THE ANALYSIS OF INTERNAL CONTROL
ON SHARES INVESTMENT IN PT ABC

SKRIPSI

By

Priscilla Ikerila Rasmana

008201000061

Presented to

The Faculty of Business, President University
In Partial fulfillment of the requirements

for

Bachelor Degree in Economics, Major in Accounting

PRESIDENT UNIVERSITY
Cikarang Baru – Bekasi
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PANEL OF EXAMINERS

APPROVAL SHEET

Herewith, the Panel of Examiners declares that the skripsi entitled “THE ANALYSIS OF INTERNAL CONTROL ON SHARES INVESTMENT IN PT ABC” submitted by Priscilla Ikerila Rasmana, major in Accounting, Faculty of Business was assessed and approved to have passed the Oral Examination on 12 March 2014.

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has been reviewed and found to have satisfied the necessities for Oral Defense as partial fulfillment of the requirements for Bachelor Degree in Economics - Major in Accounting.

Cikarang, Indonesia 27th January 2014

Acknowledge

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DR. Sumarno Zain, S.E., Ak., M.B.A.  DR. Sumarno Zain, S.E., Ak., M.B.A.
Head, Accounting Study Program  Advisor
DECLARATION OF ORIGINALITY

The skripsi entitled “THE ANALYSIS OF INTERNAL CONTROL ON SHARES INVESTMENT IN PT ABC” is originally prepared and submitted by Priscilla Ikerila Rasmana in partial fulfillment of the requirements for Bachelor Degree in Economics – Major in Accounting, has been reviewed and found to have satisfied requirements for a skripsi fit to be examined. I hereby declared that the skripsi is originally written by me based on my own research and has never been used for any other purpose before. I, therefore, request for Oral Defense of the skripsi.

Cikarang, Indonesia, January 27th 2014

Researcher,

Priscilla Ikerila Rasmana

008201000061
THE ANALYSIS OF INTERNAL CONTROL ON
SHARES INVESTMENT IN PT ABC

ABSTRACT

The efficiency of an insurance company’s performance, the reinforcement of its competitive position in the market, the growth of its market value mainly rely on the level of the insurance company’s investment activity. PT ABC, as a State Owned Enterprise engaged in the field of social insurance, is one of the biggest insurance company in Indonesia, which has the obligation to underwrite the set risks of participants. In order to fulfill this obligation, PT ABC should be able to manage their finances well, one of which is by invest the funds from participants before being used to pay obligations. In the process of investment (especially in shares), there are several objectives that have to be achieved. They are get the maximum profit in accordance with the rational level of risk, distribute the profit fairly to support services activities, and maintain the economic stability of the nation. In terms of ensuring these four objectives to be properly accomplished, PT ABC has to implement a good and appropriate internal control system on shares investment.

The scoped covered by this research is to evaluate the internal control on shares investment that has already implemented in PT ABC. The research method used in this evaluation is qualitative method with verification approach. Meanwhile, the necessary primary data of this research is collected through field research, and afterward the data is analyzed in accordance with appropriate literature review.

As a result of the research, it is founded that PT ABC’ internal control on shares investment which is implemented in PT ABC is performed well. PT ABC already has a good accounting control to safeguard assets especially on investment and to ensure the availability, reliability, and accuracy of that information. However, PT ABC still missed a good administrative control to carry out investment activities effectively and efficiently in accordance with applicable rules and regulations. The researcher has a notion that the company missed applicable rules and regulations which is bought high risk stock in LQ45 (blue chips) when the market price went down. Although, PT ABC aims to maintain the country's economic stability, but in the future PT ABC better be careful in placing shares investments because they manage public money.
ACKNOWLEDGEMENT

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8. All those who participated in this research that I can not mention his/her name one by one.
I hope that this research useful to the readers as a reference for another further research. I expect the feedback from the reader such as criticisms and suggestion to self development in writing. I thank you for the interest and attention.

Best Regards,

Priscilla Ikerila Rasmana
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CHAPTER I
INTRODUCTION

1.1. Research Background

Nowadays the major challenge for insurance companies is not only in developing and promoting insurance products, but also the efficiency of allocation of internal and borrowed resources. The efficiency of an insurance company’s performance, the reinforcement of its competitive position in the market, the growth of its market value mainly rely on the level of the insurance company’s investment activity. Implementation of investment that is not conform with the applicable procedures such as management carelessness towards investment risk, authorization, and lack of supporting document in recording the investment activities could cause loss for participants. Insurance company may become a collusive manipulation tool of investment so that potential corruption.

To prevent such potential problem above for happening, the role of a good internal control system is really important. Internal control on investment activities of insurance companies should evaluate the independence and effectiveness of the insurer's asset management functions by periodically review the insurer's asset portfolio to ensure it is consistent with the company's investment policies and procedures. In general, a good internal control can help company to ensure the effectiveness and efficiency of operation, ensure the reliability of financial statement, comply with rule and regulations, and safeguard
company’s assets. In addition, those matters can help the company to improve its performance which is important for the company’s going concern.

A good internal control on investment can assist the company to achieve several objectives. First, get the maximum profit in accordance with the rational level of risk. Second, distribute the profit fairly to support services activities. Third, maintain the economic stability of the nation. To achieve these objectives, the company requires a good accounting control to safeguard assets especially on investment and to ensure the availability, reliability, and accuracy of that information and a good administrative control to carry out investment activities effectively and efficiently in accordance with applicable rules and regulations.

PT ABC, as a State Owned Enterprise engaged in the field of social insurance, is a public program that provides protection for the workforce to overcome certain social and economic risks. PT ABC is one of the biggest fundraisers in Indonesia, which has the obligation to underwrite the set risks of participants. In order to fulfill this obligation, PT ABC should be able to manage their finances well, one of which is by invest the funds from participants before being used to pay obligations. Funds that invested by PT ABC closely monitored by the government because its concerns of security public funds. To generate optimal returns by minimizing the risk in investing, PT ABC needed an accurate and proper investment process, accordance with applicable regulations, company's objectives in investing and limitations that faced by the company.

