THE EVALUATION OF INTERNAL CONTROL

ON CASH RECEIPT AND DISBURSEMENT

(CASE STUDY: PT. CPNM)

SKRIPSI

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The Evaluation of Internal Control On Cash Receipt and Disbursement

At PT CPNM

ABSTRACT

Cash is the most liquid assets and will be affected necessarily in almost every transaction done by company. The company needs to set-up a proper internal control system on cash receipt and disbursement in order to protect the cash. The purpose of this research is about evaluation of internal control on cash receipt and disbursement of PT. Catur Putra Nusantara Mandiri (PT CPNM).

This research uses a qualitative research (study case) with verification approach. All research data is collected and processed through audit procedures. The processes of data through 3 types of evidence, they are inquiry, observation and documentation.

The results describe that the implementation of internal control on cash receipt and disbursement. The writer find positive and negative finding. Based on positive finding the writer finds that company has written organizational structure and the company safeguard the assets and documents. In negative findings, the writer find that the company does not have written job describtion, Standard Operational Procedure in receiving and disbursement of cash, does not do periodically physical exam, and the documents are printed not in pre-numbered.

The study purposes some recommendations which are: The company should have and set up a written and clear job description to provide information about the scope of responsibilities and authorities of each functions. The company should have a written Standard Operation Procedure in receiving and disbusrsement of cash as a written instruction or guideline during running activity related cash receipt and disbursement. The Head of Accounting should doing physical examination on cash regularly without notice in order to detect earlier if there is discrepancy. The company should make the document in pre-number to control document and prevent company from misuse.

Keyword: Internal Control, Cash Receipt, Cash Disbursement

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CHAPTER I

INTRODUCTION

I.1 Research Background

Nowadays company has to focus on maintaining healthy management in order to be able to increase company's performance, to achieve its objectives and to obtain competitive advantages. Cash receipt and disbursement are crucial activities to ensure that a company can generate profit and survive. Eventhough company has high sales revenues, they will be useless if it cannot convert the sales into cash. A company will face a big problem if company cannot manage its cash properly. One of the problems is liquidity. Liquidity is a company's ability to pay its short-term debt obligations. All activities done by a company finally will end up into cash either cash receipt or cash disbursement. However, cash also one of the assets that is easy to be used improperly in a business. Company needs to set-up a good cash receipt and disbursement activities in order to maintain cash in the company to prevent problems related to cash. In order to set-up a good cash receipt and disbursement, the company should strive to develop internal control of cash receipt and disbursement.

A strong internal control system helps company to protect their cash assets from loss or misuse. Setting up an internal control in cash receipt and disbursement system are actions from management to safeguard their cash. Internal control system is also necessary to ensure accurate and reliable information about cash in order to tell company's current condition. With a proper internal control in cash receipt and disbursement, company can manage their cash appropriately to prevent the company from loss or any error.

PT Catur Putra Nusantara Mandiri (PT CPNM) is trading and service of engineering company, especially in pumps. Finance Department is one of the important departments or units of the company that must be considered. Cash is required on daily basis at PT CPNM for operational needs such as purchasing pumps, delivery cost, installation cost, and wages. This business is built in service that highly competitive market, therefore the company needs to set up a good cash receipt and disbursement in order to ensure the company has sufficient cash to running the business in order to achieve the goal.

Based on the description above, the writer is interested in doing a research about how the internal control implemented in cash receipt and disbursement of the company. Therefore, the writer chooses the title **"The Evaluation of Internal Control on Cash Receipt and Disbursement (Case Study: PT CPNM)"**.

I.2 Problem Identification and Statement

Cash is the most liquid assets and will be affected necessarily in almost every transaction done by company. Therefore, the company needs to set-up a proper internal control system on cash receipt and disbursement to protect the cash. The objective of internal control in cash is helps a company to safeguard the cash from theft, misuse or misplacement. Strong internal controls also protect employees from inappropriate charges of mishandling funds by defining responsibilities in the cash handling process. With good internal control the company can control cash receipt and cash disbursement properly. If company cannot set-up a good internal control in cash, a company will face a problems such as fraud, shortage, and excessive. Fraud can be committed by an individual, a number of staff or external parties. Without strong internal control, staff may authorise payment of petty cash without following procedures and end up disbursing cash for non-business expenses. Meanwhile the shortage on cash could disturb company's daily. Not reconciling bank accounts regularly may result in overspending or cash shortage, which can even lead to bankruptcy or insolvency. Cash receipt and disbursement needs implement an internal control to establish a system for monitoring the performance as compared to objectives. If the internal control system of the company is weak, so the company's goals will be hard to be achieved.

Based on the background issues that have been described above, the writer defines problem statements as follows:

1. How do the application of internal control of cash receipt and disbursement at at PT CPNM?
2. What is the weakness of the internal conrtrol on cash receipt and disbursement at PT CPNM?
3. What is the strengths of the internal conrtrol on cash receipt and disbursement at PT CPNM?

1.3 Research Scope and Limitation

This research will be limited only on control environment and control activities. In control environment, the discussion will be limited only evaluates organization structure and assignment of authority and responsibility. Next in control activities, this research will discuss about document procedures, independent check and physical control.

This research will discuss about the process of cash receipt and disbursement. Meanwhile in cash receipt the writer only focus in sales in credit, in cash disbursement the discussion will be limited only in purchases and account payable payments. For the document itself, the company does not want the writer disclose about figures because the company is not a public's company.

I.4 Research Objectives

This study has the following objectives:

1. To assess how the application of the internal control of cash in PT CPNM
2. Evaluate whether there are any weakness and strengths in the internal control cash receipt and disbursement at PT CPNM.
3. To formulate recommendation to overcome the weaknesses.

I.5 Research Benefits

a) For Company

Results conclusions from this study are expected can be used as consideration and input for improvement of the management company regarding internal control of cash receipt and disbursement.

b) For Writer

As an input and reference material to apply the appropriate mix of practical and theoretical state obtained from the college in particular areas of the system of internal control of cash receipt and disbursement.

c) For Others

The results could be additional information to other writer who research in the same topic or related in internal control cash receipt and disbursement.

I.6 Research Method

This research uses a qualitative research (study case) with verification approach. Besides literature review, the writer also does field research to get a primary data. In field research, the writer came to the company and got primary data by using types of evidence instruments such as inquiry of the client, observations and documentation. Inquiry of the client means the writer collect data by using direct questioning to employees who have direct authority to provide data and necessary information in writing. Documentation is the writer's inspection of client document and records. Observation is a method of data collection in which the situation of interest is watched and the relevant facts, actions and behaviors are recorded.

The secondary data is gathered from literature review to get references or relevant theories from text books, internet and other scientific sources including previous researches. The result of this research should be assessed based on literature review and existing condition in order to know the cause, the effect and to give recommendation for company.

CHAPTER II

LITERATURE REVIEW

Elements of the management process include organizing, directing, and controlling with the exercise of control representing the focal point of the present discussion. Because the control, companies are considering is accomplished internally within the system, it is referred to as internal control. Internal control is necessary to ensure that all activities have been done properly to achievement the company's goals and objectives. Cash is the most liquid assets and will be affected necessarily in almost every transaction done by company. The objective of internal control in cash is helps a company to safeguard the cash from theft, misuse or misplacement

II.1 Definition of Internal Control

Moeller (2009) explained that, "Internal control is any action taken by management, the board, and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes, and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved." (p. 25)

Romney and Steinbart (2012) said that "Internal control is the process implemented to provide reasonable assurance that the following control objective" (p.204)

Roy and Panny (2000) wrote "Based on COSO, the definition of internal control is process, or a means to an end, and not an end in and of itself. The process is effected by individuals, not merely policy manuals, documents, and forms." (219)

Eder, Beasley, and Arens (2012) stated that, "Internal control is a system that consists of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These policies and procedures are often called controls, and collectively, they make up the entity's internal control." (p. 290)

Messier, Glover, and Prawitt (2006) described that "Internal controls is designed and effected by an entity's board of directors, management, and other personnel to provide reasonable assurance about the achievement of the entity's objective in the following categories (1) Effectiveness and efficiency of operations, (2) Reliability of financial reporting, (3) Compliance with applicable laws and regulations." (p. 160)

Marshall and Paul (2012) wrote "Internal control is process because it permeates an organization's operating activities and is an integral part of management activities" (p.204)

Trenery (2008) stated that, "There is no single, generally definition of internal control. A broad definition of internal control could be expressed as: A system of controls and checks institute by the various levels of management that are independent and interdependent and are integrated into the financial and non-financial activities and operations of a business to ensure that the business operations are conducted efficiently and effectively and operating results for all aspects of the business are reliably reported to ensure management decision making is well based and that all relevant laws and regulations are complied with." (p.6)

Harrison, Horngren and Oliver (2012) mentioned that, "Internal control is the organizational plan and all the related measures designed to accomplish by safeguard assets, encourage employees to follow company policy, promote operational efficiency, and ensure accurate, reliable accounting records." (p. 356)

Needles, Power, and Crosson (2010) defined that, "Internal control is process designed by a company to establish the reliability of the accounting records and financial statements in accordance with generally accepted accounting principles (GAAP) and to ensure that the company's assets are protected. Management must assess its needs for internal controls, establish its responsibility for them, and engage auditors of them, if required." (p. 320)

Heintz and Parry (2011) listed that, "Internal control is a system developed by a company to provide reasonable assurance of achieving (1) effective and efficient operations, (2) reliable financial reporting, and (3) compliance with laws and regulations." (p. 267)

Rittenberg, Jhonstone, and Gramling (2010) defined internal control based on COSO (Committee of Sponsoring organizations of the Treadway Commission) Internal Control Integrated Framework as follows, "A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding to the achievement of objectives in the following categories: (1) reliability of financial reporting, (2) compliance with applicable laws and regulations, and (3) effectiveness and efficiency of operations." (p. 226).

