause disruption in operations and corporate planning decisions that has been prepared beforehand. The company should order the material in the suitable number that will not burden the company. If they order too many materials, it will increase the cost of material hold and if they order too few, they will face the shortage of stock that might cause the delay of
project handle by the company. However they should analyze their need of the stocks precisely to get appropriate number of materials ordered. The problems does not stop at that point, in ordering material, the company should prepare some documents supporting this process. To prevent the company in having transaction with fictive supplier, the company should have data of authorized supplier that will help the company in finding right vendors. This data also must equipped with price information and quality of materials information so the company will get the best quality product in the best price offers. The company also has to pay attention in receiving goods delivered by the supplier, the warehouse probably receive wrong goods or it receives defect products and so on. In short, many sub process that should be done well in purchasing material. And the company should be aware that they have many risks if they do not put close eyes on each step.

In order to control those kinds of process, everyone in an organization has responsibility for internal control. The board of director or equivalent oversight body guides and directs management in the development and performance of internal control. It is put in place to keep the company on course toward profitability goals and achievement of its mission, and to minimize suprises along the way.

Internal controls are designed to protect the company from loos or misuse of its assets. Sound internal controls help ensure that transactions are properly authorized and the information contained in financial reports is reliable. It is a process through which an entity attempts to minimize the likelihood of accounting-related errors, irregularities and illegal acts. Internal controls help safeguard funds, provide efficient and effective management of assets, and alert management to potential problems.

Beside creating internal controls, management is also responsible for evaluating the effectiveness of its internal controls. Even the best-designed internal controls cannot be effective without the active involvement of management. Management can develop a
favorable control environment by setting a positive tone, communication to all employees the importance of internal controls, and taking appropriate action against staff who are not complying with approved internal control policies and procedures. Management should also encourage staff to communicate situations not addressed by the policies and procedures, so the policies and procedures may be adopted necessary.

1.2. Research Problem Identification

The study is conducted at PT. Media Telekomunikasi Mandiri (PT. MTM), a telecommunication consultant and IT services provider focused on integrator network providing IT solutions in the telecom network transformation of IT and telecommunication. This company also provides electrical service consultancy in term of electrical installation and renewable energy. The focus of discussion in this study is the expenditure cycle operations at PT. MTM, in which requires a good system to keep track of the growing company.

The problems that arise in PT. MTM are:

1. Information systems for expenditure cycle PT. MTM is still done manually since the company has not integrated systems from one system to another system so that the process takes time.

2. No risk assessment on the procedures for expenditure cycle is applied.

The writer would like to investigate the problems above. It is expected that from this study, the factors that cause those problems can be identified and they can be solved. The research will be focused on analyzing the existing procedures regarding expenditure cycle, identifying the risk and proposing a recommendation according the literatures used by the writer. Based on this, the problems that will be investigated are as follow:
1. How is the procedure of expenditure cycle in PT. MTM?

2. How is the evaluation of COSO Framework in PT. MTM?

1.3. Research Scope and Limitation

The scope of writing is limited to the purchasing process of materials stocked in warehouse and business travel expense. The research also is limited only to assess whether the company has achieved two of internal control objective which are accuracy and reliability of financial statement and compliance with the applicable rules and regulations.

1.4. Research Objectives

The purposes of this study are:

a. Assessing the implementation of internal control on expenditure cycle at PT. MTM.

b. Identifying the weaknesses of internal control on expenditure cycle at PT. MTM.

c. Formulating the recommendation to overcome the identified weaknesses.

1.5. Research Benefits

The benefits of this research for the writer is to develop analytical skills of internal control on the existing expenditure procedure at PT. MTM which is expected to reduce the problems that may occur. It also helps the writer to obtain more insight and knowledge of how the company as the object of the study applies the internal control in the real business.
The benefit for PT. MTM is able to update the internal control of expenditure cycle in order to improve the company’s performance in controlling the expenditure procedures.

The benefit for the other party is able to provide an overview of the internal control on expenditure cycle at a telecommunication company.

1.6. Research Method

This research is a qualitative research. The methods used are the method of study and comprehensive analysis of the literature by giving solutions how accounting information system implemented. The research method used by the writer are as follows:

1. Literature

Literature is a review of articles and books related to the topic of this paper in order to obtain the relevant theoretical framework to analyze and evaluate the issues discussed. Search data in the field is expected to be focused on the needs of the research and the creation of an overall picture about the research.

2. Collection of data and information

The writer used data primer which is gather collectively for research purpose. To collect the data, the writer has interviewed key parties involves in the expenditure process, conducted field observation, and inspected the accounting records.

3. Analysis of the current system

Perform analysis on the system used by the company at this time through the data and information collected. Seeing how the company’s system run and identifying the weaknesses of the system to be repaired.
4. Proposed recommendation

Giving a recommendation to the company regarding the expenditure procedures being observed. The proposed recommendation are based on the analysis through the literatures used and it should be cover the risks exist in the current expenditure procedures that could help the company to improve the performance.
CHAPTER II

LITERATURE REVIEW

2.1. Internal Control

2.1.1. Definition of Internal Control

In general, internal control is a system used as a specific organizational procedures and guidelines. Internal control in a company is set for achieving the company’s goals and avoiding the probability of fraud occurred. Internal control will be in a form of policies and procedures designed to provide reasonable assurance that the management has achieved its objectives and targets. Arens, Elder, Beasley (2003) stated that, management has three objectives in creating an effective system of internal control, they are, the reliability of financial reporting, efficiency and effectiveness of operations and compliance with laws and regulations.

Indonesian Accounting Association (2007, pg.39) defines internal control as “Sistem yang meliputi organisasi semua metode dan ketentuan yang terorganisasi yang dianut dalam perusahaan untuk melindungi harta miliknya, mencek kecermatan dan keandalan data akuntansi serta meningkatkan efisiensi usaha”. Base on that explanation, internal control can be defined as an action set by the organization to ascertain the performance in achieving the goal is within the standard that can give the management insight about strategic plans should be taken.

According to Moeller (2009), Internal control is a process implemented by management and designed to provide reasonable assurance to:
• Realibility of financial reporting and operational operation;
• Compliance with policies and procedures, legal and regulation;
• Safeguard of assets;
• Efficiency of operations;
• Achievement of the mission and goals set for the company operations; and
• Integrity and ethical values.

This definition explains that the scope of internal control system not only defines on the function of accounting and finance. The process of the system of internal control has mission, generates accurate and reliable data, complies with applicable laws and regulation of the organization, encourages to use the resources economically and efficiently and provides safeguarding on assets.

2.1.2. Objectives of Internal Control

James A. Hall (2011) explains in his book that the internal control system comprises policies, practices, and procedures employed by the organization to achieve four broad objectives:

1. To safeguard asset of the firm
2. To ensure the accuracy and reliability of accounting records and information.
3. To promote efficiency in the firm’s operation
4. To measure compliance with management’s prescribed policies and procedures.

2.1.3. COSO Internal Control Framework

The Committee Of Sponsoring Organizations (COSO) is a widely used and accepted internal control framework in today’s growing corporate
Moeller (2009) explains that COSO is an organization formed by five professional accounting and auditing organizations. COSO issued a report and an integrated internal control framework. COSO internal control framework to be widely recognized standards in understanding and implementing effective internal controls for a company or business.

According to COSO, the three primary objectives of an internal control system are to efficient and effective operations, to accurate financial reporting and compliance with laws and regulations. It also outlines five essential components of an effective internal control system. Five components of internal control by Arens, Elder, and Besley (2012) are explained as follow:

1. Control environment

   An organization's control environment is the overall tone of operations of an organization which collectively serve to enhance, or alternatively mitigate, the functioning of specific control policies and procedures. The control environment reflects the overall attitude, awareness, and actions of those in control of the organization in creating an atmosphere of control.

   The components of the control environment include:

   a. Management's philosophy and operating style,
   b. The entity's organizational structure,
   c. The functioning of the board of directors and its committees, particularly the audit committee,
   d. Human resource policies and practices,
   e. Integrity and ethical values, and
   f. Commitment to competence.
2. Risk assessment

Risk assessment is management’s identification and analysis of relevant risks to achieving objectives. It is designed to help organizations find the optimal risk-taking zone. Risk assessment is all about measuring and prioritizing risks so that risk levels are managed within defined tolerance thresholds without being over controlled or forgoing desirable opportunities. Risk assessment also requires management to consider the impact of possible changes in the external environment and within its own business model that may render internal control ineffective. Management will identify factors affecting risk, assess significance of risks and likelihood of occurrence and determine actions necessary to manage risk.

3. Control activities

Control activities are the actions established through policies and procedures that help ensure that management’s directives to mitigate risks to the achievement of objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities. In general, there are 5 type of control activities in practice:

a. Adequate separation of duties;

b. Proper authorization and activities;

c. Adequate documents and records;
d. Physical control over assets and records;
e. Independent checks on performance;

4. Information and Communication

The purpose of an accounting information and communication system is to initiate, record, process and report the transactions and to maintain the accountability for the related assets. An accounting information and communication system has several subcomponents that should be satisfied, they are:

a. Occurrence;
b. Completeness;
c. Accuracy;
d. Posting and summarization;
e. Classifying; and
f. Timing

5. Monitoring

Monitoring is management’s ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and modified when needed. Information evaluated can be from various source including from external source like from customer feedback.