Based on description above, researcher is interested in discussing how internal control on shares investment is implemented in PT ABC. Therefore, the
researcher chooses “The Analysis of Internal Control on Shares Investment in PT ABC” as title of the research.

1.2. Statement of Problem

The problems in this research are:

1. Is accounting control on shares investment already safeguarding the asset and guarantee the reliability of data in PT ABC?

2. Is administrative control on shares investment being implemented effectively and efficiently and accordance with applicable rules and regulations in PT ABC?

1.3. Research Scope and Limitation

1. The scope of this study is limited to financial institution, insurance company, which is PT ABC, especially in its internal control on shares investment. The internal control analysis and evaluation is limited in control activities. From all categories of control activities, there are only four categories discussed in this research. They are adequate separation of duties, proper authorization of transaction and activities, adequate documents and records, and independent checks on performance.

2. Using Standard Operation Procedures (SOP) of investment that released on July 1st, 2011 which started to be implemented in 2012 and audited financial reporting year 2012 and non-audited financial reporting 2013 of PT ABC is needed.
3. The discussion on investment is only focus on shares. The reasons are:
   a. PT ABC as insurance company that serves the public that has the most amounts of assets on investment should present trusted financial statement/ present public information disclosure.
   b. PT ABC allocates about 90 percents of its total investment on deposit, bonds, and shares annually. Even though the portion for shares only 25%, it riskier rather than deposit and bonds.
   c. PT ABC as five state-owned enterprises that have the biggest assets in Indonesia, which is the most liquid institution where every step could affect the index of stock market.
   d. The past ten years, PT ABC becomes a collusive manipulation tool of investment so that potential corruption.

4. Standard operation procedures on investment divide into three big parts; planning, performance, and evaluation. However, this research we only focus in performance and evaluation of shares.

1.4. Research Objectives

According to problems identification that previously mentioned, several purposes of this research are as follow:

1. To assess the implementation of internal control on investment of PT ABC.
2. To identify the weaknesses of internal control on investment of PT ABC.
3. To define recommendation of internal control on investment of PT ABC.
1.5. Research Benefits

By all means, this case study research is expected to have a lot of positive advantages for the company, researcher, and any other parties. Some benefits that can be obtained from this research are:

1. For PT ABC, to provide an analysis of accounting information system of investment process already presents relevant and reliable information to the users and recommendation to improve its internal control.

2. For researcher, to enhance knowledge especially about accounting information system of investment process.

3. For academics, to be a reference for another further research.

1.6. Research Method

This research is a qualitative research with verification approach. In gathering and processing research data, the researcher does literature review and filed research. In literature review, the researcher chooses some relevance theories for the basic criteria of analysis. In the field research, the researcher directly collects the necessary data of the company through:

1. Inquires of the client

   There are two types of information that is obtained in the process of inquiry of the client, which are written and verbal information from the management/staffs of the company being researched.
2. Observation

Observation is the process of gathering data by using human sense to assess the research object activities, such as seeing, hearing, smelling, and feeling.

3. Documentation

Documentation is the gathering data processing through inspecting of company’s documents and records like internal documents or external documents.

4. Analytical procedures

Analytical procedures are the procedures done in order to know whether there is relationship or correlation between two variables or more.
CHAPTER II

LITERATURE REVIEW

2.1. Internal Control

According to James M. Reeve, Carl S. Warren, and Jonathan E. Duchac (2007) internal control is the policies and procedures used to safeguard assets, ensure accurate business information, and ensure compliance with laws and regulations. Those three matters are also defined as the main objectives of internal control. Internal control can safeguard assets by preventing theft, fraud, or misplacement. The accurate of business information and compliance with laws and regulation are necessary for operating a business successfully.

According to Jayne Godfrey, Allan Hodgson, Ann Tarca, Jane Hamilton and Scott Holmes (2010), internal control is the internal power to govern the financial and operating policies of an entity or business to obtain benefits from its activities that support goals accomplishment.

Hayes, Dassen, Schilder, and Wallage (2005) mentioned that “Internal control is a process, affected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.” (p.663)
According to Hall (2010) description, internal control system comprises policies, practices, and procedures used by the organization to achieve four board objectives. They are to safeguard the company’s assets, ensure the accuracy and reliability of accounting records information, promotes efficiency in the company’s operations, and measure compliance with management’s policies and procedures. He also explains that the weaknesses of an organization’s internal control may cause the organization to face one or more of the following type of risks:

1. Distraction of physical or information assets
2. Theft of assets
3. Corruption of information or information system
4. Disruption of the information system

Ainsworth and Deines (2004) stated that “Internal control system is the set of policies and procedures designed to meet three objectives: (1) promote operational efficiency, (2) ensure the accuracy of accounting information, and (3) encourage management and employee compliance with applicable laws and regulations.” (p.44)

In conclusion, the internal control means an internal policy, procedure, or system made by an organization’s board of commissioner, board of director, and other organization’s personnel to maintain and improve organization’s financial performance for its going concern through ensuring that the organization’s financial statement is reliable to be used, organization’s operational activities are
run effectively and efficiently, organization’s personnel comply with the established law and regulation, and organization’s assets are safeguard.

2.1.1. COSO Internal Control Element

According to Timothy Doupnik and Hector Perera (2012) the guideline of internal control framework was initially published in year 1991 which developed by The Committee of Sponsoring Organizations (COSO) of the Treadway Commission and sponsored by the AICPA, FEI, IIA and others.