Finally, the conclusion of definition of internal control is the process that it addresses to ensure reliable financial reporting, operations, and compliance with regulations. Internal control include the program for planning, verifying and distributing to various levels of management those current reports and analyses by top management or auditor to maintain control over the variety of actives and functions that are performed by companies. With a good internal control a company can manage their business activities appropriately, especially operation activities and prevent the company from loss or any error.

II.2 Objective of Internal Control

Arens, Elder, and Beasley (2012) defined that, "Management typically has three broad objectives in designing an effective internal control system: Reliability of financial reporting, Efficiency and effectiveness of operations, Compliance with laws and regulations." (p. 290)

Warren, Reeve, and Duchac (2009) described that, "The objectives of internal control are to provide reasonable assurance that:

1. Assets are safeguarded and used for business purposes.
2. Business information is accurate.
3. Employees and managers comply with laws and regulations.

Internal control can safeguard assets by preventing theft, fraud, misuse, or misplacement. A serious concern of internal control is preventing employee fraud. Employee fraud is the intentional act of deceiving an employer for personal gain. Accurate information is necessary to successfully operate a business. Business must also comply with laws and regulations, and financial reporting standard." (p. 355)

Romney and Steinbart (2012) explained that "The internal control objectives are achieved:

- Safeguard assets: prevent or detect their unauthorized acquisition, use, or disposition
- Maintain record in sufficient detail to report company assets accurately and fairly
- Provide accurate and reliable information
- Prepare financial reports in accordance with established criteria

- Promote and improve operational efficiency
- Encourage adherence to prescribed managerial policies
- Comply with applicable laws and regulations .“ (p.204)

According to Horngren and Horrison (2007) “A key responsibility of a business owner is to control operations. Owners set goals; they hire managers to lead the way and employee carry out the plan. Internal control is the organization plan and all the relate measures designed to:

- Safeguard Assets

  A company must safeguard its assets; otherwise it’s throwing away resources. If company fails to safeguard your cash, it will slip away.

- Encourage Employee to Follow Company Policy

  Everyone in an organization needs to work toward the same goal. With a friend operating part of in motion, it’s important for both of you to pursue the same goal. It’s also important for you to develop policies so that you treat all customers’ similarity

- Promote Operational Efficiency

  You cannot to afford to waste resources. You work hard to make a sale, and you do not want to waste any of the benefits. Eliminate waste, and increase your profit.

- Ensure Accurate, Reliable Accounting Records

  Good records are essential. Without reliable records you cannot tell which part of the business is profitable and which part needs improvement.”(p408).

According to descriptions above, there are main objectives. First objective is safeguarding the assets. It is the basic objectives of the company to run their business through safe the assets from theft or misplacement. The second objective relates to the preparation of reliable information. Its objective important to tell company which part of business needs improvement. The third objective is the company as a legal subject should obey and carry out its rule properly.

II.3 Elements of Internal Control

Warren, Reeve, and Duchac (2009) stated that, “The three internal control objectives can be achieved by applying the five elements of internal control set forth by Integrated Framework. These elements are as follows:

1. Control Environment
2. Risk Assessment
3. Control Procedures
4. Monitoring
5. Information and communications.” (p. 356)

Romney and Steinbart (2012) stated that “ COSO’s Internal Control Model, as follow:

1. Control Environment.
2. Control Activities.
3. Risk Assessment.
4. Information and Communication.
5. Monitoring.” (p.207)

According to statement above, the writer can elaborates more detail about the internal control components as follow:

1. Control Environment

James.A.Hall (2009) stated that “Control environment is the foundation for the other four control components. The control environment sets the tone for the organization and influences the control awareness of its management and employees.” (p.148)

Rittenberg, Johnstone, and Gramling (2010) wrote “The control environment is the policies, procedures, and attitudes of the top management and owners of the business.” (p. 210)

Horngren, Harrison, and Oliver (2012) stated that, “The control environment is the “tone at the top” of the business.” (p. 358)

Dull, Gelinas, and Wheeler (2012) explained that, “Control environment is sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.” (p. 224)

Romney and Steinbart (2012) the defined the control environment as follows “The internal control environment or company culture, influences how organization establish strategies and objective; structure business activities; identify assets; and respond to risk” (p.208)

Control environment has several key elements such as:

a. Integrity and Ethical Values

Messier (2003) defined that, “The effectiveness of an entity’s internal controls is a function of the integrity and ethical values of the individuals who create, administer, and monitor the controls. An entity needs to establish ethical and behavioral standards that are communicated to employees and are reinforced by day-to-day practice”

b. Commitment to Competencies

Based on Messier in 2003 competence is the knowledge and skills necessary to accomplish tasks that define the individual's job. Commitment to competence includes management's consideration of the competence levels for particular jobs and how those levels translate into requisite skills and knowledge.

c. Human Resources Policies and Practices

Rittenberg, Johnstone, and Gramling (2010) mentioned that, “Human resource policies and practices, including compensation programs, are designed and implemented to facilitate effective internal control over financial reporting.” (p. 211)

According to Messier in 2003, Human resource policies and practices relate to hiring, orientation, training, evaluating, counseling, promoting, compensating, and remedial actions. For example, standards for hiring the most qualified individuals—with emphasis on educational background, prior work experience, past accomplishments, and evidence of integrity and ethical behavior—demonstrate an entity's commitment to competent and trustworthy people. Training policies that communicate prospective roles and responsibilities and include practices such as training schools and seminars illustrate expected levels of performance and behavior. Promotions driven by periodic performance appraisals demonstrate the entity's commitment to the advancement of qualified personnel to higher levels of responsibility.

d. Authority and Responsibility

Rittenberg, Johnstone, and Gramling (2010) described that, “Management and employees are assigned appropriate levels of authority levels of authority and responsibility to facilitate effective internal control over financial reporting.” (p. 211)

According to Messier in 2003, authority and responsibility also includes policies relating to appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties. In addition, it includes policies and communications directed at ensuring that all personnel understand the entity's objectives, know how their individual actions interrelate and contribute to those objectives, and recognize how and for what they will be held accountable.

e. Management’s Philosophy and Operating Style

Rittenberg, Johnstone, and Gramling (2010) clarified that, “Management’s philosophy and operating style support achieving effective internal control over financial reporting.” (p. 211)

Based on Messier in 2003, Management's philosophy and operating style encompass a broad range of characteristics. Such characteristics may include the following: management's approach to taking and monitoring business risks; management's attitudes and actions toward financial reporting (conservative or aggressive selection from available alternative accounting principles, and conscientiousness and conservatism with which accounting estimates are developed); and management's attitudes toward information processing and accounting functions and personnel.

f. Board of Directors or Audit Committee Participation

Rittenberg, Johnstone, and Gramling (2010) stated that, “The board of directors understands and exercises oversight responsibility related to financial reporting and related internal control.” (p. 211)

Based on Messier in 2003, an entity's control consciousness is influenced significantly by the entity's board of directors or audit committee. Attributes include the board or audit committee's independence from management, the experience and stature of its members, the extent of its involvement and security of activities, the appropriateness of its actions, the degree to which difficult questions are raised and pursued with management, and its interaction with internal and external auditors.

g. Organizational Structure

Rittenberg, Johnstone, and Gramling (2010) said that, “The organizational structure supports effective internal control over financial reporting.” (p. 211)

According Messier in 2003, An entity's organizational structure provides the framework within which its activities for achieving entity-wide objectives are planned, executed, controlled, and monitored. Establishing a relevant organizational structure includes considering key areas of authority and responsibility and appropriate lines of reporting. An entity develops an organizational structure suited to its needs. The appropriateness of an entity's organizational structure depends, in part, on its size and the nature of its activities.

Finally, the conclusion of control environment is the procedure and policies of organization to influencing the people or employee to work based on their responsibility. Control environment also establish strategies and objective to sets tone of organization in order to control the people in company to be discipline. Well-controlled organizations also important in control environment, its should clearly defined lines of responsibility, authority, and accountability. A well-designed organizational structure provides a basis for planning, directing, and controlling operation. Organizational structure shows a clear visibility about business function and how the entity implements control. It shows from who is in charged for planned, executed, controlled and monitored.

2. Control Activities

James.A.Hall (2009) stated that “Control activities are the policies and procedures used to ensure that appropriate actions are taken to deal with the organization’s identified risks” (p.152)

Romney and Steinbart (2012) stated that “Control activities are policies and procedures that provide reasonable assurance that control objectives are met and risk responses are carried out” (p.215)

Dull, Gelinas, and Wheeler (2012) explained that, “Control activities is the policies and procedures that help ensure that management directives are carried out.” (p. 224)

Weygandt, Kimmel and Kieso (2009) explained that “There are six principles of control activities as follows:

- Establishment of responsibility
- Segregation of duties
- Documentation procedures
- Physical Control
- Independent internal verification
- Human Resources Control " (p.309)

The explanations of six principles are below:

- Segregation of duties

Arens, Elder, and Beasley (2012) said that, "Four general guidelines for adequate separation of duties to prevent both fraud and errors are especially significant for auditors.

a) Separation of the custody of assets from accounting.

b) Separation of the authorization of transactions from custody of related assets.

c) Separation of operational responsibility from record-keeping responsibility.

d) Separation of IT duties from user departments." (p. 298)

Good internal control requires that no single employee be given too much responsible business transactions or processes. An employee should be not be in a position to commit and conceal fraud. Separation of duties limits fraud and promotes the accuracy of the accounting record.

- Establishment of responsibility

Weygandt, Kimmel and Kieso (2009) said that "The essentials of principle of internal control is to assign responsibility to specific employees. Control is most effective when only one person is responsible for given task.

Establishing responsibility often requires limitation access only to authorized personnel and identifying those personnel" (p.309)

Arens, Elder, and Beasley (2012) explained that, "Every transaction must be properly authorized if controls are to be satisfactory." (p. 299)

Transaction happens must be authorized by the person who has responsible of that transaction. If the company does not have a proper control of authorization in transaction, the company would have problems such as fraud and misuse.