2.2. Accounting Information System

2.2.1. Definition of Accounting Information System

Accounting Information systems are considered as important organizational mechanism that are critical for effectiveness of decision management and control in organizations. In managing an organization and
implementing an internal control system the role of accounting information system is crucial. Nicolaou (2000) defined accounting information system as a computer based system that processes financial information and supports decision tasks in the context of coordination and control of organization activities. Boochooldt (1999) defines accounting information system as system that operate functions of data gathering, processing, categorizing and reporting financial events with the aim of providing relevant information for the purpose of score keeping attention directing and decision making.

### 2.2.2. Components of Accounting Information System

Romney and Steinbart (2003) explained that Accounting Information System consist of five components, they are:

1. People who operate the systems and perform various functions.
2. Procedures both manual and automated, involved in collecting, processing, and storing data about the organizations activities.
3. Data about the organizations business process.
4. Software used to process organizations data
5. Information technology infrastructure including computers, peripheral devices, and network communication devices.

### 2.2.3. Basic Functions of Accounting Information System

According to Hall, there are three basic functions of Accounting Information system:

1. To collect and store data about the organization’s business activities and transactions efficiently and effectively:
   a. Capture transaction data on source documents.
b. Record transaction data in journals, which present a chronological record of what occurred.

c. Post data from journals to ledgers, which sort data by account type.

2. To provide management with information useful for decision making:

   In manual systems, this information is provided in the form of reports that fall into two main categories:

   a. Financial statements

   b. Managerial reports

3. To provide adequate internal controls:

   a. Ensure that the information produced by the system is reliable.

   b. Ensure that business activities are performed efficiently and in accordance with management’s objectives.

   c. Safeguard organizational assets

2.3. Expenditure Cycle

2.3.1. Definition of Expenditure Cycle

   Business activities begin with the acquisition of materials, property, and labor in exchange for cash. These activities are included in expenditure cycle. According to Steinbart (2008) expenditure cycle is concerned with the acquisition of fixed assets, raw materials, or manufactured components and the use of employee labor to yield a finished products.

   Based on Hall’s explanations, most of expenditure transactions are based on a credit relationship between the trading parties. The flow of cash from the organization to the various providers of the resources is shown by figure 2.1 below.
Hall explained in his book that the primary objective of expenditure cycle is to minimize the total cost of acquiring and maintaining inventory, supplies, and services. The management must evaluate the efficiency and effectiveness of expenditure cycle processes. Requires data about events that occur, resources affected, and agents who participate. This data needs to be accurate, reliable and timely. Thus, with this kind of objectives, the management has to inquiry itself:

a. What level of inventory and supplies should the company carry;
b. What vendors provide the best price and quality;
c. Where should the company stores the goods;
d. Can the company consolidate purchase across units;
e. How can IT improve inbound logistics;
f. Is there enough cash to take advantage of early payment discounts; and
g. How can the company manage payments to maximize cash flow?
2.3.2. Activities of Travel Expenses

It can not be denied that in practice, some firms do some travels very often to run their business. In having a travel, the employee might get some cash from the company to cover the travel cost. Cash itself is the most liquid asset in the business. Base on Ikatan Akuntan Indonesia (IAI), kas terdiri dari saldo kas (cash on hand) dan rekening giro setara kas adalah investasi yang sifatnya liquid berjangka pendek dan dengan cepat dapat dijadikan kas dalam jumlah tertentu tanpa menghadapi resiko perubahan nilai yang signifikan (2002). This definition shows that cash has critical role in the business since it is can be used timely.


There are many kind of cash in the practice, however, some the kind of cash that normally related to travel is cash in advance. Cash in advance enable a person to take some money before the real expense occurs. Futher more about travel expense, to have a travel, an employers may have two option payments from the company, by taking a cash in advance or taking a reimbursement after finishing the travel

1. Reimbursement

In a reimbursement process, an applicant will finish the travel first and right after he is back to the office, he will prepare a report that he already accomplished a travel, the objectives of the travel and the cost that he spent during the period which is related to the business. This report is also equipped
with sufficient proof like bills and authorized by the person who charged him to the travel. If this report is finish, it will be submitted to the management and the applicant will get his money reported back from the firm to be claimed and process.

2. Cash in Advance

Basically, cash advance is disbursement in advance of the actual expenditure and in itself do not represent an expenditure. The expenditure occurs when the actual spending of the cash advance takes place.

Typically, cash in advance process let an applicant hold some money on their hand for specific purpose. In this explanation, cash in advance can be used for travel. An applicant who is assigned for having a travel requesting some money to the firm. This request must be known and authorized by authorized person, it is typically the one who assigned him for the travel business.

As he return from his travel, generally the firm set a limited time for him to report the expenses during the travel and returned the money left. This report also need to be equipped with bills or other proofs and need to be authorized to proof the validity of the report.

2.3.3. Activities of Purchasing Materials

It has been explained that there are many activities that support purchasing process. Halls explained in his books that there are three activities supports purchasing process:

a. Ordering materials, supplies, and services
b. Receiving and storing goods
c. Approving and paying supplier invoices
Wilkinson dan Cerullo (2000) also have similar idea about purchasing materials. They explain the idea through the data flow diagram below.

**Figure 2.2: Data Flow Diagram of Purchasing**

![Data Flow Diagram of Purchasing](image)


They divided the purchasing activities into three major processes: purchasing procedures, receiving procedures, payable procedures. The figure of its data flow diagram (DFD) is written in their books.

1. **Ordering materials, Supplies, and Services**

   The first step of expenditure cycle is ordering materials, supplies and services process. Key decision in this process involve identifying what, when,
and how much to purchase and from whom. According Wilkinson, et al. (2000), the control in this stage has objective to ensure that all acquisition are authorized in time and counted base on Economic Order Quantity (EOQ).

EOQ is the traditional approach to managing inventory. The goal is to maintain enough stock so that the production does not get interrupted. An optimal order size is calculated by minimizing the sum of ordering cost, carrying costs and stockout costs. In practice, there are three alternate approaches to inventory control: economic order quantity (EOQ); Just in time inventory (JIT); and materials requirements planning (MRP).

Whatever the inventory control system, the order processing typically begins with a purchase request followed by the generation of purchase order. The purchase requisition is triggered by the inventory control function or an employee noticing a shortage. Advanced inventory control systems automatically initiate purchase requests when quantity falls below the reorder point. Purchase Requisition is a paper that identifies who is requesting the goods; where they should be delivered; when they are needed; item numbers, descriptions, quantities, and prices; a suggested supplier; and the department number and account number to be charged. Right after this purchase requisition is authorized, the purchase order will be cupied, and will be issued to supplier along to whom it is needed.

The crucial decision is the selection of supplier. Price, quality, and dependability are key considerations. Once a supplier has been selected for a product, their identity should become part of the product inventory master file.

2. Receiving and Storing Goods

The receiving department accepts deliveries from suppliers. Two major responsibilities of the receiving department are deciding whether to accept
delivery (based on whether there is a valid purchase order) and verifying the quantity and quality of delivered goods. When goods arrive, a receiving clerk compares the purchase order number on the packing slip with the open PO file to verify the goods were ordered, counts the goods and examines them for damage before routing to warehouse or factory. Verifying the quantity of delivered goods is important so the company only pay for goods received and inventory records are updated accurately.

3. Approving and Paying Supplier Invoices

Approval of vendor invoices is done by the accounts payable department, which reports to the controller. The legal obligation to pay arises when goods are received; but most companies pay only after receiving and approving the invoice. This timing difference may necessitate adjusting entries at the end of a fiscal period. All the invoice billed should be verified, and the discount is counted.

The last step in expenditure cycle is cash disbursement. The payment of the invoices is done by cashier who reports to the treasurer. The cashier receives a voucher package, which consists of the vendor invoice and supporting documentation, such as purchase order and receiving report. This voucher package authorizes the issuance of a check to supplier.

2.4. Threats in Expenditure Cycle

There are many threats more likely occur in purchasing material process. The brief explanation below summarized based on three sub processes support the purchasing process.
1. Threats in Ordering Goods

Threat No. 1 – Stock Outs and /or Excess Inventory

Ordering material will add the stock in the warehouse. However, if the number of order is not appropriate, it will caused stock out or excess of inventory.

Control:
- Accurate inventory control and sales forecasting;
- Use of perpetual inventory method;
- Supplier performance reports;
- Recording of inventory changes in real time;
- Bar-coding inventory; and
- Periodic physical count.

Threat No. 2 – Ordering Unnecessary Items

It might be the company order unnecessary items because this items already reach the re-order point.

Control:
- Integrate database of various divisions and produce reports that link item descriptions to part numbers to allow consolidation of orders.

Threat No. 3 – Purchasing Goods at Inflated Price

The price of goods will increase or decrease along with the inflation rate. Ordering materials at inflated price will burden the production cost that will impact to the profit earned.

Control:
- Price list for frequently purchased items;
- Use of catalogs for low cost items;
- Solicitation of bids for high-cost and specialized products;
- Review of purchase orders;
- Budgetary controls and responsibility accounting; and
- Performance review.

Threat No. 4 – Purchasing goods of inferior quantity

In some cases, because of the company needs to press the cost, the purchasing division only focus on the price offered by suppliers without noticing the quality of products.

Control:

- Use approved supplier list
- Review of purchase orders
- Tracking of supplier performance;
- Purchasing accountability for rework and scrap

Threat No. 5 – Purchasing from Unauthorized Suppliers

Some irresponsible people might try to take advantage from her position in purchasing division. However, this action might give risks to the company.