According to Arens, Elder, and Beasley (2010) and Reeve, Warren, and Duchac (2007) explanation, The Committee of Sponsoring Organizations (COSO) of the Treadway Commissions determines the five elements of internal control are as follow:

1. Control Environment

Control environment is the overall attitude of management and employees about the importance of control that include:

a. Integrity and Ethical Values
b. Commitments over Competence
c. Management and Operating Style Philosophy
d. Organization Structure
e. Application of Authority and Responsibility
f. Human Resources’ Policy and Procedure
2. Risk Assessment

Risk assessment is the inspection or analysis of any potential risk that will be faced by an organization which consist of:

a. Identify factors that may increase risk faced by the company
b. Estimate the significant of company’s risk
c. Assess the probability of the risk occurring
d. Determine actions necessary to reduce the risk

3. Control Activities

Control activities are established to provide reasonable assurance that business goals will be achieved, including the prevention of fraud. It consists of:

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

4. Information and Communication

The purpose of an accounting information system and communication system is to initiate, record, process, and report the entity’s transaction or economical event and to maintain accountability for the related assets. It includes:

a. Information
b. Communication
5. Monitoring

Monitoring the internal control system can identify the weaknesses and improves control effectiveness through determining whether controls are operating as intended and modified when needed. The samples of monitoring are:

a. Monitoring of ongoing activities
b. Separated evaluation
c. Follow-up the audit findings

<table>
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<th>Components</th>
<th>Descriptions of Components</th>
<th>Components Elements</th>
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| Control environment       | Actions, policies, and procedures that reflect the overall attitude of top management, directors, and owners of an entity about control and its importance | • Integrity and ethical values  
• Commitment to competence  
• Those charge with governance (board of director or audit committee)  
• Management Philosophy and operating style  
• Organizational structure  
• Assignment of authority and responsibility  
• Human resource policies and practice |
| Management’s risk assessment | Management’s identification and analysis of risks relevant to the preparation of financial statement in accordance with IFRS | Management assertions: existence, completeness, valuation, presentation, and disclosure, measurement, occurrence |
| **Accounting information system and communication** | Method used to identify, assemble, classify, record, and report an entity’s transaction and to maintain accountability for related assets | Transaction related audit objectives: existence, completeness, accuracy, classification, timing, posting, and summarization |
| **Control activities (control procedures)** | Policies and procedures that management established to meet its objectives for financial reporting | - Adequate segregation of duties  
- Proper authorization of transactions and activities (specific computer controls)  
- Adequate documents and records (general computer controls)  
- Physical control over assets and records  
- Independent checks on performance |
| **Monitor** | Management’s ongoing and periodic assessment of the effectiveness of the design and operation of an internal control structure to determine if it is operating as intended and modified when needed | Not applicable |

*Source: Hayes, Dassen, Schilder, and Wallage (2005) page 236: Principle of Auditing (2nd Ed)*

**Table 2.1**

**The Components of Internal Control Structure**
2.1.1.1. Control Activities

Hollander, Denna, and Cherrington (2000) mentioned that “Control activities are the policies and procedures the organization uses to ensure that necessary actions are taken to minimize risks associated with achieving its objectives.” (p.196)

According to Arens, elder, and Beasley (2010), control activities of COSO is separated into five categories. They are:

1. Adequate separation of duties
   a. The employee who performs to custody company’s assets must be different with employee who performs accounting function.
   b. The employee who authorized the transactions must be different with employee who custody the related assets.
   c. The employee who has operational responsibility must be different with employee who has record-keeping responsibility.
   d. The employee who has IT duties must be different with the user departments.

2. Proper authorization of transaction and activities
   a. General authorization.
   b. Specific authorization.

3. Adequate documents and records
   a. The document must be consecutively pre-numbered.
   b. The documents and records must be prepared at the time of transaction is performed.
c. The documents and records must be designed for multiple uses.

d. The documents and records must be constructed to encourage correct preparation.

4. Physical control over assets and records is one of precaution actions to safeguarding company’s assets and records.

5. Independent checks performance
   a. The need for independent verifications arises because internal control tends to changes overtime unless there is a mechanism for frequent review of company.

   In accordance with Hayes, Dassen, Schilder, and Wallage (2005), control activities or also common as control procedures are the policies and procedures that help the company ensures its management commands are carried out. The control activities are categorized into:

   1. Performance reviews

      Performance reviews or internal verifications mean independent checks on performance by a third party who does not directly involve in the activity. These reviews are include review of actual performance to company’s budget, suddenly checks the procedures, periodically compare the accounting records with the physical assets, and reviews of company’s functional or activity performance.

   2. Information processing

      Information process is categorized into two types, which are application control and general control. Application control means controls that apply to applications that initiate, record, process, and report transaction like
computer application such as Microsoft Office and SAP, rather than the computer system in general. In the term of manual system, application controls may refer to the documents and record controls. The general controls refer to the policies and procedures that relate to many applications and support the application through ensuring the continued proper operation of information system. In manual system, general controls refer to the proper transaction authorization.

3. Physical controls

Physical control mean procedures applied in a company to ensure the physical assets of company are not be stolen, damaged, or lost.

4. Segregation of duties

There are three fundamental functions that need to be segregated and adequately supervised are authorization, custody, and recording duties. In the other words, the personnel who authorized, guard, and records the transactions must be different people. The authorization control can ensure that only necessary transactions based on the company’s objectives are undertaken. Custody control function is to physically ensure that company’s assets are safe or there is no misappropriation of assets. Recording control is purposed to ensure that all authorized transactions are properly recorded and do not be deleted by unauthorized personnel.

5. Authorization

Authorization means the delegation of transactions and Bonds on the company’s behalf that should restricted only to the proper personnel to access assets or records.
Hall (2010) has explained that control activities means “The policies and procedures used to ensure that appropriate actions are taken to deal with the organization’s identified risks.” (p.134). Control activities are grouped into several categories, which consist of:

1. IT Controls

   IT controls refer to the computer control that is divided into two categories. First, general control which means to the company’s wide control like a data center, organization database, systems development and etc. Second, application control that refers to the more specific computer system such as investment systems processing.