- Documentation procedures

Arens, Elder, and Beasley (2012) defined that, "Documents and records are the records upon which transaction are entered and summarized" (p. 299)

Control in document and records are needed to ensure the record and make easier a company to process the documents into file. For instance, the company use pre-numbered to ensure there is no double invoice during transaction process.

- Physical control over assets and records

Arens, Elder, and Beasley (2012) mentioned that, "To maintain adequate internal control, assets and records must be protected. These control activities may include electronic or mechanical controls (such as a safe box, employee ID cards, cash registers, and locks) or computer-related controls dealing with access privileges."(p. 300)

- Independent internal verification

According to Arens, Elder and Beasley in 2007, independent internal verification or independent checks on performances, which are carried out by employees who did not do the work being checked, help ensure the reliability of accounting information and the efficiency of operations. For example, a supervisor verifies the accuracy of a bank reconciliation at the end of the month. Internal auditors may also verity that the supervisor performed the check of the bank reconciliation.

- Human Resources Controls

  Accoriding to Weygant, Kimmel and Kieso in 2009, human resources control includes bonding employees who handle cash, rotating employees duties and requiring employees to take vacations, and conducting thorough background check.

3. Risk Assessment

Romney and Steinbart (2012) stated that”The risks of an identified event are assessed in several ways: likelihood, positive and negative impacts, individually and by category, their effect on other organizational units, and on an inherent and a residual basis” (p.213)

According Messier in 2003, the risk assessment process should consider external and internal events and circumstances that may arise and adversely affect the entity’s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Client business risks can arise or change due to following circumstances: changes in the operating environment, new personnel, new or revamped information system, rapid growth, new technology, new business models, corporate restructuring, expanded foreign operations, and new accounting pronouncements.

Accountant designers help management to reduce a risk with risk assessment. Risk assessment includes the identification and analysis of relevant risks to the achievement of objectives.

4. Information and Communication

Boynton, Jhonson and Kell (2003) explained that, “The information system relevant to financial reporting objectives, which includes the accounting system, consists of the methods, and records established to identify, assemble, analyze, classify, record and report entity transaction (as well as events and conditions) and to maintain accountability for the related assets and liabilities. Communication involves providing a clear understanding of individual roles and responsibility pertaining to the internal control structure over financial reporting.” (p. 263)

Information and communication are directly primary purpose to gather, record, process, summarize and communication about an organization. Communication is usually made based on policy guidelines, guidance accuracy, accounting and financial reporting guidelines, the list of accounts, and the memo is also a component part of the information and communications in the internal control structure.

5. Monitoring

James.A.Hall (2009) stated that “Monitoring is the process by which the quality of internal control design and operation can be assessed.” (p.151)

Dull, Gelinas, and Wheeler (2012) explained that, “Monitoring is a process that assesses the quality of internal control performance over time.” (p. 225)

According to Weygandt, Kimmel and Kieso in 2009, internal control system must be monitored periodically for their adequacy. Significant deficiencies need to be reported to top management and the board of directors.

According to Elder, Beasley and Arens in 2010, monitoring activities deal with ongoing or periodic assessment of the quality of internal control by management to determine that controls are operating as intended and that they are modified as appropriate for changes in conditions.

II.4 Limitation on Internal Control

Warren, Reeve and Duchac (2009) explained that “ Internal control systems can provide only reasonable assurance for safeguarding assets, processing accurate information, and compliance with laws and regulations. In other words, internal controls are not guarantee. This is due to the following factors:

1. The human element of controls
2. Cost-benefit considerations
3. Size of business

The *human elements* recognizes that controls are applied and used by humans. As a result, human errors can occur because of fatigue, carelessness, confusion or misjudgment. *Cost-benefit considerations* recognize that cost of internal controls should not exceed their benefits.

Weygandt, Kimmel and Kieso (2009) stated that "The *size of business* also may impose limitations on internal control. A small company for example may find difficult to segregation of duties or to provide for independent internal verification" (P.316)

II.5 Definition of Cash

Kieso, Weygant and Warfield (2012) stated that "Cash is a financial assets, it is also financial instruments. Cash, the most liquid assets, is the standard medium of exchange and the basis for measuring and accounting for all other items. Cash consists of coin, currency, and available funds on deposit at the bank. Cash not only consists a currency or coin but also there is a negotiable instrument such as money orders, certified checks, cashier checks, and bank drafts. There are three issue relate reporting cash, there are cash equivalents, restricted cash and bank overdrafts. Cash equivalents are short-term and highly liquid investments for example treasury bill and commercial paper. Payroll and petty cash are the example of restricted cash in companies. Last, a bank overdraft is occur when company writes a check more than the amount in cash on hand." (p.344).

Based on the definition above, cash is the most liquid assets, its always needed to all operation activities in companies. Cash is a tool for all transaction done by companies, therefore cash is very crucial item during running a business. Cash not always in currency or coin but also could be cheque, money orders, certified cheques, cashier cheques, and bank draft. Cash equivalents, restricted cash and bank overdraft are three issue relate in reporting cash

II.6 Definition of Internal Control on Cash

Warren, Reeve, and Duchac (2009) stated that, "Cash is the asset most likely to be stolen or used improperly in a business. For this reason, businesses must carefully control cash and cash transactions" (p. 361)

Smith and Skousen (2003) stated that, "The basic characteristics of a system of a cash control are listed and described below:

- Specifically assigned responsibility for handling cash receipts.
- Separation of handling and recording cash receipts.
- Daily deposit of all cash received.
- Voucher system to control cash payments.
- Internal audit irregular interval.
- Double record of cash bank and books with reconciliation performed by someone outside that accounting function." (p. 270)

There are many risks associated with cash handling such as theft or misappropriation. With internal control company more easier to solve possibility of the problem that will be occur. Internal control on cash requires a good internal control between receipts and cash disbursements. In general, an internal control of cash will separate the functions of storage and recording of cash to minimize the misuse of cash.

II.7 Objective of Internal Control on Cash

Arens and Loebbecke (2009) stated that, "The purpose of internal control over cash to prevent the occurrence of the following:

- Failure to bill a customer;
- Billing a customer at a lower price than called for by company policy;
- A defalcation of cash by interception of cash receipts from customer before they are recorded with the account changed off as a bad debt;
- Duplicate payment of a vendor invoice;
- Improper payments of officers personnel expenditures;
- Payments for raw materials that were not received;
- Payments to an employee for more hours that he or she worked; and
- Payments of interest to a related party for an amount in excess of the going rate." (p. 700)

From the opinion above, the conclusion of objective of internal control in cash receipt and disbursement are to ensure that cash disbursement system only for authorized purposes, to protect or safeguard the cash receipt and maintenance the bank balances.

II.8 Internal Control on Cash Receipts

Weygandt (2008) also stated that "Cash receipts come from: cash sales collections on account from customers receipt of interest, rent, and dividends investments by owners bank loans proceeds from the sale of noncurrent assets." (p. 297)

Reeve, Warren and Duchac (2009) describe “Business normally receive cash from costumer purchasing and costumer making payments” (p.361)

Another sources (October 29,2012) describe that “The following internal control principles explained earlier apply to cash receipts transactions as shown:

- Establishment of responsibility - Only designated personnel (cashiers) are authorized to handle cash receipts.
- Segregation of duties - Different individuals receive cash, record cash receipts, and hold the cash.
- Documentation procedures - Use remittance advice (mail receipts), cash register tapes, and deposit slips.
- Physical, mechanical, and electronic controls - Store cash in safes and bank vaults; limit access to storage areas; use cash registers.
- Independent internal verification - Supervisors count cash receipts daily; treasurer compares total receipts to bank deposits daily.

Other controls - Bond personnel who handle cash; require vacations; deposit all cash in bank daily.” (http://www.smccd.edu/accounts/nurre/online/chtr7fa.htm)

Rob and Peter (2004), stated that “The starting point for control cash receipts is the invoice company’s internal systems; and the starting point in the overall collection system is the customer’s invoice. The quicker the company gets the invoice into the customer’s hands, the sooner the payment process starts. Get invoices out on time. Customers will not start their payment process until they have both the product or service and an invoice. Their payment clock begins at the later of receipt of the invoice or receipt of the goods. So each day of delay in issuing an invoice extends the collection period and decreases the amount of cash available” (p.45)

Internal control over cash receipts shall be established by each company to minimize the risk of loss. The procedures will vary according to the size of the company, the number of persons employed, and the problems peculiar to the specific company regarding the source and type of receipts.

II.9 Internal Control on Cash Disbursements

Reeve, Warren and Duchac (2009) stated that "The control of cash payments should provide reasonable assurance that :

a. Payment are made for only authorized transactions
b. Cash is used effectively and efficiently." (p.363)

The objectives of internal controls for cash disbursements are to ensure that cash is disbursed only upon proper authorization of management, for valid business purposes, and that all disbursements are properly recorded. "The principles of internal control apply to cash disbursements as follows:

- Establishment of responsibility - Only designated personnel (treasurer) are authorized to sign checks.
- Segregation of duties - Different individuals approve and make payments; check signers do not record disbursements.
- Documentation procedures - Use pre-numbered checks and account for them in sequence; each check must have approved invoice.
- Physical, mechanical, and electronic controls - Store blank checks in safes with limited access; print check amounts by machine with indelible ink.
- Independent internal verification - Compare checks to invoices; reconcile bank statement monthly.
- Other controls - Stamp invoices "PAID". (October 29.2012)

Those are the application principle of control environment in internal control related cash disbursement based on the website or blog about accounting, especially internal control (http://www.smccd.edu/accounts/nurre/online/chtr7fa.htm).

CHAPTER III

DATA PROCESSING

AND

COMPANY’S EXISTING CONDITION

III.1 Data Collecting and Processing

The writer does the research like doing an audit. All research data is collected and processed through audit procedures. The writer gets and processes the data through 3 types of evidence as follow:

1. Inquires of the client
2. Observation
3. Documentation

The writer makes an agreement with the management to do this research start from November, 26 until December,10 2012. After that, process of collecting and discussing data were done through email and phone. Management had provided any data and information needed related to internal control over cash receipt and disbursement. Below are the processes of gathering data done by the writer.