Control:

- Review of purchase orders;
- Restriction of access to supplier list;
- Periodic review of supplier list; and
- Coordination with procurement card providers to restrict acceptance of cards.

Threat No. 6 – kickbacks

Kickback is giving gift to other parties in order to gain more benefits in the future.
Control:

- “No gift” policy for buyers;
- Employee training on gift handling;
- Job rotation and mandatory vacation;
- Audits of buyers;
- Review of conflict of interest statements; and
- Vendor audits.

2. Threats in Receiving and Storing Goods

The primary objectives of this process are to verify the receipt of ordered inventory and safeguard the inventory against loss or theft.

Threat No. 7 – receiving unordered goods

Control:

- Accept goods only when there is an approved purchase order

Threat No. 8 – errors in counting received goods

Control:

- Bar-coding of ordered goods;
- Quantities blanked out on receiving forms;
- Signature of receiving clerks;
- Bonuses of catching discrepancies; and
- Re-calculating of items by inventory control.

Threat No. 9 – theft of inventory

Control:
- Secure storage locations for inventory;
- Documentation of intracompany transfers;
- Periodic physical counts; and
- Segregation of duties.

3. Threats in Approving and Paying Vendor Invoices

The primary objectives of this process are to pay only for goods and services that were ordered and received and safeguard cash.

Threat No. 10 – Failure To Catch Invoice Errors

Control:
- Check mathematical accuracy;
- Verify procurement card charges;
- Adopt evaluate receipt settlement;
- Train staff on freight terminology;
- Use common carrier to take advantage of discounts

Threat No. 11 – Paying For Goods Not Received

Control:
- Compare invoice quantities to quantities reported by receiving and inventory control; and
- Use tight budgetary control

Threat No. 12 – Failure To Take Available Discounts

Control:
- File and track invoice by due date; and
- Prepare cash flow budget

Threat No. 13 – Paying The Same Invoice Twice

Control:
- Approve invoice only with complete voucher package;
- Pay only on original invoice;
- Cancel invoice once paid;
- Use internal audit to detect and recover overpayments;
- Control access to accounts payable master file

Threat No. 14 – Recording And Posting Errors To Account Payable

Control:
- Data entry and processing controls;
- Reconcile supplier balance with control account.

Threat No. 15 – Miss-appropriation of Cash and Checks

Control:
- Restrict access to cash, checks, and check signing machines;
- Uses sequentially numbered checks and reconcile;
- Segregate duties;
- Two signatures in checks over a certain limit;
- Restrict access to supplier list;
- Cancel all documents; and
- Have independent bank reconciliation;
CHAPTER III

DATA PROCESSING METHOD AND COMPANY CONDITIONS

3.1. Data Collecting and Processing

As mentioned in chapter I, this study is a qualitative research. By using a qualitative method, the writer does not rely on statistic or numbers. A qualitative method often refers to case studies where the collection of information can be received from few studying objects (Bryman and Bell, 2007). Furthermore, Bryman and Bell explain that a qualitative method emphasizes on understanding, interpretation observations in natural settings and closeness to data with a sort of insider view (Ghauri et al., 1995). According to Bryman and Bell (2007) qualitative research is an appropriate approach for research in business and management administration which is really suitable with this research.

In this research, the writer uses primary data to analyze the existing condition of accounting practice regarding internal control applied in PT. MTM. Baryman and Bell (2007) explain that primary data is information that the writer gathers on his own, for instance by using interviews, questionnaires and tests. To get this primary data, the writer conducts some interviewes, observation and analysis. Qualitative interviewing is generally much less structured (Bryman and Bell, 2007). Furthermore, qualitative interviewing is usually seen as being flexible; the interviewer adjusts and responds to the interviewee, there is a great interest in the respondents point of view, detailed and rich answers are desired, the interviewer is allowed to depart from any schedule that is being utilize, new questions may arise due to respondent’s replies and the order of questions may be revised (Bryman and Bell, 2007).
3.1.1. Inquiring

The writer has inquiry PT. MTM through interviews. Inquiry is a process aim to obtain written or oral information from object. In this case, the object is PT. MTM which is represented by the finance manager and his staff, including human resource manager and purchasing officer. The inquiry processes conducted several times:

1 | Time       | Source            |
---|------------|-------------------|
   | December 8, 2012 | Purchasing officer |
2 | Time       | Source            |
   | December 17, 2012 | Cashier |
3 | Time       | Source            |
   | January 18, 2012 | Human Resource Manager, Finance Manager and Accounting Officer |
4 | Time       | Source            |
   | January 26, 2013 | Accounting Officer |

3.1.2. Observing

Observation is the process of gathering data by seeing, smelling, hearing, tasting, and feeling to assess certain activities or the use of the sense to assess client activities. Through observation, the writer can obtain the information regarding the object being observe more clearer after has got explanation from the finance staff. The writer has a chance to see the budget application, notice how a purchase officer creating a PO for a material ordered, etc.

3.2. Company’s Profile

PT. MTM is a company founded in 2008 that is built from an experienced team to provide high quality services in the areas of:
- **IT and Telecommunication Network**

  PT. MTM is a network integrator service provider which focuses on delivering solutions and consulting of IT and telecommunications networks of legacy traditional network-based to future technologies Internet Protocol (IP)

- **Power System (Energy)**

  PT. MTM is also a electrical services provider that focus on providing solution and consultancy to clients in terms of electrical installation and renewable energy (green energy).

- **Fabrication**

  PT. MTM providers design and fabrication service of sheet metal with best quality. The design can be order for custom as customer’s desires.

Supported by a team who have international certification and extensive knowledge of telecommunications, power system (energy) and the fabrication, PT. MTM is a unique company that able to deliver products and services with high quality and cost effective and efficient.

### 3.3. Vision, Mission and Company’s Value

#### 3.3.1. Vision

Being a trusted company in the field of telecommunications and energy solutions provider in Indonesia with leading edge solutions, advance, integrated, synergy, professional and continuing customer satisfaction and stakeholders.
3.3.2. Mission

a. Providing solutions and services refers to the situation and conditions and technological developments in telecommunication and energy in Indonesia by promoting professionalism.

b. Always give the best results for the costumers, stakeholders and employees to always give priority to continuous improvement.

c. Develop the competence and expertise of employees on an ongoing basis.

3.3.3. Company’s Value

- High commitment
- Diligent
- Trusted
- Tough
- Intelligent
- Up to Date

3.4. Competence

3.4.1. Network Solution

PT. MTM Network solution has expert level expertise, professional and associate of IP devices from various vendors such as Cisco, Juniper and Alcatel. The network consultants, Solution architects and Network System Engineers have high flying hours in telecommunications, and have been involved in many projects at major telecommunications companies in Indonesia. Below, the list of certifications held by the team of MTM Network Solution:
- Cisco Certified Internetworking Expert (CCIE)
- Cisco Certified Internetworking Professional (CCIP)
- Cisco Certified Network Professional (CCNP)
- Cisco Certified Network Associates (CCNA)
- Juniper Network Certified Internetworking Specialist (JNCIE)

3.4.2. Power Solution

PT. MTM Power Solution has expertises in the field of electricity and renewable energy with experience in the electricity sector and telecommunications:

- SKA Madya dan Utama
- SIUJK dibidang Mekanikal dan Electrical
- Asosiasi Mikro Hidro Indonesia

With the support of more than 80 personnel and system cabling installation team with expertise and experience in the field, showed that the MTM has a strong commitment to clients in achieving project deadlines without undermining the quality of work that can be accounted for.

3.4.3. Fabrication

PT. MTM Fabrication has international qualified production machines and skilled manpower in the field of manufacture so PT. MTM ready to provide the best service to gain customer satisfaction. PT. MTM also serves special design for sheet metal fabrication.
3.5. Organization Structure

Figure 3.1: Organizational Structure of PT. MTM

Source: PT. MTM

3.6. Job Description of PT. MTM

PT. MTM does not give the writer the copy of the existing job description because the human resource manager himself currently tidies up organization structure. He realizes that the old organization structure is not reflect the current structure in the company that is why he would up date it. Furthermore about current job description, he explained that the staff perform their job based on the instruction from the manager. The manager fully controls their subordinates, from what they have to do, and the mechanism in working under his guidance in his division.
3.7. Accounting Roles in PT. MTM

Currently, in Finance Division of PT MTM, there are six active roles. They are finance director, finance manager, cost control officer, tax officer, accounting officer, and a cashier. Based on the explanation from a staff of accounting division, their roles are briefly described as follow:

a. Finance director

The finance director is a key member of the board of directors fulfilling a crucial role. In this research the role of finance director is to review purchase requisition made by warehouse and to authorize every transfer made by the company.

b. Finance manager

In PT. MTM, the roles of a financial managers vary significantly. He currently leads the finance division and directly leads all of the subordinates to work under his supervision. A finance manager reviews all financial activities before authorizes them, ensure that all transactions contain sufficient information needed, not exceed the budget and authorized by the authorized person. Beside that, the financial manager also checks and oversees all the works of his subordinates or officers.

c. Cost control officer

The roles of cost control is to input the budget set by the project managers. Furthermore, she will review all transactions made by the projects. Maintaining that those transactions are still within the budget.

d. Tax officer

A tax officer is responsible for the day to day administration of various tax. Record all taxes of the transactions.
e. Accounting officer

An accounting officer is responsible for checking all payment transaction that has been done by the cashier. Those transaction is posted to the journal. She also is the one who is in charge in filing the vouchers.

f. Cashier

In PT. MTM, a cashier is responsible for creating a transfer plan to be signed by the board of director. She also responsible to creating transfer schedule of the payment owned by PT. MTM, when the due date comes, she also the one who is in charge to pay or transfer the payment.