2. Physical Control

   Physical controls mean to the controls that related into the human activities employed in accounting system. These activities may be purely manual, such as the physical custody of assets, or they may involve physical use of computers to record transactions or update accounts.

3. Transaction Authorization

   Transaction authorization is intended to ensure that all material transactions processed by the system or procedure applied in company are valid and in accordance with management’s goals. The transaction authorization is able to be granted to the personnel either who authorized day-to-day operation or case-by-case for non routine transactions.

4. Segregation of Duties

   The control involve in segregation of duties is through minimize the duties or responsibilities that need to be controlled by the single person of
employee in order to help employee more focus on the specific job assigned. Hence, the attention to details is more possible to be accomplished. The authorization, processing, custody, and recording duties must be separately assigned. The employees who record journal, subsidiary ledger, and general ledger also have to be different person.

5. Supervision

Supervision is a control from organizations through employ competent and trustworthy personnel to supervise or monitor the subordinates in running the task assigned properly, like a finance manager supervise his several finance staffs.

6. Accounting Records

The accounting records of an organization consist of source documents like invoice and receipt, journals, and ledgers. These records capture economic essence of transactions and provide an audit trail of economic events. The audit trail is used to provide information of day-to-day operation and current status of transactions in process and to help internal or external auditor in tracing the information needed.

7. Access Control

The purpose of access control is to ensure that only authorized employee or personnel that have access to the organization’s assets. Unauthorized access is possible to cause company’s assets to be misappropriated, damaged, or stolen. Therefore, the access control plays an important role in terms of safeguarding company’s assets.
8. Independent Verification

The company accounting procedure or transactions cycle are needed to be verified by independent personnel in order to identify any errors and misappropriations. Verification is different with supervision because it takes place after the fact, by an individual who is not directly involved with transaction or task being verified. Supervision takes place while the activity is being performed, by a supervisor with direct responsibility for the task.

2.2. Investment

Investment is a term for several closely related meanings in finance and economics. According to Theoretical Economics, investment means the production of capital goods which are not consumed but instead used in future production, for example building, a rail road, factory clearing land, and putting oneself through college. According to Finance Term, investment means buying of assets, for example buying shares and bonds, investing in real estate, and mortgages. These investments may then provide a future income and increase in value. Investment means the investing of money (Oxford dictionary).

2.2.1. Characteristic of Investment

Investment refers to invest money in financial physical assets and marketable assets. Major investments features such as:

1. **Risk** refers to the loss of principal amount of an investment. It is one of the major characteristics of an investment.
2. **Return** refers to expected rate of return from an investment an important characteristic of investment.

Return is the major factor which influences the pattern of investment that is made by the investor. Investor always prefers to high rate of return for his investment.

3. **Safety** refers to the protection of investor principal amount and expected rate of return.

Safety is also one of the essential and crucial elements of investment. Investor prefers safety about his capital. Capital is the certainty of return without loss of money or it will take time to retain it. If investor prefers less risk securities, he chooses Government bonds. In the case, investor prefers high rate of return investor will choose private Securities and Safety of these securities is low.

4. **Liquidity** refers to an investment ready to convert into cash position.

In other words, it is available immediately in cash form. Liquidity means that investment is easily realizable, saleable or marketable. When the liquidity is high, then the return may be low. An investor generally prefers liquidity for his investments, safety of funds through a minimum risk and maximization of return from an investment.

5. **Marketability** refers to buying and selling of Securities in market.

Marketability means transferability or sale ability of an asset. Securities are listed in a stock market which are more easily marketable than which are not listed. Public Limited Companies shares are more easily transferable than those of private limited companies.
6. **Conceal Ability** is another essential characteristic of the investment. Conceal ability means investment to be safe from social disorders, government confiscations or unacceptable levels of taxation, property must be concealable and leave no record of income received from its use or sale. Gold and precious stones have long been esteemed for these purposes, because they combine high value with small bulk and are readily transferable.

7. **Capital Growth** refers to appreciation of investment. Capital growth has today become an important character of investment. It is recognizing in connection between corporation and industry growth and very large capital growth. Investors and their advisers are constantly seeking ‘growth stock’ in the right industry and bought at the right time.

8. **Purchasing Power** refers to the buying capacity of investment in market. Purchasing power stability has become one of the import traits of investment. Investment always involves the commitment of current funds with the objective of receiving greater amounts of future funds.

9. **Stability of Income** refers to constant return from an investment. Another major characteristic feature of the Investment is the stability of income. Stability of income must look for different path just as security of principal. Every investor always considers stability of monetary income and stability of purchasing power of income.

10. **Tax Benefits** refer to plan an investment program without regard to one’s status may be costly to the investor. There are actually two problems:
    - One concerned with the amount of income paid by the investment.
• Another is the burden of income tax upon that income.

2.2.2. Stock

Stock is a share in the ownership of a company (Oxford dictionary). Stock represents a claim on the entity's assets and earnings, if an individual or institution investor acquired more stock, the ownership stake in the entity becomes greater. Holding an entity's stock means that investor are one of the many owners or shareholders of a company and have a claim to everything the company owns. This means that technically investor own a tiny sliver of every piece of furniture, every trademark, and every contract of the entity.

2.3. Accounting Information System

Warman and Davies (1999) stated that “system is a methodically arranged set of ideas, principles method or procedures to achieve a common goal, or in very simple term, it is a way of consistently making something which is difficult to become easy.” (p.5) and Hall (2004) mentioned that “Accounting information system (AIS) is specialized subset of information system that process financial transaction.” (p.11)

According to Hall (2010), accounting information system is divided into three major subsystems. They are the transaction processing system (TPS), general ledger/financial reporting system (GL/FRS), and management reporting system (MRS). Transaction processing system (TPS) is a system that supports daily operational activity of company with many kinds of documents, reports, and messages. General ledger/financial reporting system (GL/FRS) is a system that
assists company to procedures traditional financial statement like balance sheet, income statement, and statement of cash flow. Management reporting system (MRS) is a system that provides company’s management with special purpose financial reports and any other necessary information for decision making.