III.1.1 Inquires of the client

Writer did inquiries of the client, through interview and discussion with the management of PT Catur Putra Nusantara Mandiri (PT CPNM). Interview was conducted directly and personally. From this procedure, writer may gets quick and high response from interviewee. Before conducting the interview, writer already prepared the questions. Writer read the questions to the respondents and wrote the answers of the interviewee.

Writers obtained data from the company through interview and discussion with some employees related internal control on cash. Writer asked some question to Finance and Accounting staff, Marketing Staff, and Human Research Manager.

Through this interview, the writer collects information below:

Interviews with Accounting and Finance permanent staffs are as follows:

Objectives : Nature of the company, business process and control activities.

Place : PT CPNM Office

Time : November 26, 2012

Results and conclusions for interview:

Report of cash receipt and cash disbursement has been prepared periodically by the Accounting Department. The company's cash receipt only from credit sales. All customers are payment by transfer to company's bank account which is PT Bank Mandiri and PT Bank HSBC. At the end of the month, accounting staff will check the customer's payment by print out company's bank statement. The staff who make a bank reconciliation is the one who record and make a journal of cash receipt. The company's cash disbursement is from debt payment, purchasing, administration expense, tax and payroll. The person who is responsible to approve any payment is Head of Accounting and Finance.

Petty cash prepared by company to cover all administration expense, such as stationary expense. There is a lockbox to save petty cash and the maximum money in lockbox is IDR 5,000,000,- (five million rupiah). The person who is responsible to keep a lockbox is Cashier. Only Cashier that has authority to manage the petty cash. There is no physical control periodically because the manager fully trust on Cashier.

Interviews with Marketing and Human Resources Managers are as follows:

Objectives : Nature of the company, business process and control activities.

Place : PT CPNM Office

Time : December 3, 2012

Results and conclusions for interview:

PT CPNM is a trading company that selling the product especially in pump and accesoris. This company also provide a service of engineering for installion pump. The costumer of PT CPNM almost are manufacture company and hotel. The company get the product from best supplier such as PT CPNM that produce pump in Indonesia. This company does not have a Standard Operating Procedure. So, employees know about the operation system based on verbal (oral) direction from their superior. Employees understand the duties and procedures applicable to their jobs also based on verbal (oral) instruction or direction from their superiors. Since the company does not have job description yet. But this company has a written organizational structure create by Human Resources Department and signed by Director. They classifies its fuctions into Marketing Department, Accounting and Finance Department,Operational Department, Purchasing Department and Human Research Department and the head of each department assesses performance of each employee.

III.1.2 Observation

Observation is the process of gathering data by seeing, smelling, hearing, tasting, and feeling to assess certain activities. Writer could obtain in formations related internal control in cash such as process of cash receipt from collection of sales and cash disbursements, the application from several procedures, organization structure, and working environment of the company. By looking at the internall control in cash receipt and cash disbursements transaction, writer can easily detect the problems and factors that caused the problems itself.

The writer conducted observation on December 3, 2012. The writer watches the employee activity on the main office. This is the result of observation on the main office:

Objective : Working environment and activities on every department in the main office.

Place : Finance and Accounting Department, HR Department

Results of observation are as follows:

1. The ones who deposit the company's money to the bank is Cashier
2. There is a lockbox to save a petty cash.
3. All documents such as copy of invoice, properly maintain and keep by Finance and Accounting Department.
4. The computers used by Manager and staffs of Accounting Department are equipped with the General Ledger Program.
5. The company has not a machine card clock for recently the attendance of the employee. There is only a machine card to open the entries gates.
6. In office, there has security staffs and surveillance camera.

7. In Accounting and Finance Department, there is a filling room that only permanent of accounting staff allowed enter this room.

III.1.3 Documentation

Documentation is the process of tracking down evidences either internal or external evidences of transactions or activities being researched. The documents examined by the writer are the records used by the client to provide information for conducting its business in an organized manner, and may be in paper form, electronic form, or other media. Writer gathered all the documents from the company, such as:

- Petty Cash Voucher

  Petty Cash voucher prepared by Cashier as a document is used to document or record a disbursement (payment) from a petty cash fund.

- Purchase order (PO)

  PO is made by Purchasing Department and sent to vendor or supplier as document to record all activity related ordering a product. PO specify the vendor name and address, the description of the good, the quantity, the required date, and the price. Authorized by Head of Purchasing.

- Sales Invoice

  Sales Invoice prepared by Sales staffs as a document to inform the product or services then send to head of Marketing and Sales Department to get review. Authorized by Head of Marketing & Sales.

- Payment Advice

  Payment advice is form or document prepare by accounting staffs to give the information incoming payment detail. Payment advice contain the payment amount, payment date and number of costumer.

III.2 Company's Existing Condition

Based on the above procedures, writer can draw a conclusion about the company's existing condition as follows:

III.2.1 Background of The Company

In this research, the object being analyzed is PT Catur Putra Nusantara Mandiri (PT CPNM), a private service of engineering and trading company is located in Jl. Binkesmas Blok B7 No. 13 Jakarta. The company was established since 2006, and has been experiencing tremendous progresses in many aspects.

PT CPNM is one of the most reliable providers of customized technologies, solutions and services in the field of processes of industrial and municipal water, drinking water and wastewater treatment as well as environment friendly solution for rural areas.

Highly qualified employees with years of experience in the fields. PT CPNM offers everything which distinguishes a provider of complete solutions for turnkey projects within water and wastewater treatment and various water services ranging from building services, industry and domestic water services. Know-how, innovative strength, customer focus. PT CPNM expertise ranges from project identification via planning, production, installation to commissioning and user training, supported by a comprehensive customer service.

PT CPNM have developed from their experience in working with large projects to smaller projects within the water industry. They specialists are known for their ability to come up with the best possible solution to meet the customers' demands. PT. CPNM is successfully enter the market of domestic pumps and flood control pumps.

Today, PT CPNM is supported with pumps assembly facility and testing facility to check and ensure all products perform according to the sales specification. PT CPNM also completed with other supported facilities includes booster & control panel assembly workshop, service workshop, warehouse and storage area.

To have a qualified product, PT CPNM realizes the importance of production process and human resources. In doing so, PT CPNM had not just supported by the best facilities, but also the best human resources who can work at the best on their own expertise. Every PT CPNM staff has been given intensive workshops every year. The production quality is reliable and responsible toward costumers, and also emphasizes PT CPNM Indonesia long term commitment.

Service Excellence Statement

Customer Service

The goal of the customer service is to provide customer's convenience when doing business with PT. CPNM. The staff is responsible, understanding and professionally-trained. They love to know and listen to the customer needs while making sure that all available services are well organised to meet the requirements in a timely manner.

Sales and Procurement Processing

PT CPNM sales organisation always strive to provide competitive solution through partnership. Working as a team, our sales staff are professionally trained to PT CPNM global standard. They also very knowledgeable about local needs and business culture. They are easily reachable, very responsive, dependable and committed to be of service to the customer.

Administration

The objective of PT CPNM administration process is to optimize the customer convenience. All procedures are carefully documented for ease of verification and data accessibility. Therefore, we are able to supply accurate information to our customer. The professional staff are accustomed to deal with administrative work correctly.

Delivery and Order Processing

Delivery and Order Processing is aimed at meeting customer’s requirements in terms of delivery time, accuracy and completeness. All process is well-documented to facilitate verification and data accessibility so that we can inform our customers about the status and details of their orders. Our staff is very well trained, pro-active, caring and understand the needs of the customer.

After Sales Service

The objectives of extensive after sales service network is to make sure that customers' problems are solved right away and provide solution to them. PT CPNM professional service technician as well as our service partner know, eager to understand and care about customer's problem. They can easily be reached and are very responsive and forward-looking.

Communications

The objective of our communication process is to broaden the knowledge of PT CPNM professional reputation in terms of world-class quality product and organization; through locally-adapted media and activities. All the products and communication activities are well organized and made with the best quality to suit the different market segments.

Installation

The service, or installation is aimed at achieving zero defect objectives by service high quality pump and pump systems. All PT CPNM production facilities meet high standard of health, security and environment as well as local industrial standards. The whole service team is responsible, trustworthy and capable of meeting the customer needs according to PT CPNM qualification standard.

Quality

PT CPNM always strive to make quality an integral part of corporate culture. All products and services to the customer are provided using well documented systems and procedures to guarantee good results in accordance to Service Excellence statement. The staff and customer always work hand in hand to achieve effective and efficient result. Thus, achieving the corporate vision and meeting PT CPNM standard.

A great place to work

PT CPNM is the people. An innovative and enthusiastic workforce is essential for present and future existence. Therefore, this company need to recruit and retain the best and brightest. The company believe this is done by creating a great place to work, providing all PT CPNM people with opportunities for professional and personal development.

As a national company, PT CPNM create job opportunities in Indonesia and PT CPNM contribute to increasing the level of competences in the communities where the companies are present. This is shared value.

Diversity

Being a great place to work, the company strive for diversity among the employees. The company goal is to reflect society at large to ensure the best possible workplace and dynamic working environment.

An important factor in our continuous success is the mix of young and more experienced employees. Furthermore, several initiatives have been implemented such as setting specific targets for women in management including coaching, mentoring and career planning for female candidates.

Talent is the key to development

It takes great people to meet the ambitions of our strategies and by developing a talented organization it is possible to produce an excellent working environment. Talent development is therefore given high priority at PT. CPNM.

III.2.2 Legal form of PT. CPNM

The company was established on December 21th 2006 by Notarial Deed No.C-315.HT.03.01-TH.2007 of Isadora, SH.,Mkn a notary in Jakarta.

III.2.3 Company's Operation

PT. Catur Putra Nusantara Mandiri (PT. CPNM) is the service of engineering and trading company, especially in pumps. Offering a vast variety of industrial pumps, PT. CPNM is the obvious choice as supplier for manufacturing industries, specialised within e.g.:

- Metal
- Electronics
- Plastic & Rubber
- Machinery & Equipment.