3.8. Accounting Practice in PT. MTM

PT. MTM has two general activities, first, administrative activities which is conducted in the offices, and the second is field activities. The office operates from Monday to Sunday from 8 a.m to 5 p.m. While field-workers who work out of the office have different work-hour, depend on the project agreement and the instruction of the project manager. Administrative activities are the primary management and support programs for PT. MTM. These include the function of budget and accounting; human resource; procurement; and office support. Field activities are all activities out of office including installation, surveys and etc in which the employers who are mostly engineers work for the clients.

Based on the information from the finance manager, PT. MTM currently use manual system for its accounting activities. But since they operate based on the budget of projects handle, they develop an application to maintain the operation of the company. This application will help the company to maintain the revenue and expenditure.
The project managers will create a project proposal. This proposal will inform what kind of activities, expenditures estimation, length of the project including the profit set to the financial manager. In short, this proposal informs brief explanation of the project, the budget set and the profit earned. Financial manager will review this project and if it is declined, the manager will returned the proposal to the project manager to be revised but if it is approved, it will be proceed to the finance director. Finance director will analyze the proposal, and authorize it. All the information in this authorized proposal will be input to the system. This proposal is called Rancangan Anggaran Belanja (RAB) later on.

Especially for the expenditure, all expenditure related to the project, will be checked and reviewed to the RAB. The objective of this activity is to maintain whether the expenditure is already exceed the items budget, exceed the project budget, or exceed the annual budget. The system will show a warning and the management will respond it quickly.

In this research, the researcher limit the analysis only two kinds of expenses: travel expense and purchasing materials. Briefly, travel expense is divided into two kind of processes, first one is by reimbursement process and the second one is by cash in advance process. The basic differences of these two processes is the way the applicant claim the expense. In reimbursement process, the applicant will claim the expense after he has finished the travels and reported the evidences while in cash in advance process, the applicant will ask the cash advance after get approval from the authorized person and the finance manager.

In purchasing, PT. MTM divides the materials into two types, warehouse materials and non-warehouse materials. Warehouse materials are all materials stocked in the warehouse. These materials are used to service the clients and they are ordered by purchasing division while non-warehouse materials are the materials used for the office
supports, fixed assets owned by the firm, etc in which the orders are performed by General Administration. In this research, the writer analyzes the purchasing of warehouse materials.

Both travel expense and purchasing materials are shown by the flowchart on the next page.
Figure 3. 2: Travel Expense using Reimbursement Process

Source: PT. MTM
Figure 3.3: Travel Expense Using Cash Advance Process

Source: PT. MTM
Figure 3. 4: Purchasing Material Process

Source: PT. MTM
3.9. Internal Control in PT. MTM

According to COSO, there are five components of internal control should applied in a company. Here, the summary of internal control components in PT. MTM that was earned from interviewing conducted on Thursday, January 24, 2013 at 10.45 am in PT. MTM office. The source are HR manager, Finance manager and Accountant officer. HR manager and Finance Manager are being ask in the middle of their tight agenda. They tried to sneak out to be interviewed. Those three people were asked in a row. Here is the summary of the conversation:

<table>
<thead>
<tr>
<th>Writer</th>
<th>Does your management philosophy communicate high expectations regarding integrity and ethical values? Are your directives and actions consistent with these expectations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Manager</td>
<td>Management has good values; high commitment, diligent, trusted, tough, intelligent and up to date and we really hope all employees here have those values in their characters. Luckily, the people working here are basicaly good people, they have high commitment, diligent and trusted. The working environment instantly creating those values as a must. So far, they shows those values at work.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Writer</th>
<th>Now, talking about organizational structure, Is the current organizational structure clearly defined?</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Manager</td>
<td>Well, the current organizational structure is the one that we made at the first time we build up this firm. This firm is a growing company, and there are some changing including the stucture. It currently does not show the real positions in this firm. Some positions are not mentioned in it. So what I am</td>
</tr>
</tbody>
</table>
currently doing is to updating all the position to the organizational structure.

<table>
<thead>
<tr>
<th>Writer</th>
<th>Are job descriptions well defined? Do they include all major expectations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR Manager</td>
<td>So far, all employees get their job descriptions directly from their manager. The manager ask them what to do and it becomes they day-to-day job. They probably has weekly report or other periodic reports, but all of them are directly delegated from the managers. Unfortunatelly, documentation of those job descriptions are still on progress. It must be finish along with finishing the organizational structure.</td>
</tr>
<tr>
<td>Writer</td>
<td>Do they, I mean the job given to the employees by the manager satisfying the major expectation?</td>
</tr>
<tr>
<td>HR Manager</td>
<td>The managers are the one who cristal-clear understand what division need. And we trust their ability and capability in lead the team. Of course as long as there is no problem appear, we satisfy with his work leading it.</td>
</tr>
<tr>
<td>Writer</td>
<td>Do you reprimand inappropriate behavior in a consistent manner regardless of the individual's position or status? Is this done in a timely and direct manner?</td>
</tr>
<tr>
<td>HR Manager</td>
<td>Any kind of inappropriate behavior must be reprimanded. And it should be timely because we believe it is not good to keep something bad too long. Since all employees here are close to each other, it is not hard for us to give advices to each other.</td>
</tr>
<tr>
<td>Writer</td>
<td>Do you provide adequate training for all categories of personnel?</td>
</tr>
</tbody>
</table>
| HR Manager | Do you mean specific training for specific people? No, we do
<table>
<thead>
<tr>
<th>Accountant</th>
<th>not provide any specialized training, we only facilitate to have general training annually like a leadership training. But it does not mean the firm do not allow the worker to join a training outside. If the employees ask for one that fits to their position which means will increase the quality of their job done, then the firm will approve their proposal.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Writer</td>
<td>Have risks or obstacles in doing the job been identified?</td>
</tr>
<tr>
<td>HR Manager</td>
<td>It is a manager responsibility to identifying the risks or obstacles exist in the job. And it also his responsibility to explain it to his subordinate along with the explanation how to overcome all of them.</td>
</tr>
<tr>
<td>Accountant</td>
<td>Especially our manager, he always explains the risk might happen in our job. He also tells us, his subordinates, what kind of obstacles that might be faced by us. In the weekly meeting of finance division, he always remind us the pending work and he questions us why it happend. And normally he will elaborate the risk might happen if we keep pending the work. Besides, everytime we make mistake, he will tell us the risk of the mistakes for the firm and warn us to be more careful. He patiently guides us how to overcome all of them.</td>
</tr>
<tr>
<td>Writer</td>
<td>Do you and your employees evaluate performance with regard to established objectives? Are these evaluations based on previously agreed upon standards?</td>
</tr>
<tr>
<td>HR Manager</td>
<td>Like I have explained before, each manager will directly evaluate their subordinates. Probably the manager can clearly explain it to you.</td>
</tr>
</tbody>
</table>
Finance Manager: Especially in finance division, the manager is the one who is responsible on evaluating the finance officers. What I do as a manager is asking them to write a daily report about what they have to do in a day and which ones are accomplished. It must be including the explanation or the report why they could not accomplished their own agenda. There is no standard agreed. What I meant here was there is no standard documented for it. However I always consult and talk it over with my superior, the finance director before I applied any policy in finance division. In the other side, they (the subordinates) just took it from granted and do whatever I as their manager ask as long as it is for the sake of the company. Unless they feel something wrong, they are freely to give recommendation and I appreciate every suggestion. About the application of the suggestion should be thought and talked over to the director to get approval.

Writer: Are you currently operating within budget? Did you complete last year within budget?

Finance Manager: We have a cost control officers. She helps us to maintain whether the transactions being proposed is still within budget or not. If she found that the transaction is to big that will cause the excess, she will return it and ask for revision to get lower cost. Besides, like what I have told you, we run the operation based on the customed budget designed for specific project we have. Each transaction will be identified based on the project. So, eventhough currently we have three projects in the same time, the transaction is identified only for one project. So we can
easily maintain the expenditure of a project. Furthermore, we have an application to record the budget for each project we handled. We put the agreed budget to the system, we code it. Every single transaction relating to a project will have project code information attached. And it will recorded to the specific budget project based on this project code. The best part, this application will warn us if the transaction cause an over budget. It will tell whether the excess is over the project budget, or the annual budget. This system is customized for this purpose. It really helps us to maintain that all transaction is within budget.

The question about whether the previous period we work within budget, yes, with this method we successfully increase the number of projects handle and keep all expenses within budget.

**Writer**: Do you or your key managers review and approve all financial transactions?

**Accountant**: All financial transactions must be reviewed by the manager. If it is authorized, then it can be proceed, but if the manager thought that it could not be proceed then he will explained why it will be returned and the applicant will complete the miss, so it will be sufficient enough to be proceed. The manager always forced all of his subordinates to fulfill his expectation.

**Writer**: Are employees encouraged to provide recommendations for improvement? Are they recognized or rewarded for suggestions?