Hayes, Dassen, Schilder, and Wallage (2005) stated that “Accounting system is the series of tasks and records of entity by which transaction are processed as a means of maintain financial records. Such systems identify, assemble, analyze, calculate, classify record, summarize, and report transaction and other events.” (p.644). In the other words, accounting information system is a system or procedure that assists a company to identify, record, classify, summarize, and report, any economical events occur to become an information that is useful for decision making.

2.4. **Fraud**

There are many contexts which identify the meaning of fraud, yet in the simple words fraud means any kind of illegal act. According to Albrecht, Albrecht, Albrecht, and Zimbelman (2009), there are three reasons why people commit fraud action, where those three reasons well known as fraud triangle. Fraud triangle consists of:

1. **Pressure**
   
   Pressure is a condition where people are forced to do something. For example people must pay rent while they are in financial crisis condition.
2. Opportunity

Opportunity is situation where people have a chance to do fraud. For example employee takes company asset while there is no supervision by the high level management.

3. Rationalization

Rationalization is the way of people in interpreting something. For instance, employee thinks that he only borrows the company asset, not steal it, and will return it back someday.

According to Albrecht, Albrecht, Albrecht, and Zimbelman (2009) there are also six system weaknesses that are able to enhance the opportunity of fraud.

1. Lack of control that prevents and defects fraud

It means the internal control (control environment, accounting system, and control activities) of the company is running ineffectively and inefficiently.

2. Inability to judge quality of performance

It is difficult to judge whether the people deserve to get something that they suppose to be received. It makes chance for people to overcharge their performances.

3. Failure to discipline fraud perpetrators

The discipline environment makes people are commonly to follow the rules and regulations stated.

4. Lack of access of information

Many frauds occur because victims do not have access to information possessed by the perpetrators (lack of transparency).
5. Ignorance, apathy, and incapacity

Older people, individuals with language difficulties, and others are often become as victims of fraud, because the perpetrators know those people may not have the capacity or knowledge to detect their illegal act.

6. Lack of audit trail

Many frauds are committed because the accounting record cannot be followed. It is easy for the perpetrators to hide illegal act, since the record will be erased quickly.

Albrecht, Albrecht, Albrecht, and Zimbelman (2009) classify types of fraud into several categories, which is shown in the following table:

<table>
<thead>
<tr>
<th>Type of Fraud</th>
<th>Victim</th>
<th>Perpetrator</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Employee embezzlement or occupational fraud</td>
<td>Employees</td>
<td>Employees</td>
<td>Employees directly or indirectly steal from their employers.</td>
</tr>
<tr>
<td>2. Management fraud</td>
<td>Stockholders, lenders, and other who rely on financial statements</td>
<td>Top management</td>
<td>Top management provides misrepresentation, usually in financial information</td>
</tr>
<tr>
<td>3. Investment scams</td>
<td>Inventors</td>
<td>Individuals</td>
<td>Individuals trick inventors into putting money into fraudulent investment</td>
</tr>
<tr>
<td>4. Vendor fraud</td>
<td>Organizations that buy goods or services</td>
<td>Organizations or individuals that sell goods or services</td>
<td>Organizations overcharge for goods or services or non-shipment of goods, even though payment is made</td>
</tr>
</tbody>
</table>
5. **Customer fraud** | **Organizations that sell goods or services** | **Customers** | **Customers deceive sellers into giving customers something they should not have or charging them less than they should do**

*Source: Albrecht, Albrecht, Albrecht, and Zimbelman (2009)page 8: Fraud Examination (3rd Ed)*

**Table 2.2**

**The Types of Fraud**

In the term of auditing concept, according to Arens, Elder, and Beasley (2010) and Hall (2010) explanation, fraud is classified into two types which are fraudulent financial reporting and misappropriation of assets. Fraudulent on financial reporting refers to any illegal act which involves some form of financial misstatement on the action. For instance, company’s management cooperates with external auditor to conceal or misstate some revenue balance to reduce the tax payment. Misappropriation of assets means any illegal act done by the perpetrators through directly or indirectly diverting assets own the company.
CHAPTER III

METHOD OF DATA PROCESSING

AND COMPANY’S EXISTING CONDITION

3.1. Data Collecting and Processing

One of common ways to identify the strengths or weaknesses of a company’s internal control system is through a research, whether it is quantitative research like survey research or qualitative research, such as field observation, focus groups, intensive interview, and case study. Based on those two of research methods, the implementation of qualitative research is the most suitable way to describe, process, and analyze the existing condition of internal control on investment process used in PT ABC. This qualitative research focuses on case study analysis with verification approach.

Case study is kind of qualitative research that is used to draw from many data sources as possible to investigate systematically and individual, group, organization, or event. Case study is also intended to assist the researcher in explaining some phenomenon. According to Samy Tayie’s (2005) explanation, case study research has four essential characteristics. They are:

1. Particularistic

The case study focuses on a particular situation, an event, a program, or a phenomenon and making them to be a good method for studying practical real life problems.
2. **Descriptive**

A detailed description of topic being researched will be main result achieved.

3. **Heuristic**

The case study enables people to understand what is being studied where new interpretations, perspectives, meaning, and fresh insights are the goals of the study.

4. **Inductive**

Most of case studies depend on inductive reasoning and attempt to discover new relationship rather than to verify existing hypothesis.

As an object of this qualitative research, PT ABC is selected because of some reasons. Firstly, PT ABC is PT ABC as insurance company that serves the public that has the most amounts of assets on investment should present trusted financial statement / present public information disclosure. Second, PT ABC, as five state-owned enterprises that have the biggest assets in Indonesia, is the most liquid institution where every step could affect the index of stock market. Third, for the past ten years PT ABC become a collusive manipulation tool of investment so that potential corruption.