Decades of experience allow us to cover every pumping requirement in new systems and in replacements, including all the utilities, and to handle even the most difficult of challenges. Whether costumer are dealing with hot liquids, flammable or aggressive medias or high pressure, PT. CPNM is able to provide costumer with a dedicated solution that will keep the production running smoothly. Day in and day out. The same is true if you are faced with space problems or demands for increased energy efficiency.

The company also over agricultural irrigation reminds that Indonesia is good in agricultural business. PT. CPNM can supply irrigation pumping solutions that reduce energy costs, safeguards the water resource, and keeps productivity at its best. The pumping expertise and technology ensure uniform coverage despite changeable conditions. PT. CPNM offers the industry's broadest line of irrigation pumping systems. Our pumping systems are efficient, tested for reliability and designed to work seamlessly with modern farming operations.

PT. CPNM provide reliable water supply, perfect heating regulation and easy wastewater disposal. Our intelligent solutions and energy-saving technology already provide comfortable and convenient living conditions for millions of people all over the world - and we would like to make your home a better one, too. PT. CPNM domestic pumps are at home in one- and two-family houses, quite literally appearing from cellar to attic. The high-quality range includes solutions for heating, water supply and wastewater.

Now, PT. CPNM try ro sell pumps in automotive industry. Whether costumer are manufacturing cars, trucks, motorbikes or even trains and planes our range of thoroughly tested pumps comprises highly suitable solutions for:

- Machine tool
- Chilling
- Filtration
- Part washing
- Surface cleaning

Big or small. Costumer are specifically looking to optimise processes or to reduce energy consumption, motors, speed controls and monitors are available as part of PT. CPNM product.

This company engaged in services in installation of pumps, sell a pumps and pump's accessories. This company has several clients, most of all from industries, such as :

- PT. Andalas Niagatama Nusantara,
- PT Wijaya Teknik
- PDAM
- PT. Raja Indo
- PT. Famili Kita
- PT. Caraka Guna
- PT. Surya Mentari Indah

III.2.4 Organization Structure and Job Description

Structure owned and operation of PT. Catur Putra Nusantara Mandiri (PT. CPNM) based on a functional organization structure. Functional organization structures are in a command line, where each subordinate must carry out the instructions it receives. Leader (Head of Department) has a direct charge of each manager while staff work and provide advice to managers as superiors.

Based on interview this is a description of duties, authority and responsibilities of each department that relates to cash receipt and disbursement as follows:

1. Director
    - To maintain and review work each department.
    - Setting the culture of the company.
    - Developing strategy and direction for the company.
    - Managing financial and physical resources.

- Direct responsible to Board of Director

2. Purchasing Department

   - Maintain goods ordered and receipt.
   - Locate vendor as supplier, and interview them in order to determine product availability and terms of sales.
   - Prepare and process requisition and purchase order for supplies and equipment.
   - Review purchase order claims and contracts for conformance to company policy.
   - Oversees purchasing staff and is responsible directly to the board of directors.

3. Finance and Accounting Department

   - Help achieve the company's financial objectives by preparing financial statements in a timely and accurate.
   - Assist directors to compile data for short-term and long term financial plans.
   - Finance and Accounting staff are responsible to prepare the financial report

4. Marketing and Sales Department
   - Organize and control sales targets
   - Responsible for providing accurate and up to date market information
   - Supervises marketing staff and be responsible directly to the Directors

5. Human Resource Department

   - Translating company’s strategy into HR strategy

- Manage employee satisfaction primarily to salaries, bonuses, and benefits
- Looking for any information of best practices in training, employee development and career management from other companies
- Assist in the design and implementation of appraisal systems, and responsible for general affairs including, Jamsostek, permit document , health, and insurance.

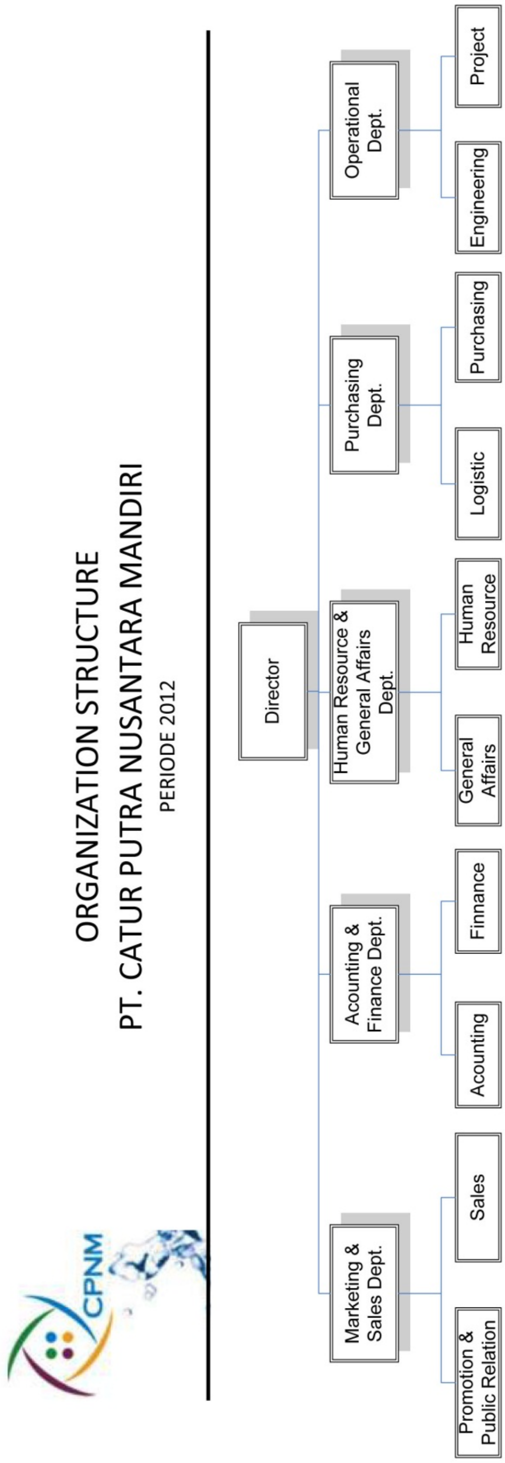

Figure 3.1 Organization Chart of PT CPNM

- **III.3 Process and Procedure of Internal Control on Cash PT. CPNM**

The entities in the company that involved in internal control of cash are Purchasing Manager, Accounting and Finance Manager and staffs. The Purchasing Manager has authorization for controlling cash especially on cash disbursement because user who issued the purchases order must obtain authorization from him. Accounting and Finance Department is the most important unit to control cash, both of cash receipt and cash disbursement. In cash receipt, Finance staffs have to check the schedule of payment of costumer who already gives the purchase order and the manager review the amount of cash receipt from sales in bank. In cash disbursement, accounting staffs control the payment of account payable and then review by Finance Manager. Marketing and Sales Department also important to collect the sales to increase the cash receipt. But this company does not have a Controlling Department to control all business activities in each department. This company also does not have written Standard Operational Procedure yet, but in the beginning 2013 the company have a plan to make a SOP therefore the procedure get from interview from the employee.

III.3.1 Cash Receipt

Cash receipt is the documentation of business activities, where the company has cash receipt almost on credit. Some of products of this company are need an installment process to make the product as finished good. In order to install the product this company creates a team project from Operational

Department. The schedule system is collect all of the account receivable after the project finished. Usually, the customer will pay the Account Receivable 30 days after their receipt invoice. This company used term of contract if the customer's order the installation of the product

The process of Cash Receipt from Credit Sales

The marketing staffs receive order from customer. Marketing Department prepare Sales Order for 2 copies are signed by the Marketing Staff then given to the logistic to check the product. After the logistic or stock keeper is check the product they give Sales Order to Accounting and Finance Department to process the payment. Accounting Staff make a list of schedule payment (payment due date) to record what time the costumer should pay the order. After that, accounting staff make invoice to inform the costumer about the name of order, due date of payment and price. The customer receives the invoice and other document then makes payments via transfer cash deposit to the Bank assigned by the company. The customer sent the Bank Receipt as a document in order give information to the company about the payment. The Cashier accepts the Bank Receipt (BR) and makes the Tanda Terima Faktur (TTF). The Accounting accepts the Tanda Terima Faktur (TTF) and BR then update the Account Receivable record. In the end of month the staff make a report of cash receipt.

This is the flowchart of process of cash receipts from Credit Sales as follow :