**Accountant**: The employees are always given time to deliver suggestion that will improve the performance of the firm. Like it has been
explained before, all suggestion is appreciated.

<table>
<thead>
<tr>
<th>Writer</th>
<th>Do you track the location and use of all equipment? Is missing equipment investigated?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>All the assets are tracked. So far, there is no missing equipment happen here. However, if it happen, someone should be questioned and should responsible for it.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Writer</th>
<th>Are client complaints taken seriously, investigated, and acted upon?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>Until this time, there is no complaints from the client. However if it happens, it must me taken seriously by the firm and fixed as soon as possible.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Writer</th>
<th>Do your manager question financial and management reports that appear unusual or inconsistent?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>All unusual transaction will be questioned. Like I have explained to you before that my manager always forces his subordinates to work by fulfilling his expectation.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Writer</th>
<th>Do you spot-check transactions, records, and reconciliations to ensure they meet your expectations?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>Yes, sometimes our manager do spot-check transactions or records to ensure that everything is alright. It is needed to prevent any fraud exist.</td>
</tr>
</tbody>
</table>
CHAPTER IV

ANALYSIS AND EVALUATION

This chapter will be focused on processing primary data earned from PT. MTM as the object of the research. The discussions are concerned on two kinds of expenditures: travel expense and purchasing materials as mentioned in the research limitation in chapter I. In this section, the writer will elaborate about current situation of the company and the existing process of both expenses that have been described in chapter III. The finding will be analyzed to evaluate the risks might happen in the current situation and process that will effect the performance of the company. The writer also gives some recommendation to minimize or even overcome the risks.

4.1. Evaluation of COSO Frameworks in PT. MTM

In this section, the writer will discuss the finding of internal control frameworks by COSO in PT. MTM. Based on COSO framework which is widely used and accepted internal control framework in today growing corporate governance initiatives. The concept of a system of controls is reflected in how organizational controls collectively manage risks.

- Preventive controls protect against risks before they happen. Examples include employees screening, documented approvals, segregation of duties, restricting access to automated systems and data, and physically securing cash, equipment, etc.
- Detective control identify risk events or incidents soon after they occur. Examples include supervisory review of transactions, timely reconciliations, review of
exception reports, segregation of duties, and comparison of actual to expected results.

- Certain controls deter risks of non-compliance and misconduct. Examples include incentives, expanded, communication, required training, consistently holding personnel accountable and disciplining.

The benefit, acceptable level of risk and contribution within the overall control framework are important in selecting specific controls. An effective control framework manages risks and supports planning, compliance and informed decision that help management achieve its objectives.

Based on the interview and observation, the internal control framework by COSO in PT. MTM can be summarized as follows:

**4.1.1. Evaluation of Environment Control**

Environment control is the organizational culture that influences ethical behaviour, work place integrity, and risk and compliance consciousness of its personnel. It concludes organizational; structure; formal rules and procedures; delegation of authority and responsibility; human resource management including commitment to personnel competency.

<table>
<thead>
<tr>
<th><strong>Table 4.1: Environment Control Based on COSO Framework</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Control</strong></td>
</tr>
<tr>
<td>Management philosophy communicate high expectations regarding integrity and ethical values</td>
</tr>
<tr>
<td>The current organizational structure is clearly defined</td>
</tr>
<tr>
<td>Job descriptions are well defined and satisfied all major expectations</td>
</tr>
<tr>
<td>Personnel have the proper education background, knowledge and skills required for their positions</td>
</tr>
<tr>
<td>Reprimand inappropriate behavior in a consistent manner regardless of the individual's position or status and done in a timely and in a direct maner.</td>
</tr>
<tr>
<td>Provide adequate training for all categories of personnel</td>
</tr>
</tbody>
</table>
From the finding above, the current organizational structure does not show all positions exist in the company. The Human Resource Manager realizes that the company has not updated the organizational structure since 2008. Currently the HR manager still works on it to up date the organization structure. Another point which has no answer is about educational background of most staff in the company. The HR manager acknowledges that it will cause risk. However the supervisory and managerial level above are already have suitable educational background with their current position. About the staffs which has different educational background with their current position, they already get used to with their task because they have joined in the company for more than a year.

4.1.2. Evaluation of Risk Assessment

Risk assessment is the process of identifying risk events or incidents that threaten the organization’s achievement of objectives, mapping activities that mitigate risks, and developing risk management responses that are aligned with the entity’s tolerance to risks.
<table>
<thead>
<tr>
<th>Key Control</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division objectives have been established</td>
<td></td>
<td>✓</td>
<td></td>
<td>The company size is small. No documentation about it. All objectives of the division is directly aimed to the sake of the company growth.</td>
</tr>
<tr>
<td>Activity-level objectives also have been established</td>
<td></td>
<td>✓</td>
<td></td>
<td>The company size is small. No documentation about it. All functions or activities are compliance with managers order.</td>
</tr>
<tr>
<td>Categorizing risks into some level</td>
<td></td>
<td>✓</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Risks or obstacles in doing the job have been identified</td>
<td></td>
<td>✓</td>
<td></td>
<td>In weekly meeting, the manager always reminds his subordinates about the risk of some pending works and the risk of previous mistakes.</td>
</tr>
<tr>
<td>Specific assignments and activities necessary to implement the strategies have been identified and communicated to the responsible employees</td>
<td></td>
<td>✓</td>
<td></td>
<td>All specific assignment and activities are communicated, and maintained directly by the finance manager.</td>
</tr>
</tbody>
</table>

*Source: Interview process to PT. MTM*
As the finding above, the size of company become the main factor of unimplemented key controls. Since the company is a small company, the organization in it keeps the risk assessment simply based on the consideration of finance manager. Only finance manager and higher levels who understand the objectives that they have to achieve. The manager only guides their subordinates to do what they have to do and ensure that all the jobs done by them are fulfill their expectation. Every risk that might appear not being mapped or even being categorized for instance into tolerable and untorerable. The risks appear are simply faced by strategics ways dicrectly ordered by the manager. However, since this company has rapid growth, the finance manager including the organizational entities should consider to have more advance risks assessment to prevent the company from risks that will cause loss by ensuring that all key controls above fulfilled.

It is also applied to the expenditure process. There is no risk categorized and in purpose identified by the organization. In fact, there are many risks come from external parties such as risk from suppliers, technologies change, and regulation or risks come from internal parties such as employee turnover, morale and commitment to objectives, performance of information systems, etc should be adequate considered.

4.1.3. Evaluation of Control Activities

Control activities are those activities, like authorizations, analytical reviews, verifications reviews of operating performance, etc., established to help see that compliance requirements and risk responses selected by management are effectively carried out.
In brief, there are 5 types of control activities in practice that should be highlighted by the organization:

a. Adequate separation of duties;
b. Proper authorization and activities;
c. Adequate documents and records;
d. Physical control over assets and records;
e. Independent checks on performance

Table 4.3: Control Activities for Travel Expense

Based on COSO Framework

<table>
<thead>
<tr>
<th>Principal</th>
<th>Activities</th>
<th>(Y)/(N)/(N/A)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction Authorization</td>
<td>- The request is authorized by the supervisory level of the applicant.</td>
<td>Y</td>
<td>In cash in advance procedure, the one who reviews the request to RAB is finance manager</td>
</tr>
<tr>
<td></td>
<td>- The request is authorized by the finance manager</td>
<td>Y</td>
<td>All transfer more than five hundred thousand</td>
</tr>
<tr>
<td></td>
<td>- The request is reviewed to RAB</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- The transfer release is authorized</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>- The one who authorizes the request is free from cash disbursement activity</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>----------------------</td>
<td>-----------------------------------------------------------------</td>
<td>----</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>- The one who authorizes the request is free from journal entries post activity</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>- The one who initiates the transfer is free from involving in realising the transfer</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>- The one who initiates the transfer is free from authorizing the request</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>- The one who authorizes the transfer is free from authorizing the request</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>- The one who authorizes the transfer is free from releasing the transfer</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Access Controls</td>
<td>- Restricted access to bank account</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>-------------------</td>
<td>---------------------</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Independent Verification</td>
<td>- The reimbursement request/cash advance of travel cost is compared to the authorized assignment letters from his project manager.</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>- The expense of the travel cost reported in the reimbursement request compared to the bills attached</td>
<td>N/A</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>- The cash advance request must be equipped with: Detail cash advance, RAB, detail of operational budget, variance calculation before-and-after adding cash advance to the operational allocation</td>
<td>Y</td>
<td>N/A</td>
</tr>
</tbody>
</table>
Based on the evaluation above, the travel expense procedures show that it is already fulfill five component of control activities. PT. MTM in expenditure procedure could maintain the activities authorization well. Begin from the request to the transfer release, the supervisory level keep an eye on the transaction. The manager has set the job description for his subordinate well in which he could consider the segregation of duty. The objective of segregation of duty is to prevent one person from having access to assets and responsibility for maintaining the accountability or authorizing transactions affectig those assets. This control reduces the risk that anyone will be able to carry out and conceal errors or fraud in the normal course of their duties without being detected.

Internal verification allows the people to check whether the information of each documents are matched or not by comparing the information stated in supporting documents or the information in supporting evidence. It might help the employers to check, reconcile and verify the truth of a transaction.