Before analyzing the data through relevance literature reviews, the appropriate data need to be collected first. In regard of collecting research data, the researcher uses a field research. Field research is type of data collection method where the researcher directly involves into the fieldwork where the necessary data exist like visiting where the company or research object operates.
the business, for this case is PT ABC. In terms of this PT ABC case study, the researcher use instrument of auditing method that is called as types of evidence, in getting the data during field research. The types of evidence consist of:

1. Inquiries of the client

There are two types of information that is going to be obtained in the process of inquiry client, which are written and verbal information. Those written and verbal information is a form of responses from company’s representative regarding the questions asked by researcher, in this case study the company’s representative is Ibu Susie. The reason of choosing Ibu Susie is because her position is head of internal control and she has more knowledge about real company’s condition in field especially in investment area. She has knowledge about investment, because she used to be a part of investment division. She also has already joined with this company for more than twenty years.

On behalf of this research, this company is interviewed through clinical interview method means the researcher will have some pre-prepared questions, but will ask spontaneous ones as well, just when will depend on the last answer given by a participant (Gerard Keegan blog). If it is interesting the clinical interview allows exploration of using this spontaneous questioning. That responses suppose to be relevance with the questions asked, hence the researcher also need to be able to measure the relevancy. In the other words, this data collecting process is similar with interview and discussion between researcher and company’s representative.
2. Observation

Observation is the process of gathering data by seeing, smelling, hearing, tasting, and feeling to assess activities of investment process. Through this observation, the researcher enables to obtain a general impression of company being research or in this case a general impression about a big picture of working environment along with office condition. The observation will be conducted in the main office of PT ABC, Jl. Jend. Gatot Subroto No.79, South of Jakarta, 12930.

3. Documentation

Documentation is the process of tracking down evidences either internal or external evidences of activities being researched. The necessary internal documents include company’s profile data, Standard Operation Procedures (SOP) on shares investment, and government’s policies, rules, and regulation on investment process. Meanwhile, external document needs to be collected are management letter of prior auditor and issues and articles of company’s investment that discussed and revealed publicly. Apart from gathering the documents, the researcher also examines the function of those documents and verified the originality of the documents.

4. Analytical procedures

Analytical procedures are the procedures done in order to know whether there is relationship or correlation between two variables or more.

The researcher also has to concern the sufficiency of number of data gathered. The researcher must neither lack number of necessary data nor over
number of unnecessary data. Moreover, the data collection also has to be categorized as reliable information. The researcher supposes to keep attention on independency of information provider, time period of information, and any other important aspects. At the end, this good persuasiveness of data will enhance the quality of research result.

After necessary data is collected, the researcher needs to analyze and evaluate those data collection, as a form of data processing. The data is analyzed according to literature review chosen. The literature review must be criteria that have an appropriate relevancy with the topic discussed in this research. Trough this analysis, the researcher is able to find which area of internal control on investment in PT ABC that needs to be improved. Furthermore, this analysis also supposes to be able to identify which area that has already has a good control. At the end, this research description and analysis is used for determining research conclusion and recommendation.
3.2. Company’s Existing Condition

3.2.1. Company’s Background

3.2.1.1. History

Implementation of social security program is one of responsibilities and Bonds of the State to provide socioeconomic protection to the community in accordance with the conditions of the financial ability of State. Indonesia as well as other developing countries, develop the social security program funded based on social security, social security is which is funded by participants and still limited to the public employees in the formal sector.

History of the establishment of PT ABC experienced a long process, starts from Act No.33/1947 connection with Act No.2/1951 on occupational accidents, Regulation of Labor’s Minister No.48/1952 connection with Regulation of Labor’s Minister No.8/1956 regarding assistance setting for the implementation of labor healthcare, Regulation of Labor’s Minister No.15/1957 on the establishment of social workers foundation, Regulation of Labor’s Minister No.5/1964 on Pembentukan Yayasan Dana Jaminan Sosial (YDJS), the enactment of Undang-undang No.14/1969 tentang Pokok-pokok Tenaga Kerja. Chronologically, the birth of social insurance labor is getting transparent.

After experiencing progress and development, both related to the legal basis, forms of protection as well as the basic in running the organization, in 1977 obtained an important milestone with the issuance of Peraturan Pemerintah (PP) No.33 tahun 1977 tentang Asuransi Sosial Tenaga Kerja (ASTEK), which requires each employer / private entrepreneurs and state enterprises to follow ASTEK
program and supported by issuance of PP No.34/1977 tentang Pendirian Perusahaan Umum Asuransi Sosial Tenaga Kerja.

The next important milestone is the creation of Undang-undang No.3 tahun 1992 tentang Jaminan Sosial Tenaga Kerja. Through Government Regulation No.36/1995 stipulated that PT PT ABC as organizing entities of workers’ social security. PT ABC program provides basic cover to meet the minimum requirement for workers and their families by delivering assurance of ongoing revenue’s flows of family income in lieu of part or all of the lost income, due to social risks.

Hereinafter, at the end of 2004, Government also published Undang-undang No. 40 tahun 2004 tentang Sistem Jaminan Sosial Nasional. This related to amendment of constitution 1945 on change art. 34 paragraph 2, which read “Negara mengembangkan sistem jaminan sosial bagi seluruh rakyat dan memberdayakan masyarakat yang lemah dan tidak mampu sesuai dengan martabat kemanusiaan.” This protection benefit may give security to employees so that may more concentrate in increase motivation as well as productivity.