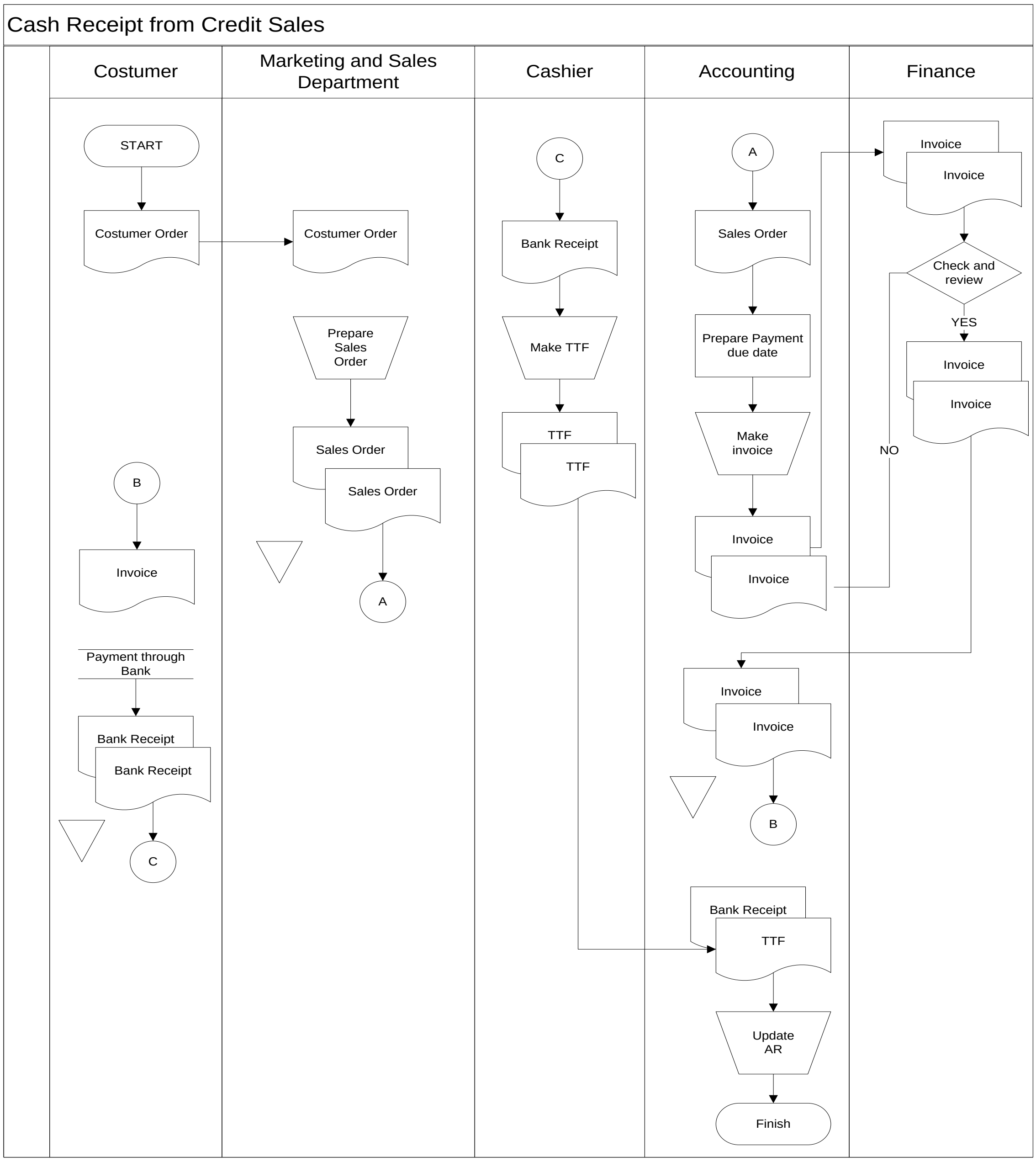

Figure 3.2 Procedure of Cash Receipt from Sales in Credit

III.3.2 Cash Disbursements

Cash disbursements are the business activities and data processing operational related with the purchases and payments. PT. CPNM has two method payment when they purchasing a product, in cash and credit. The company chooses the method of payment based on the agreement with the supplier, in example if the supplier gives a discount the company will make a payment in cash but if the supplier does not give a discount the company will make a payment in credit. This company also have a schedule of payment, usually they will pay the debt 45 days after receipt the invoice. The department that has authorization during payment in purchasing process are Accounting and Finance Department, Purchasing Department and Operational Department.

The Process of Cash Disbursements for Account Payables Payment

The suppliers sent the invoice or *Surat Tagihan Hutang*. The accounting staff will receive the documents and make a process of invoice verification. The invoice verification process is the process to check the completeness of document, in example the name of product, number of bills, and quantity. After that, accounting staff make a Tanda Terima Faktur (TTF) in two copies and signed by Accounting AP staff . The first copy of TTF kept by accounting staff for filling and the other copy go to finance staff. Finance staff makes a payment advice based on Term of Payment and give to Finance Manager. The Finance Manager review the payment advice and from the review finance staff makes Payment of Schedule. Based on payment schedule Cashier make a process Outgoing Payment to the bank and get Bank Receipt. First copy for company's document and the other give to supplier. Accounting staff is updated the Account Payable record and report in the end of month. This is the flowchart of account payable payment:

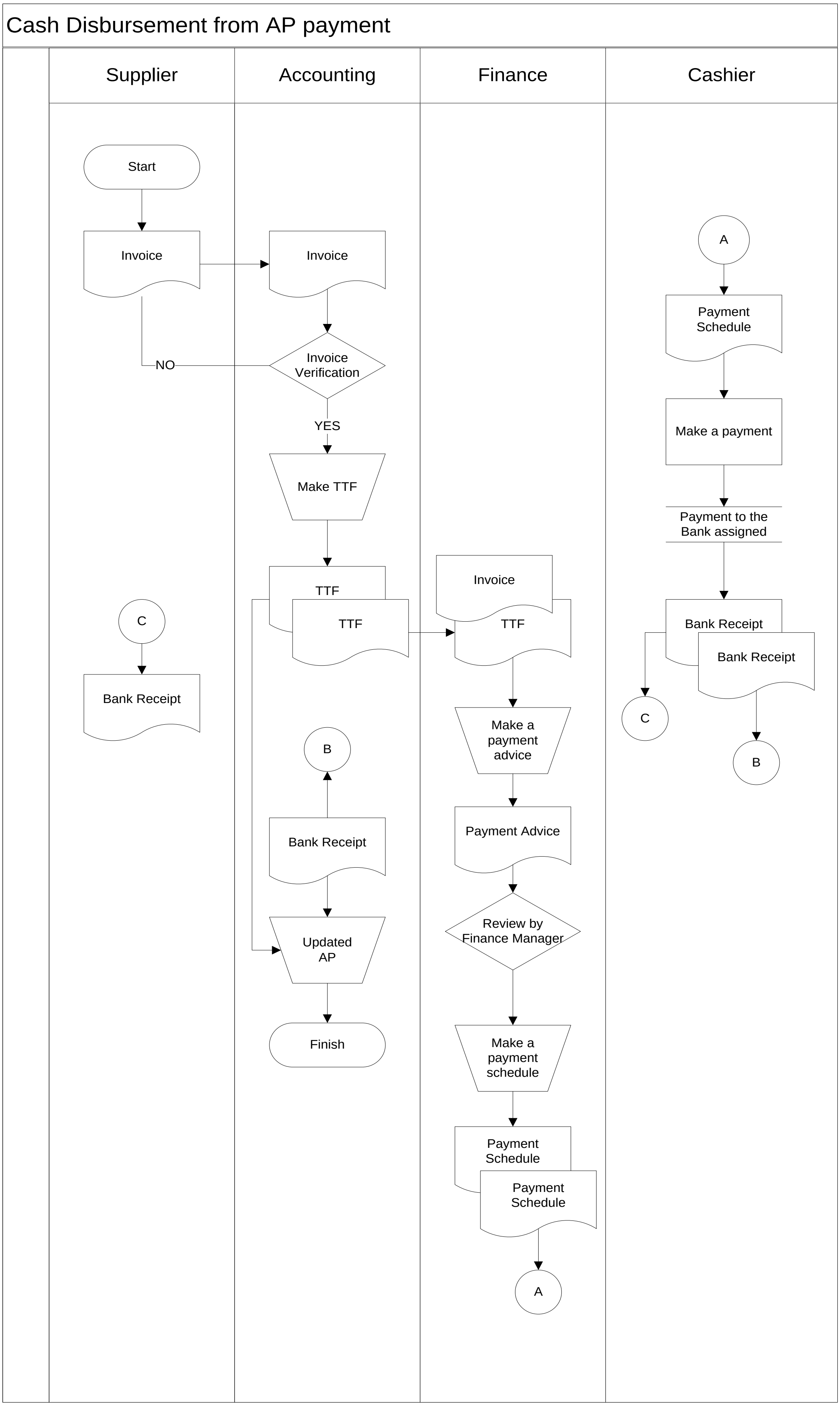

Figure 3.3 Procedure of Cash Disbursement from Account Payable Payment

The Process of Cash Disbursement for Purchases in Cash

The suppliers sent the invoice or *Surat Tagihan Hutang*. The accounting staff will receive the documents and make a process of invoice verification. The invoice verification process is the process to check the completeness of document, in example the name of product, number of bills, and quantity. After that, accounting staff make a Tanda Terima Faktur (TTF) in two copies and signed by Accounting AP staff . The first copy of TTF kept by accounting staff for filling and review by manager, however the other copy go to finance staff. Finance staff makes a payment Based on payment voucher Cashier make a process Outgoing Payment to the supplier.