Since it is about reimbursement travel expense and cash advance, the access control is focused on the bank access. Access to bank account information creates opportunity to fraudster to create phony checks,
fictitious wire transfer from computers anywhere. In PT. MTM the cashier is the one who has access to the bank account under the supervision of the BOD. Accounting record of PT. MTM can be categorized poor compare to other four components. No document copy or no duplicate documents for a transaction can result deadly because if it is spoiled, or missing, or any kinds happen caused the only one document no longer exists, it will put the company in the danger. The company might loose an evidence because has no backups or copies.

Table 4.4: Control Activities for Purchasing Based on COSO Framework

<table>
<thead>
<tr>
<th>Principal</th>
<th>Activities</th>
<th>(Y)/(N)/(N/A)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transaction</td>
<td>Authorization</td>
<td>(Y)/(N)/(N/A)</td>
<td>Remarks</td>
</tr>
<tr>
<td>Authorization</td>
<td>PR is authorized by appropriate person</td>
<td>N</td>
<td>PR made by warehouse directly authorized to the BOD</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>PO made should be approved by authorized personnel other than employer who</td>
<td>N</td>
<td>PO made directly sent to the supplier without any approval from supervisory level.</td>
</tr>
<tr>
<td></td>
<td>involves in requesting the goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Checking the purchasing which will be initiated is still within budget</td>
<td>N</td>
<td>Budget reviews are made after the transaction is made</td>
</tr>
<tr>
<td></td>
<td>allocation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Transfer schedule is checked and reviewed through the</td>
<td>Y</td>
<td>Perform by finance manager.</td>
</tr>
<tr>
<td>Segregation of Duties</td>
<td>- Clerk of inventory ledger separated from the one who responsible in checking physical goods and receiving goods</td>
<td>N</td>
<td>There is only one person placed in warehouse who performs checking/updating inventory ledger, and receiving goods</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------------------------------------------------------------------------</td>
<td>---</td>
<td>--------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td></td>
<td>- Employers involved in receiving goods perform modify vendor master file</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Employers involved in receiving goods separated from performing in record invoice in the cash disbursement process</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Invoice from supplier is received by the person who is free from involving in purchasing division</td>
<td>N</td>
<td>It is received by purchasing division (involving in</td>
</tr>
<tr>
<td><strong>Access Controls</strong></td>
<td><strong>Accounting Records</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------</td>
<td>------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>requested, ordering, payment, or journal entries posting</td>
<td>- Using duplicate documents which enable the key function who involve in the activities file for their own reconciliation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Accessing inventory ledger is restricted to the one who is responsible in receiving and accessing physical goods</td>
<td>- Supplier and price list should be restricted from the one who request the goods and the one who involves in cash disbursement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Creating PO based on the PR made by the warehouse</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Creating a receiving report</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Action</td>
<td>Detailed Description</td>
<td>Status</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>----------------------</td>
<td>--------</td>
<td></td>
</tr>
<tr>
<td>-</td>
<td>everytime receive goods from suppliers.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| -  | Updating inventory ledger after receiving the goods | Y  
| -  | Reconciling the PR, PO, DO, RR and Invoice to ensure that the information is match | Y  
| -  | Creating journal voucher from the document supporting of the transaction | Y  

**Independent Verification**

-  | DO, invoice, RR and PO used for matching the information regarding purchasing materials | N  

Source: Analyzation on expenditure procedures through control activities (performed by the writer)

In the purchasing procedures, there are miss authorization applied. Based on the research, the writer found that procedures of giving PR to be authorized by BOD is not a suitable procedure because what it should be done is checking whether the PR proposed is accepted (within the budget) or not, and the decision to give it to BOD will not achieve this simple goal. Another transaction authorization appears. The purchasing department do not ask for
authorizing the PO, the PO directly sent to the supplier without any authorization from supervisory level. Furthermore, the purchasing checks the PO whether it is within the budget the transaction is already made.

Warehouse has its own problems in which only one personnel assigned there. He is the one who performs all activities from updating the ledger, creating PR, physical checking the stocks and receiving goods while it violences not only the segregation of duties but also access controls. For the documentation, some documents are intentionally do not provided. Warehouse do not creating receiving report everytime receive the goods from suppliers that risks the company by not preventing of fraud exists in the warehouse.

4.1.4. Evaluation of Information and Communication

Information and communication are critical in clarifying expectations and providing the right information to the right people at the right time for them to effectively carry out their responsibilities. Useful information has relevant content and is timely, current, accurate and accessible.

<table>
<thead>
<tr>
<th>Table 4.5: Information and Communication Based on COSO Framework</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Key Control</strong></td>
</tr>
<tr>
<td>Key information about organization's operations is identified and regularly reported</td>
</tr>
<tr>
<td>Identify emerging information needs</td>
</tr>
</tbody>
</table>
PT. MTM has good information and communication control. Because all key functions of the finance division is centralized to the finance manager, an active role manager gives good performance in managing its subordinate. All information needed are informed in regular meetings and all tasks and responsibilities are communicated personally to the personnel. Furthermore, to provide accurate decision making, he plans to use integrated information using information technology. This advance technology must be give better result than manual one.

| Plans for the effective use of information technology are developed and linked with strategic initiatives? | ✓ | Currently, the company about to use integrated inventory application that help them to maintain the materials stocked in the warehouse. |
| Training, meetings, seminars, on-the-job supervision sufficient to communicate to the employees their duty and responsibility | ✓ | The duty and the responsibility are directly informed and supervised by the finance manager. |
| Taking seriously on customer complaint | ✓ | The complaint directly fixed by the company. |

*Source: Interview process to PT. MTM*
4.1.5. Evaluation of Monitoring

Monitoring verifies that controls are working as intended and identifies anomalies. Monitoring is done at various organizational levels to include: check points by personnel performing daily tasks; reviews of transactions or events by supervisors, spot-checks by objective individuals; and various reviews by peers.

Table 4.6: Monitoring Based on COSO Framework

<table>
<thead>
<tr>
<th>Key Control</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Periodically evaluating effectiveness of policies and procedures</td>
<td>☑</td>
<td></td>
<td></td>
<td>The evaluation is accidental. If it is no longer applicable, then the higher level will upgrade it</td>
</tr>
<tr>
<td>Randomly compare assets in hand (cash, inventories, etc) to recorded amount</td>
<td>☑</td>
<td></td>
<td></td>
<td>Investigate discrepancies exist</td>
</tr>
<tr>
<td>Spot-checking transactions and records to ensure they meet the standard or expectation</td>
<td>☑</td>
<td></td>
<td></td>
<td>Manager conduct unplanned check toward petty cash to check the existing cash on hand and the petty cash report.</td>
</tr>
<tr>
<td>Questioning financial and management reports that appear unusual or inconsistent</td>
<td>☑</td>
<td></td>
<td></td>
<td>Manager usually investigate the unusual transactions</td>
</tr>
<tr>
<td>Encouraging feedback from employees whether controls operate effectively</td>
<td>☑</td>
<td></td>
<td></td>
<td>Manager open wide the chances to his subordinate to give any suggestion for effective operation.</td>
</tr>
</tbody>
</table>
This monitor process shows that the company only evaluate the policies and procedures when they are no longer cover the risks. However the evaluation regarding policies and procedures should be evaluated regularly along with the growth of the company itself. Even the policies and procedures still works for past years, it is should be evaluate so it could prevent the company from any damage in the future.

4.2. Analytical of Expenditure Cycle

This section will discusses the analytical of expenditure cycle from accounting information system. As mention in the beginning of the chapter, due to limitation of the research, here only travel expense and purchasing materials are observed by the writer.

4.2.1. Analytical of Travel Expenses

Every team that has project have to see their clients whether for observing, surveying, installing power system, etc. The travel expense will cover not only for transportation expense, but also for meals and hotel bills.

As stated briefly in chapter III, there are two processes of travel expense, reimbursement process and cash in advance process. For reimbursement process, the applicant will finish the travel and reporting the travel expenses along with the bills and assignment letter stated that the applicant was assigned to a client. This claim should be reported not later than five days after accomplishing the travel. It need to be signed by the project manager. After reviewing all those documents and finding that all those documents match, the applicant will give it to the accounting division. Cost
control division will review it to RAB, and then proceed it to the tax division to be checked and record tax. Then, the documents will be transferred to the manager to be reviewed. Here is the flow of document from the applicant until being reviewed by financial manager. The reviewing process is shown by flowchart below.

**Figure 4.1: Reviewing Document of Reimbursement Process Flow Chart**

```
 applicant  ➔  project manager  ➔  cost control  ➔  tax  ➔  manager

<table>
<thead>
<tr>
<th>Bills</th>
<th>Assignment Letter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bills</td>
<td>Assignment Letter</td>
</tr>
<tr>
<td>Review and signed</td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>Assignment Letter</td>
</tr>
<tr>
<td>Reviewed to RAB</td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>Assignment Letter</td>
</tr>
<tr>
<td>Check and Record tax</td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>Assignment Letter</td>
</tr>
<tr>
<td>Checked</td>
<td></td>
</tr>
<tr>
<td>Bills</td>
<td>Assignment Letter</td>
</tr>
</tbody>
</table>
```

*Source: PT. MTM*

The document that has been reviewed will be given to the custodian. The custodian will prepare the payment by creating a transfer plan. This transfer plan must be authorized by BOD. After BOD has authorized it, cashier will transfer the money. The transfer receipt and the document will be sent to accounting division to be journal. the accountant will post a journal:

<table>
<thead>
<tr>
<th>Travel expense</th>
<th>XXX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>XXX</td>
</tr>
</tbody>
</table>

Accounting division is also responsible for filing the documents. The flow chart of this activity is shown by the figure below.
The second process is using cash advance. The applicant should prepare some document: Cash Advance Request, Detail of Cash Advance, Rancangan Anggaran Biaya (RAB), Operasional Budget Used, Detail of Operational Budget, and Variance Calculation of Budget Set and Operational Cost. However, when the applicant ask for the CAR form to the custodian, the custodian will ask to the applicant whether the applicant still has unreported cash advance for more than five hundred thousand. If yes, the applicant cannot prepare a new cash advance and should prepare it first. Besides, if the applicant is found still have outstanding cash advance, it should be returned and reported right away.