Company prioritizing the interest of and normative right of employees in Indonesia persist. This day, PT ABC provide four protection program, they are Accident Insurance Program (Jaminan Kecelakaan Kerja / JKK), Death Benefit (Jaminan Kematian / JKM), Old Age Insurance (Jaminan Hari Tua / JHT) and Health Insurance (Jaminan Pemeliharaan Kesehatan / JPK) for entire employees and families.
In 2011 established Undang-undang No.24 tahun 2011 tentang Badan Penyelenggara Jaminan Sosial. According to statute mandate, 1st January 2014, PT ABC will be transformed into Public Legal entity. PT ABC still trusted to organize worker social security program which covers JKK, JKM, and JHT with the addition of Pension Assurance starts 1st July 2015. Realizing the great and glorious of the responsibilities, PT ABC continues to improve competencies across service lines while developing a variety of programs and benefits that can be enjoyed directly by employees and their families. Recently, the more sophisticated implementation system, PT ABC program is not only providing benefit for employees and employers but also significant contribution for nation economic development and Indonesian society welfare improvement.

3.2.1.2. Vision and Mission

In order to reach the successes in business area, vision and mission of PT ABC are:

**Vision**

World class, trusted, friendly and excellent social security provider both in operational or services.

**Mission**

As employees social security that fulfills basic workers protection as well as trusted partners for:

1. **Workers**: providing appropriate protection for workers and families.
2. **Employers**: To become trusted partner to provide protection to the workers as well as enhance productivity.

3. **State**: Participating in the development.

### 3.2.1.3. Organization Structure

The organizational structure of PT ABC, as stated in *Surat Keputusan Direksi Nomor: KEP/111/032013 tentang Struktur Organisasi*, is as follow:

![The Organizational Structure of PT ABC](image-url)

**Figure 3.1**

The Organizational Structure of PT ABC
3.2.1.4 Job Description

The details of job description for several levels that take part and have responsibilities on shares investment activities in PT ABC are mentioned below:

1. President Director
   a. Leading the entire board or the executive committee and giving positive feedbacks to his subordinates.
   b. Offering a vision and imagination in the highest level.
   c. Leading, controlling, and monitoring the whole company’s activities.
   d. As a decision maker and strategic planner for the company going concern.
   e. Checking and investigating company’s financial statement.

2. Bureau of Compliance and Law
   a. Developing, initiating, maintaining, and revising policies and procedures for the general operation of the compliance program and its related activities to avoid illegal, unethical, or improper conduct.
   b. Developing and periodically reviewing and updating standards of conduct to ensure continuing currency and relevance in providing guidance to management and employees.
   c. Collaborating with other departments to direct compliance issues to appropriate existing channels for investigation and resolution.
d. Responding to notion violations of rules, regulations, policies, procedures by evaluating or recommending the initiation of investigative procedures.

e. As an independent review and evaluation body to ensure that compliance issues within the organization are being properly evaluated, investigated and resolved.

3. Investment Director

a. Developing the viewpoint, corresponding investment thesis, and asset allocation and communicating point of view of the economy and markets.

b. Managing portfolio risk, performing qualitative and quantitative research to select investments, and developing efficient investment processes and procedures.

4. Portfolio Analysis Division

a. Performing the daily investment management activities of the company including client portfolio rebalancing, and management of the company’s proprietary stock strategies.

b. Analyzing and monitoring portfolio business cases and project requests provides support to business sponsors for business case development and benefits harvesting.

c. Evaluation and rebalancing of large cap stock portfolios through the use of optimization software and multi factor risk models.

5. Financial Market and Capital Market Divisions

a. Managing cash flow, company’s liquidity and placement fund.
b. Monitoring interest rate and preparing all the documents needed to buy or sell investment on financial instrument.

c. Connecting investor, entity and government institution through trading of financial instrument.

6. Bureau of Risk Management

a. Classifying, evaluating, and monitoring a company’s risk to prevent businesses from becoming tended to or not following regulations and standards.

7. Accounting and Finance Department

a. Recording the whole inflow and outflow of any financial event.

b. Controlling the cash on hand disbursement.

c. Preparing financial report periodically.
3.2.2. Company’s Activities

3.2.2.1. Investment Activities on Shares

There are three phases of investment that are performed by PT ABC, namely:

1. Planning

In this phase, investment planning performed by PT ABC includes:
- 5 years planning set out in the Strategic Asset Allocation (SAA) and annual planning set out in the work plan articles of the company and Tactical Asset Allocation (TAA).
- Practically, before Financial Market and Capital Market Divisions (Divisi Pasar Uang Pasar Modal or DPUPM) and Direct Investment Division (Divisi Investasi Langsung or DIL) sell/buy transaction of financial instruments, Analysis Portfolio Division (Divisi Analisis Portofolio or DAP) helps DPUPM and DIL to conduct analysis that pour into TAA (annual investment planning). Then, DAP, DPUPM, and DIL will conduct analysis and performance review quarterly in Portfolio Meeting.

2. Implementation

After initial investment analysis is performed, so that DPUPM will make a deal on shares. The deal over price and amount of shares must accord with TAA. Shares that might be bought are shares that are registered in LQ45 at the time of dealing. After that, PT ABC will receive confirmation letter from broker over deal transaction. The Company (dealer) will check Deal Ticket to make sure what is written in the confirmation letter is already right and appropriate or not. If it is, the confirmation letter will be signed by
Head of Bureau and approved by Investment Director. Further, confirmation letter will send back to the broker as agreement transaction.

3. Completion of Transaction and Recording

After dealing occur by DPUPM and has been approved by Investment Director, Investment Director will issue memo to Finance Director. In memo, Finance Director state that Deal Ticket over shares may proceed. Proceed is if PT ABC buy shares, it means Investment Director command to paid the shares to the broker; or if PT ABC sell shares means Investment Director announced that PT ABC will receive fund over sale of investment later. Level of shares settlement transaction is regulated in standard operation procedures investment management handbook. Moreover, memo is a notification to the bookkeeping that announce there will be transaction that they need to record in the system.

In this research, we will discuss internal control on shares investment regarding Initial Public Offering (IPO) procedure, shares in secondary market (non-portfolio) procedures, and shares in secondary market (portfolio) procedures. The detail of system procedure applied of investment on shares at PT ABC is drawn on the flowchart system below:
1. Initial Public Offering (IPO)

Figure 3.2.