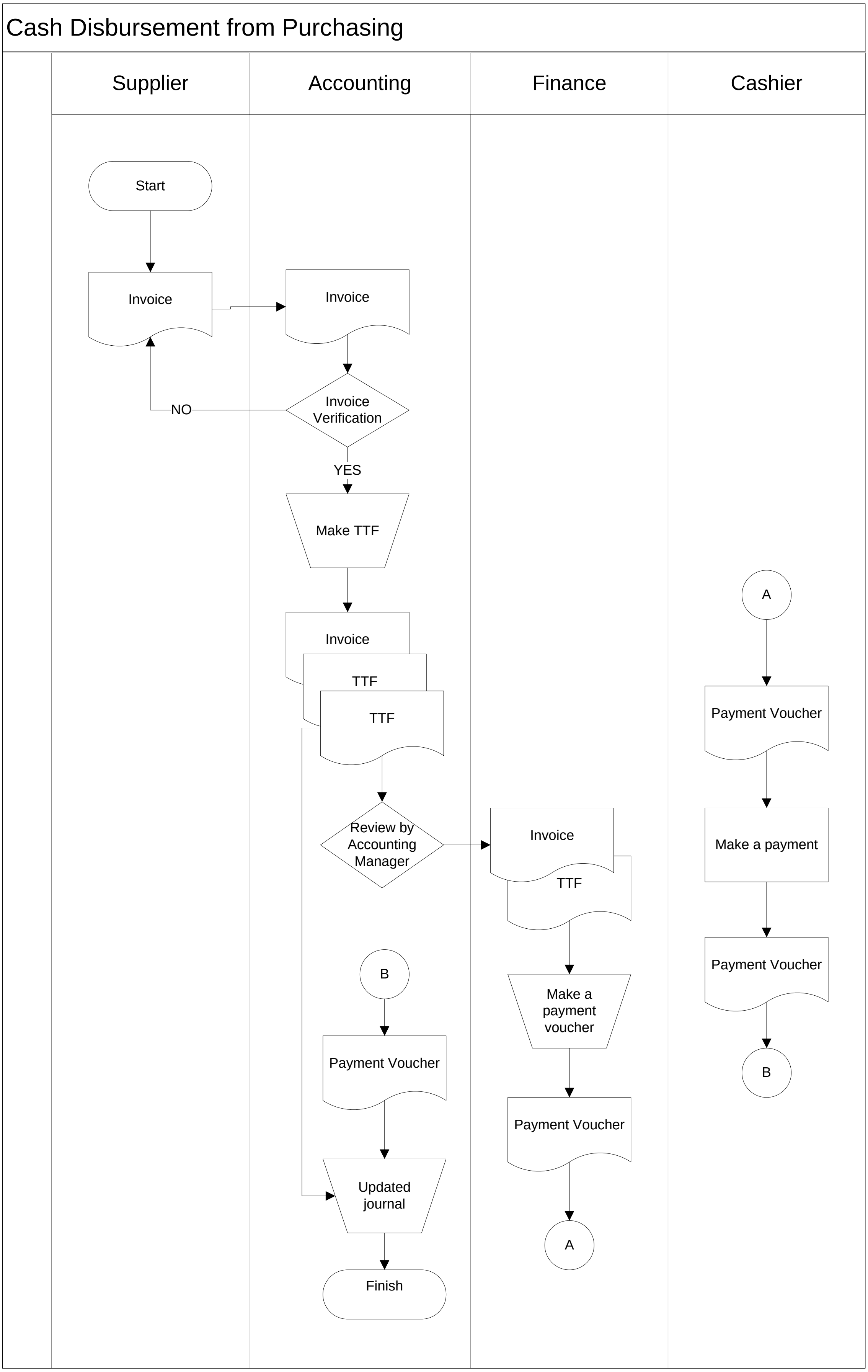

Figure 3.4 Procedure of Cash Disbursement from Purchases

CHAPTER IV

ANALYSIS AND EVALUATION

In this chapter, the writer will discuss about the strengths and weaknesses of the internal control of the company on cash receipt and disbursement. The analysis based on the audit procedures approach, such as interview, observation, and documentation. The results are:

IV.1 Positive Findings

After reviewing the existing condition of the company, writer found some positive findings as the strength of the company as follows:

1. **The company has a written organizational structure**

The company has written organization structure. Organizational structure owned and implemented in this company is a functional organizational structure. The company classifies its functions into Marketing Department, Accounting and Finance Department, Operational Department, Purchasing Department and Human Resource Department. Functional organization structure is good for making the process more efficient. This is because functional organization contains specialized units that report to a single authority, called superior (one level higher than its level). These specialized units contain with various personnel but related skills grouped by similarities.

The goal of functional organizational structure is to put all the human and informational resources necessary for a single activity in one place on department or unit. For instance, the activity related with promotion and selling product put by management in Marketing and Sales Department. All employees include high level management setting up Marketing and Sales Department to focus in marketing activity. With organizational functions the employees grow within their field, they become expert in their functional area. It will help the company to achieve their goal in each function. From explanation above, the writer summarizes that company choose functional structure as their organizational structure is good decision.

2. The company safeguard its cash and documents

The company protects their cash from thief by using banks, safe deposit box (lockbox) and filling rooms for accounting and finance to save any documents related to cash receipt, cash disbursement, tax and other related finance document. All costumers payment are received through bank. The company choose bank to decrease the possibility of fraud when company receiving cash from costumers. The company also prepares a safe deposit box (lockbox) in accounting and finance room to protect little money as their petty cash. Only Cashier who can access to the safe deposit box (lockbox) and know the password. This is important for company to use the safe deposit box (lockbox) because petty cash is easy to be stolen with the other employee. The company also has its own filling room in accounting and finance room for all documents related accounting and finance in order to protect the document from misuse.

Besides bank, lockbox and filling room, the company also has surveillance camera and security guard in their building to protect company assets from theft. All employee of company shows ID card when they enter the office. If the visitors want to meet one the employees they should report to security guard first and wear the visitor ID.

IV. 2 Negative Findings

Writer also found some negatives findings as follows:

1. **The company does not have written job description**

This company does not have any specific written job description because Human Resource Department gives authorization to each manager as superior to determine job description. The superior describe and explain job description through verbal (oral). Each function does its job based on its own interpretation.

The company needs to write job descriptions in order to provide important information regarding authority and responsibility of each function. Written job descriptions can help to guide employees to know their responsibilities and authorities. Job description is also as a tool to measure the performance of its functions.

PT. Catur Putra Nusantara Mandiri (PT. CPNM) does not make a job description because in their opinion this is not important and it believes the superior can explain the job description clear. The company also considers that the number of employees is relatively small so the responsibilities and authorities of each staff can be controlled easily.

No written job descriptions may contribute to a lack of understanding the job responsibilities and authorities. The employees do not know the limit of responsibilities and authorities of their function. If there is any error or wrong information, the employee will blame each other because there is no written job description that cleary established.

The company should have and set up a written and clear job description to provide the information such as duties, limitation of responsibilities and authorities of functions. With written job descriptions the employees know what their scope of duties and limitation.

2. The company does not have written Standard Operating Procedure in receiving and disbursement of cash

PT. CPNM does not have Standard Operation Procedure (SOP) in receiving and disbursement of cash as written instructions to explain the detail of cash receipt and disbursement activity followed by company. The employees do their job activity only based on oral instruction from their manager or the superior.

Standard Operating Procedure is very important for company because it provides step by step how to instructions the employees to perform task in a consistent manner. The Standard Operational Procedure also important for employee to get clear explanation that allows employees to act without asking for directions, reassurance, or guidance. Standard Operation Procedure help a new employee to learn and know the how to do company's activity.

This company does not have any written Standard Operating Procedure because PT. CPNM is small company and still growing therefore the management has opinion that they do not need Standard Operating Procedure in this time but company will consider to create a Standard Operating Procedure next year. The Human Resource designed company's standard for hiring people. The standard requires is only hire new employee with standard minimum experiences 1 year for staff and 2 years as a manager or superior

If the company does not have a Standard Operating Procedure the company does not know whether their employees do their job properly or not. Without Strandard Operating Procedure the employees do not know exactly how to performed the task. The new employee also cannot understand clearly about the company activity's system. There is a possibility of error done by employees because they may confuse if the instructions only given verbally by superior.

Therefore the company should have a written Standard Operating Procedure as a written instruction or guideline during running their business, because Standard Operating Procedure communicates who will perform the task, what materials are necessary, where the task will take place, when the task shall be performed, and how the person will execute the task. In Standard Operating Procedure include the organization policy with direction and policy, provide foundation for job descriptions, employees training, or discipline, and performance review. If company has a Standard Operating Procedure employees will understand the process of company activities and its can minimize any error such as miss understanding during running the business.

3. Head of Accounting Department does not periodically do physical examination on cash balance

The Head of Accounting and Finance Department does not do physical examination on cash balance regularly. Every year the company only did physical examination on cash two until three times physical examination on cash.

The company should do physical examination on cash regularly without notice to make sure that the cash is balance compared with record prepared by accounting. It is important to detect earlier if there is any discrepancy.

This is happened because the company or the superior trust to the accounting staffs, so they think the company does not need to conduct any physical examination on cash periodically.

If the company does not do a physical examination regularly, there is possibility or chance for employee to doing fraud and embezzlement on cash.

The company should conduct physical examination on cash periodically to detect earlier if there is any discrepancy. The Head of Accounting should doing physical examination on cash regularly without notice.

4. **The documents (forms) used in the company has not been printed in pre-number.**

The documents used in this company, especially cash receipt, cash disbursement and sales invoice are not printed in pre-number.

All documents in the company should be pre-number to ensure that all documents or transaction are recorded. If the company used pre-number documents, it makes easier to check if there is any missing document that not recorded.

The company ignores the pre-number document system because they are not realized about the importance of pre-number document to control the transaction or document. They think is not a big problem when the document missing, it is hard to company to find out.

If the document is not pre-number, the company will face problem in control document. For example, the company will be difficult to check the unrecorded document or loss document. The company does not know which document is missing because there is no number stated on the document. Therefore, the company should make the document in pre-number to control document and prevent company from misuse.

CHAPTER V

CONCLUSION AND RECOMMENDATION

V. 1 Conclusion

Based on the discussion on the Chapter 4, follows are the conclusions about the positive and negative findings of internal control on cash receipt and disbursement found:

A. Positive Findings

1. **The company has a written organizational structure**

   The company has owned and implemented a functional organizational structure. The activities are classified based on relatively homogeneous activity. This is bring about efficiency since functional organizational structure contains specialized units, with put all the human and informational resources necessary for single activity in one place on department or unit.

2. **The company safeguard its cash and documents**

   Accounting and Finance Department save the company's money in banks. This is good for company to decrease the possibility of fraud when for saving the huge cash. The company uses safe deposit box (lockbox) with password in order to save little money as petty cash. This is good because it will be protect petty cash from theft.

   The company also has its own filling room in accounting and finance room. With this room the Accounting and Finance Department can protect the documents related financial activity from misuse. The company protects its cash by using surveillance camera and security guard.

B. Negative Findings

1. The company does not have written job description

Eventhough the company has had written organization structure, it does not have written job description. Each function does its job based on its own interpretation. Job description is important to provide the information about the scope of authority and responsibility of each function. Unwritten job descriptions may contribute to a lack of understanding or overlapping job responsibilities and authorities.

2. The company does not have written Standard Operating Procedure in receiving and disbursement of cash

The company does not have written Standard Operating Procedure as a guideline for running an activity, especially in cash receipt and disbursement. The employees do their work based on oral instruction from their superior. A Standard Operating Procedure is important to provide step by step how activity should perform by employees. Without Standard Operating Procedure, employees cannot understand clearly about the company’s operational system. The employees also may confuse if the instructions are only given verbally by superior.