All those documents will be reviewed by project manager first. After those document signed by project manager, the applicant will send
them to cost control. The cost control will review it based on the RAB set for the project to maintain the usage of the budget. The flow chart of this activity is shown by the figure below.

Figure 4.3: Reviewing Document of Cash Advance Process Flow Chart

Source: PT. MTM

After the document is being reviewed, it will be proceed to the custodian. The custodian will creating the transfer plan based on those document that have been reviewed by the manager. The transfer plan will be sent to BOD to be signed or authorized. This authorized transfer plan will be used for the base of transfer amount by custodian. After transferring, the custodian will get the transfer receipt. This transfer receipt and the documents will be sent to the accounting. Finally, the accounting officer will file them but before it, she will use the
information in it to record and update the cash sub ledger. She will post a journal:

\[
\begin{align*}
\text{Prepaid travel expense} & \quad XXX \\
\text{Cash in advance} & \quad XXX
\end{align*}
\]

Figure 4.4: Cash Disbursement of Cash Advance Process Flow Chart

Source: PT. MTM

4.2.2. Analytical of Purchasing Materials

There are two activities which trigger ordering materials. First is when project manager asking for stock which is not sufficient or not available in the warehouse and the second is when the stock in warehouse reaches re-order point.

When project manager send bill of quantity (BOQ) to warehouse, warehouse will directly check the stocks stated in BOQ. If the number of stock needed is exceed the number of stock available in the warehouse, warehouse will
directly creating a purchase requisition. However, in this research, the writer will not analyze that condition. She only analyzes the second condition, everytime the warehouse find that the stocks have reached the re-order point from the inventory ledger, the warehouse will create a PR. This purchase requisition has information of name of the stocks, the number of stocks needs, available suppliers and the price offers. This PR will be sent to BOD to get authorization.

The authorization PR will be sent to purchasing division, the purchasing will use the information of PR to create PO. That PO will be made 2 copies, one will be sent to the supplier and the other will be filed by the purchasing division. The flow chart of this activity is shown by the figure 4.5 below.

**Figure 4.5: Flow Chart of Order Process**

Source: PT. MTM
When receiving materials, the supplier send delivery order (DO) along with the materials to warehouse. The DO received will be filed by the warehouse to be used for updating the inventory ledger. The supplier also will send the copy of DO and invoice to the office in which, those documents will be taken by purchasing division. The flow chart of this process is shown by figure below.

**Figure 4.6: Flow Chart of Receiving Materials**

![Flow Chart of Receiving Materials](image)

*Source: PT. MTM*

Purchasing will create a voucher based on those documents and send them all to the accounting division to be review. The accounting division will post the journals and and update the account payable sub ledger. When the accountant receiving a voucher (a DO and an invoice), she post a journal in account payable ledger as:
Inventory XXX

Account Payable XXX

The documents will be proceeded to tax division to be checked the tax components and recorded the tax of the transactions. After that, the cashier will take over the documents to create a transfer schedule. Transfer schedule along with the vouchers will be reviewed by finance manager by checking the agreements. After checked by the manager, the documents will be retuned to the cashier and the cashier prepares the transfer schedule for the BOD to get authorization transfers. This authorized transfer schedules will update the transfer schedule data and when the due date comes, the cashier will transfer the payment. The transfer slips and the vouchers will be sent to accounting division to be used for updating the A/P sub ledger. After that, those documents will be filed in the accounting division. The accountant will post in the A/P subledger:

Account Payable XXX

Bank XXX
4.3. Evaluation and Recommendation of Problems Identified

4.3.1. Evaluation of Existing Procedures

Base on the explanation above, here is the summary of problem identified and the risks more likely occurred.

Table 4.7: Problem Identified of Existing Expenditure Process

<table>
<thead>
<tr>
<th>Problems Identified</th>
<th>Risks</th>
<th>Compensating Control</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash advance request initially reviewed by finance manager</td>
<td>- Not effective</td>
<td>- Cash advance request is reviewed directly by budget control</td>
</tr>
</tbody>
</table>
because she could directly check it to budget application. If it is appropriate and still within the budget, it is proceed to finance manager to be authorized.

<table>
<thead>
<tr>
<th>Purchase Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PR created by warehouse directly reviewed and authorized by BOD</strong></td>
</tr>
<tr>
<td>- BOD authorizing a purchasing of a not truely needed item</td>
</tr>
<tr>
<td>- BOD does not know the current detail budget used by the company</td>
</tr>
<tr>
<td>- BOD does not know that it is no money allotted for it.</td>
</tr>
<tr>
<td>- PR is reviewed by cost control. Because cost control have information of materials needed for each project. Cost control has more accurate decision in deciding the priority items to be ordered than BOD.</td>
</tr>
<tr>
<td><strong>Warehouse has access to vendor master file</strong></td>
</tr>
<tr>
<td>- Fraud exist</td>
</tr>
<tr>
<td>- The employees who receive and sign off the goods receive should be separated from involving purchasing process</td>
</tr>
</tbody>
</table>
The decision of choosing the suppliers for the items ordered is given to purchasing division. It is because purchasing division has trusted supplier list and also has responsibility to bargain with the supplier in order to get best price offer or get discount.

<table>
<thead>
<tr>
<th>No blind copy of PO sent to warehouse</th>
<th>Without knowing any information what goods will be arrived to warehouse, it risk the warehouse for accepting wrong order that delivered to the warehouse.</th>
<th>Purchasing division send a copy of blind PO to warehouse so warehouse aware that they will receive goods.</th>
</tr>
</thead>
</table>
| Only one person placed in warehouse  | Miss calculation  
- Fraud exist                                                                                                                   | Employees who have access to physical goods must be separated from inventory                                                                                 |
| No receiving report made by Warehouse | - Receive wrong number of materials ordered  
- Receiving defect products | - Warehouse must creating a receiving report (RR) everytime received goods from suppliers. In creating an RR, warehouse needs to inspect the goods, checking the condition and counting the number of goods received. This RR is copied then sent to purchasing and accounting division as the evidence that it is true the products have been received. This RR will be used for reconciling of PO, DO and the invoice of the goods ordered. |
| No duplicate document filed | - Document missing | - Each division filed |
in each division

necessary document related to what they have done and the document to reconcile it. It will prevent a document from missing.

PO is directly sent to supplier without reviewed and authorized by supervisory level

- Get loss because no consideration from higher level.
- Fraud exist

- After initiating a PO, Purchasing send it to supervisory level (i.e., finance manager) to be reviewed and authorized. After that, the PO is sent to supplier.

Source: Problem identifications from the findings and literatures review performed by the writer

4.3.2. Recommendation and Proposed Procedures

Based on the problems identified by the writer and the risks more likely happen in this current procedures, the writer proposed new procedures in order to cover the current risks exists. However, travel expense which using reimbursement process has shown that all process has been prevent the company from the risks. In short, the writer only gives recommendation and proposed new procedures to travel expense using cash advance process and the purchasing material process.
1. Recommendation for Travel Expense

There are two types of processes to creating a travel expense. The writer provides recommendation for both reimbursement procedure and cash in advance procedure respectively.

a. Reimbursement Procedure Recommendation

So far, in travel expense by using reimbursement process has shown good process. However, one biggest weakness is there is no duplication of document that will cause the company for loss the document transaction. Because of that, the writer has proposed a procedures where it is also equiped with how many copies made and where they will be kept. Basically, the flow is the same, all documents relating to the travel cost reviewed and checked first by the project manager and the cost controller. This document were copied into three copies. One copy is sent to tax, one copy sent to cashier and the last copy will be sent to accounting officer. The tax officer will record tax information and after that all document will be file in her. The cashier will prepare a transfer payment for the applicant. The transfer should be authorized by the BOD first. The transfer slip then will be submitted to the accountant to be reconcile with the document that has been already received. Then the accountant journalized in the ledger.

The writer draw the proposed flow chart on the next page. The bold ones indicate the proposed recommendation.
Figure 4.8: Proposed Flowchart of Reimbursement Process

Applicant -> Project Manager -> Cost Control -> Manager -> Tax -> Cashier -> BOD -> Accounting

Source: Redesigned by the writer
b. Cash in Advance Procedure Recommendation

Here is the recommendation proposed by the writer.

In the cash in advance procedures, when an applicant applies for a cash advance that is equipped with some sufficient document, those documents are made in three copies, directly checked and reviewed by the project manager and the cost control. The cost control will directly access the RAB system to check sufficient budget for the request. One copy is filed in cost control. After that, the document is sent to the manager, who will check and sign. He will also distribute the document, one copy to cashier and the rest to the accounting.

In the next process, it is the same as the current process applied in the firm. The document will be proceed to cashier and the cashier will prepare a transfer plan to be signed by the BOD. If the transfer plan is signed, the cashier will transfer the amount requested to the applicant. The transfer slips are sent to accounting division to be recorded in the journal. The open file of the document is finally saved in the close file.

The figure of the proposed flowchart shown on figure 4.8. The bold ones indicate the proposed recommendation by writer.
Figure 4.9: Proposed Flowchart of Cash Advance Process

Source: Redesigned by the writer
2. **Recommendation for Purchasing Materials**

Based the explanation of purchasing material process from interview process, the writer found some problems that have been summarized on section. There are some recommendation for purchasing materials procedures to overcome the problems and reduce the risks.

   a. **Ordering Materials**

   In the proposed one, the writer argues that a purchase requisition (PR) is made by warehouse when the clerk realizes that the stocks have already reached the reorder point. This PR is made in 2 copies, both are sent to be reviewed. The one who reviews and checks these PRs is a cost controller, not the BOD. The reason why the writer proposed a cost controller who reviews and check rather than BOD is because a cost controller knows better about the budget allocation, the cost controller will check the cost and compare it to the RAB. Instead, the cost controller’s decision is more accurate than BOD’s. Since she has clear information regarding budget, a cost controller could manage which order what would be prioritized, or in what maximum amount the order should be made.

   After these PRs are reviewed, a copy of PR will be sent back to warehouse and another one will be sent to purchasing division. Purchasing division will start to initiate a PO based on the supplier and price list. She would choose the best offer from the supplier. If she found that she could get better offer from a supplier, she might bid directly to get more discount. Originally, this PO is directly sent to the supplier without asking for signature from authorization, but it has been identified that it will give a chance for fraud exist and it will cause the company suffer loss because of lack of higher level consideration. So the writer proposed that this PO
should be checked and signed by finance manager. Both PR and PO will be sent to the manager and if the manager has signed it, the PO will be sent back to purchasing division. At last, purchasing division will sent a copy of PO to supplier, a blind one to warehouse, a copy of PO to accounting division and the other copy of PO along with the PR will be filed in purchasing division.

b. Receiving Materials

When the supplier sends the goods, he sends a copy of DO and an invoice to accounting division, on the other hand he also sends the goods with a DO to the warehouse. In original process, suppliers sends the invoice to purchasing division, however there must be a segregation of duties between the one who order and the one who preparing the liability, that is why the writer proposes that the invoice is sent directly to accounting division.

In warehouse, the employer will inspect the goods based on the blind PO and the DO. All receiving information must be reported in a Receiving Report (RR). While originally, there is no receiving report made by warehouse. A blind PO, a DO and an RR, will be reconciled and used for updating inventory ledger. A copy of RR and a blind PO are sent to the accounting division. Warehouse itself keeps the DO and a copy of RR in its file.

c. Posting Liability and Cash Disbursement

The accounting division finally receives a PO from purchasing department; a DO and an invoice from supplier; an RR and, a blind PO from warehouse. Then, she reconciles it and creates a voucher for all those documents. In current process, the one who creates this voucher is
purchasing division. However, since accountant gets complete documents among all, it is easier for her to create a voucher from complete documents. This voucher is used for updating the account payable sub ledger. After posting the liability journal, she gives the voucher to the tax division to be checked. She will record the tax of the transaction. After that, she will deliver the voucher to the cashier.

The cashier uses this voucher to preparing a transfer plan. This transfer plan and the voucher are sent to the finance manager. This transfer plan need to be check by the manager to be compare with the agreement. After reviewed it, cashier will proceed the transfer plan to the BOD to get authorization of the payment transfer. If all are set, the cashier will start to update her transfer schedule. When the due date come, the cashier transfers the money and sends the transfer receipt along with the voucher to the accounting division. The accountant uses these two documents to update the account payable ledger. Both document will be kept by the accountant.

The figure of proposed flowchart for purchasing material is shown by figure: 4.10. The bold ones indicates the recommendation proposed by the writer.
Figure 4.10: Proposed Scheme Purchasing Materials Process

Suppliers
- Create PO
- Supplier and Price

Purchasing
- Create PO
- Supplier and Price

Warehouse
- Ledger Inventory
- Review stocks
- Open File

Cost Control
- PR
- Check
- Sign
- Review Schedule
- Inspect, report & update
- Ledger Inventory

Manager
- PR
- PO (4)
- Sign
- PO (4)

Accounting
- PO
- Reconcile
- Voucher
- PO (4)
- Voucher
- Update A/P
- Reconcile
- Voucher
- Update A/P
- Reconcile
- Voucher

Tax
- Voucher
- Record tax
- Voucher
- Voucher

Cashier
- Voucher
- Transfer Schedule
- Voucher
- Voucher

BOD
- Transfer Schedule
- Transfer Schedule
- Transfer Schedule
- Transfer Schedule

Source: Redesigned by the writer
CHAPTER V
CONCLUSION AND RECOMMENDATION

After identifying internal control by using COSO framework and analyzing the current travel procedures and purchasing material procedures, in this chapter, the writer would like to answer the questions stated in chapter I and also giving recommendation to the company based on the findings of this research.

5.1. Conclusion

Based on the investigation in PT. MTM, the writer could answer the following questions:

1. How is the procedure of expenditure cycle in PT. MTM?

   The writer observes two expenditure activities, travel expense and purchasing materials. In travel expense, there are two kind of procedures, first is reimbursement procedure in which the applicant of this request has already accomplished the travel and he is about to claim the expenses and the second is cash advance procedure in which the applicant proposing some document in order to get some money for his business travel. Those expenditure procedures are done manually.

2. How is the evaluation of expenditure cycle using COSO Framework?

   The writer found some conditions that violate COSO Framework. These conditions risk the company from suffering loss. The writer summarized the findings as follow:
   a. In environment control, the writer found that the current organizational structure is not clearly defined the current positions in the company; Some personnels were not having proper education background, knowledge or skills required for their
positions; the company did not provide adequate training for all categories of personnel. Those conditions have risked the company to have incompetent employees who do not understand well about what they have to achieve, and how to do the task given to them.

b. For risk assessment, division objectives have not been established and the company has not categorized risks into some levels. Failure to meet prior objective especially objective set by the division followed by inadequate of maping the risk into some levels may lead to increased risk.

c. The company has lack of segregation of duties and lack of document duplication. By only placing one person in charge for warehouse to take care of inventories from initiating purchase requisition to updating inventory ledger, the company may have no control over its inventory which is especially stored in the warehouse. On the other hand, it is good that the company designing the document for multiple use, but the copies are not adequate to support the activities. It will be ideal if each parties who uses the document keeps the copy for their own, so it will prevent the company for losing the document and help to vouch the work of each parties.

d. Due to the size of the company, the company has good communication and information system.

e. Lack of periodicaly evaluating effectiveness of policies and procedures that may lead the company for having crack in its internal control. It is a must for a growing company to check the policies and procedures to make sure that they still have strong internal control due to the growth of the company.

5.2. Recommendation

In this section, the writer will discuss the summary of the recommendation for PT. MTM regarding the findings.
1. In order to improve the weaknesses appear from the environment, the company through the human resource staff should;

   a. *Establish and communicate the job and responsibilities clearly*

      It is important defines task, job description and responsibilities of each position in the company. If the Human Resource does not well understand the specific job and task, the manager of each division should take it over. Making sure that the subordinates understand with the job description given. Indeed, Human Resesource Manager should preparing the written job description of each position.

   b. *Selective in hiring employee*

      The company should understand that commitment to competence is essential. Competence is the knowledge and skills necessary to accomplish tasks that define an individual’s job; in this case, the commitments of competence is shown by how the company translate into requisite skills and knowledge needed in an applicant.

   c. *Providing training for the staff*

      It is essential making sure the personnel increasing the knowledge and skill that enable them to work better. Moreover, if the company apply new procedure, main entities should be prepared to support that procedure so it can be applied successfully.

2. In order achieving the company’s goal, the company should established and communicate the objectives of each division so each personnel understand and clearly know what they have to achieve.

3. In order to prevent the company from fraudulent actions, the company needs to pay attention in control activities closely. Based on the findings, the writer recommend that the company should:
a. Identifying fraud risk due to a lack of segregation of duties

The company should understand that an employee is only allowed to handle custody of assets, record keeping, authorization, or reconciliation. Ideally, no individual employee should handle more than one function mentioned before. When an organization separates these functions among the employees, it has implemented a strong internal control, which may deter and prevent employee fraud.

b. Minimizing of losing document by duplicating the documents

In order to preventing the company in losing the document, the company should make some copies for each document. It will be better if each parties or division involving in creating, authorizing and using the documents keep the copies by themselves, it will enable each department to vouch their work with the document easily.

4. Conducting periodic evaluation on effectiveness of policies and procedures. Due to company growth, it is important to evaluate the policies and procedures periodically to find out whether the current procedure is still adequate to prevent the company from fraudulent action.

5. In order to make the recommendation is clear, the writer also performs redesign procedures that is shown in figure 5.1, 5.2 and 5.3. The bold ones indicates the recommendation proposed by the writer.
Figure 5.1: Proposed Reimbursement Flowchart

Source: Redesigned by the writer
Figure 5.2: Proposed Cash Advance Flowchart

Source: Redesigned by the writer
Figure 5.3 Proposed Purchasing Material Flowchart

Source: Redesigned by the writer
REFERENCES