3. **Head of Accounting Department does not periodically do physical examination on cash balance**

   The company does not conduct physical examination on cash periodically. This is because the superior trusts the Cashier. Doing physical examination on cash regularly is important to make sure that the cash is balance compared with record prepared by accounting. It is also important to detect earlier if there is any discrepancy. If the company does not do a physical examination regularly, there is possibility or chance for employee to doing fraud and embezzlement on cash.

4. **The documents (forms) used in the company has not been printed in pre-number.**

   The document in the company has not been printed in pre-number. This is because the company is not realized about the importance of pre-number document to control the transaction. Pre-number is important to ensure that all documents or transaction are recorded. If the company used pre-number documents, it makes easier to check if there is any missing document.

V. 2 Recommendation

According the problems above, the researcher gives some recommendations for the company as follows:

1. The company should have and set up a written and clear job description to provide information about the scope of duties, responsibilities and authorities of each functions.

2. The company should have a written Standard Operation Procedure in cash receipt and disbursement as a written instructions or guidelines for employee.
3. The Head of Accounting should do physical examination on cash regularly every month without notice.
4. The company should make the document in pre-number as a control in order to prevent document from misuse.

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(www.udel.edu/Treasurer/intentrldef.html)

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APPENDICIES

1. **Surat Perintah Kerja (SPK)**
2. **Faktur Pajak**
3. **Invoice**
4. **Payment Advice**
5. **Debit Note**

WILO

PT. WILO PUMPS INDONESIA
BIZPARK COMMERCIAL ESTATE
BLOK A3 NO.15,
Jl. Raya Bekasi km.21,5-Cakung
Jakarta
T. +6221 4683 0059
F. +6221 4683 2952
www.wilo.co.id

Jakarta, 6 Agust-12

Nomor : 1208001/SPK-SAL/WID/VIII/2012
Perihal : Supervisi ke IKK mandangin

Kepada

PT. CATUR PUTRA NUSANTARA MANDIRI

UP. BAPAK MOHAMMAD RUVI
Direktur.

Dengan hormat,

Bersama ini kami mengeluarkan **Surat Perintah Kerja(SPK)** untuk yang tersebut dibawah ini:

Nama : Bapak Maladi
Hari : Selasa s/d Sabtu
Tanggal : 7 – 11 Agust 12

Untuk melakukan pembelian Mechanical Seal untuk dipasang pada pompa type Horizontal Multistage Centrifugal sekaligus melakukan Supervisi di Pulau Mandangin-Madura, seperti yang tersebut diatas.

Dipersilahkan untuk mengajukan penawaran/penagihan Pembiayaan atas tenaga untuk pekerjaan tersebut.

Demikian hal ini kami sampaikan, atas perhatian serta dukungan dari Bapak, kami mengucapkan banyak terimakasih.

Hormat kami,
PT. WILO PUMPS INDONESIA

Ir. Pranomo, MBA
Managing Director

Lembar ke-1 : Untuk Pembeli BKP/Penerima JKP sebagai bukti Pajak Masukan

FAKTUR PAJAK

Kode dan Nomor Seri Faktur Pajak : 010.000-12.00000008

Pengusaha Kena Pajak

Nama : PT. CATUR PUTRA NUSANTARA MANDIRI
Alamat : Jl. KB Sejahtera B 5 No. 7 RT/RW: 006/004 Sunter Jaya, Jakarta Utara
NPWP : 02.957.871.3-048.000

Pembeli Barang Kena Pajak/ Penerima Jasa Kena Pajak

Nama : PT. WILO PUMPS INDONESIA
Alamat : Jl. Panglima Polim Raya No. 6K Pulo - Kebayoran Baru, Jakarta Selatan
NPWP : 02.935.104.6-019.000

No. Urut	Nama Barang Kena Pajak/ Jasa Kena Pajak	Harga Jual/Penggantian/Uang Muka/Termin	
		Valas *)	(Rp)
1	Biaya servis pompa WILO HS Fluro 90 KW project RO Mandangin Invoice No. 068/INV-WPI/V/2012		1,500,000 -
	Harga Jual/~~Penggantian/Uang Muka/Termin~~ **)	$ -	1,500,000
	Dikurangi Potongan Harga	$ -	-
	Dikurangi Uang Muka yang telah diterima		-
	Dasar Pengenaan Pajak	$ -	1,500,000
	PPN = 10% x Dasar Pengenaan Pajak	$ -	150,000

Pajak Penjualan Atas Barang Mewah

Tarif	DPP	PPn BM
.... %	Rp.	Rp. ....
.... %	Rp.	Rp. ....
.... %	Rp.	Rp. ....
.... %	Rp.	Rp. ....
Jumlah		Rp. ....

Jakarta , 01 Mei 2012

Nama BUGI GUNAWAN

*) Diisi apabila penyerahan menggunakan mata uang asing
*) Coret yang tidak perlu

INVOICE

PT CATUR PUTRA NUSANTARA MANDIRI
Pertokoan Bintara Permai Blok D No. 8
Jalan Bintara Raya, Bekasi Barat
Telp : 02168184541, Fax : 02188961330

INVOICE No : 067/INV-WPI/V/2012
Date : 01 May 2012

Bill to :

PT WILO PUMPS INDONESIA
Komplek Pergudangan Bizpark
Blok A 3 No. 15
tel. +62-21-46830059
www.wilo-indonesia.com

SPK No. 006/SPK-SAL/WID/IV/2012 IKK Banjar Mufen

No	Description	QTY	price	TOTAL PRICE
1	Biaya Pengangkatan dan pengiriman Pompa WILo Projeect IKK Banjar (# Dikirim dari Banjar Ke Jakarta untuk di perbaiki #) Type : Sumbersible swage WILO FA 08.64 E Q : 20 L/S H : 21 Meter P : 10 KW	1 unit	Rp 5,000,000	Rp 5,000,000

Sub Total	Rp	5,000,000
Ppn 10 %	Rp	500,000
Total	Rp	5,500,000

Payment Terms :
Make All check payable to :
PT CATUR PUTRA NUSANTARA MANDIRI
Bank Mandiri
KCP Jakarta Prima Sunter
No. ACC. 1200081118999

Sincerely,

CPNM

Yopi Saepul Rohim

Peti MVI 7004

HSBC

Advice sending date:	10 Oct 2012
Advice reference no:	GA1065370707
Page:	1/1

Payment Advice

Recipient's name and contact information:

Mrs MARLINA
accountingwilo@cbn.net.id

Transaction type: Priority payment

Beneficiary's name:	PT. CATUR PUTRA NUSANTARA MANDIRI	Debit amount:	IDR825,000.00
Beneficiary's bank:	BANK MANDIRI (PERSERO) TBK PT HEAD OFFICE PLAZA MANDIRI 9/F JALAN GATOT SUBROTO KAV 36-38 JAKARTA 12190 INDONESIA	Remittance amount:	IDR820,000.00
		Handling fee of remitting bank:	Collect from Beneficiary
		Value date:	10 Oct 2012
Beneficiary's account:	12000811***** (Part of the account number is shown as ***** for security reasons.)	Remitter's name:	WILO PUMPS INDONESIA PT
		Remitting bank:	HK and Shanghai Banking Corp Ltd
		Instruction reference:	18113LR01NAR
Customer reference:	BANK-IDR/0912/06	Other reference:	HE JAKL53352EBS

Remitter to beneficiary information:
/RFB/FROM PT WILO PUMPS IND

Issued by The Hongkong and Shanghai Banking Corporation Limited

CPNM

DEBIT NOTE

PT CATUR PUTRA NUSANTARA MANDIRI
Pertokoan Bintara Permai Blok D NO. 8
Jl. Bintara Raya, Bekasi Barat
Telp/Fax : 02188961330

No : 011/DB-WILO/VI/2012
Date : 20 Junil 2012

Bill to :

PT WILO PUMPS INDONESIA
Komplek Pergudangan Bizpark
Blok A 3 No. 15
tel. +62-21-46830059
www.wilo-indonesia.com

No	DESCRIPTION	QTY		PRICE		TOTAL PRICE	
1	Flange CS PN - 16 14" Galvanis	4	Pcs	Rp	605,000	Rp	2,420,000
2	Flange CS PN - 16 12"	8	Pcs	Rp	396,000	Rp	3,168,000
3	Flange CS PN - 16 10"	4	Pcs	Rp	287,100	Rp	1,148,400
4	Flange CS PN - 16 8"	3	Pcs	Rp	203,500	Rp	610,500
5	Flange CS PN - 16 6"	3	Pcs	Rp	143,550	Rp	430,650
	Biaya angkut			Rp	500,000	Rp	500,000
				Total		**Rp**	**8,277,550**

Payment Terms :
Make all check payable to :
PT CATUR PUTRA NUSANTARA MANDIRI
Bank Mandiri
KCP JKT PRIMA SUNTER
No. A/C : **1200081118999**

Sincerely,

CPNM

Yopi Saepul R

Pertokoan Bintara Permai Blok D No. 8
Jalan Bintara Raya Bekasi Barat
Tel. 021 68184541
FAX. 021 88961330
Email : info@cpnm.co.id
Website : www.cpnm.co.id

Here with, I am:

Name : Wahyudi Prihadi

Function : Head of Accounting and Finance

Company : PT Catur Putra Nusantara Mandiri (PT.CPNM)

Address : in Jl. Binkesmas Blok B7 No. 13 Jakarta 14350 Indonesia

confirms that:

Name : Wanda Dilapanga

Student ID : 008200900086

Faculty/Major : Economics / Accountancy

Universitas : President University

has done her research in our company in order to write the skripsi, title: **"THE EVALUATION OF INTERNAL CONTROL ON CASH RECEIPT AND DISBURSEMENT (Case Study:PT CPNM)"** since November 26, 2012 until December 14, 2012 and has discussed with us the content of his/her skripsi, including the findings and recommendations.

Jakarta, January 22, 2013

PT CPNM

CPNM

(Wahyudi Prihadi)

Head of Accounting and Finance