The Flowchart of Internal Control System on the Procedures of Initial Public Offering (IPO)
Figure 3.3.

The Flowchart of Internal Control System on the Procedures of Initial Public Offering (IPO) Continue
The PT ABC’ procedures of initial public offering are:

1. All bids investment proposals sent to the Investment Director, then Investment Director sends disposition to DAP to analyze the investment proposals and ordered PUPM and DAP to conduct internal meetings related to the book building.

2. Memo study from DAP and the results of the meeting between DAP and DPUPM poured into treatise and sent it to the Investments Director. After
that Investment Director will provide disposition to treatise of internal meeting of IPO, then expressed approval of the book building. If the investment director does not agree then the entire document will be filed, but if the Director of Investment agrees upon the book building then head of DPUPM will provide FPPS IPO to Investment Director for approval.

Based on the document regarding memo DAP, Investment Director will state his opinion regarding the investment offer to the President Director.

3. Based on documents received by President Director such as memo from Compliance Director, memo from DAP, and memo of risk management, President Director will provide disposition which contains a statement of opinion. If President Director agrees to purchase shares of IPO, there will be held internal meetings between investment committee and risk management to reanalyze the purchase of IPO’s shares. If in this process resulted in an agreement to purchase the IPO, Investment Director will command head of DPUPM to continue stock purchase. However, If President Director is not agree on the purchase of shares in the IPO and/or if an internal meeting between investment committee and risk management in reviewing purchase of IPO shares results disagreement, then Investment Director will instruct the head of DPUPM to cancel the book building process to the underwriters.

4. Furthermore, Investment Director will sign the FPPS IPO and send it to the Head of DPUPM to order the Head of Stock Market send FPPS IPO to underwriters’ broker.
5. Next, the Head of Stock Market will instruct the Dealer of Stock Market to complete the dealing ticket in accordance with shares purchase allotment from the underwriter. Dealer of Stock Market will entry and print the dealing ticket memo through SIINVEST so that the Head of stock Market will verify and provide initial dealing ticket memo of the purchase of IPO shares.

6. The dealing ticket will be signed by Head of DPUPM, President Director, and Investment Director so that the Head of Stock Market may prepare IPO stock purchase payments.

7. Transactions that occur on the purchase of IPO shares will be reported to the accounting department.
2. Shares in Secondary Market (Non-portfolio)

**Figure 3.5.**

The Flowchart of Internal Control System on the Procedures of Shares in Secondary Market (Non-portfolio)
The PT ABC’ procedures of shares in secondary market (non-portfolio) are:

1. Investment Director gives the disposition to DAP for analyzing non-portfolio stock purchases. Based on the memo DAP, director of investment will state opinion about non-portfolio offering to President Director.

2. Based on documents received by President Director such as memo from Compliance Director, memo from DAP, and memo of risk management, President Director will provide disposition which contains a statement of opinion. If President Director agrees to purchase shares of IPO, there will be held internal meetings between investment committee and risk management to reanalyze the purchase of IPO’s shares. If in this process resulted in an agreement to purchase the IPO, Investment Director will command head of DPUPM to continue stock purchase. However, If President Director is not agree on the purchase of shares in the IPO and/or if an internal meeting between investment committee and risk management in reviewing purchase of IPO shares results disagreement, then Investment Director will instruct the head of DPUPM to cancel shares purchase.

3. *Continue on page 49 number 1 (…)*
3. Shares in Secondary Market (Portfolio)

The Flowchart of Internal Control System on the Procedures of Shares in Secondary Market (Portfolio)
Figure 3.7.

The Flowchart of Internal Control System on the Procedures of Shares in Secondary Market (Portfolio) Continue
The PT ABC’ procedures of shares in secondary market (portfolio) and continuity of shares in secondary Market (non-portfolio) are:

1. Based on memo from DAP, Investment Director gives dispositions to Head of DPUPM to purchase shares in the secondary market, so that the Head of DPUPM can give order to Head of Stock Market to make planning regarding weekly / monthly shares.

2. Then, Head of Stock Market will make monthly/weekly shares purchase proposal memo and order the Dealer of Stock Market to make set of monthly/weekly investment analysis. Next, Head of Stock Market may review monthly/weekly shares purchase planning memo. If Head of Stock Market does not agree with the plans, Dealer of Stock Market should review investment analysis again. If Head of Stock Market agrees with the plans so planning memo regarding monthly/weekly stock will be sent to the head of DPUPM.

3. Head of DPUPM will do a review of monthly/weekly shares purchase planning memo. If the head DPUPM agree then he sign the memo, but if not, then the memo return to the Head of Stock Market to further analyzed.

4. Director of investment receive the plan memo that has been signed by Head of DPUPM and provide disposition to Head of DPUPM. So that the Head of DPUPM may command Head of Stock Market to carry out the purchase in accordance with Investment Director’s disposition.

5. Then, Head of Stock Market will pour out monthly/weekly shares purchase plan to a daily plan to be executed by Dealer of Stock Market.
6. Furthermore, Dealer of Stock Market will carry out the shares purchase via a broker, record broker confirmation in the order book and entry dealing in SIINVEST. If the broker confirmation in accordance with the settlement, the Dealer of Stock Market will print dealing ticket memo.

7. Head of Stock Market will verify and provide initial on dealing ticket memo of shares purchase as well as Head of DPUPM. If the transaction exceeds 100 billion then the dealing ticket requires signature from Investment Director and President Director. If the transaction does not exceed 100 billion then the dealing ticket only requires the signature of the Investment Director.

Rules and regulations that used on shares investment procedures are:

1. UU No.3 Tahun 1992 tentang Jaminan Sosial Tenaga Kerja
2. PP No.14 Tahun 1993 tentang Penyelenggaraan Program Jaminan Sosial Tenaga Kerja
3. PP No. 22 Tahun 2004 tentang Pengelolaan dan Investasi Dana Program Jaminan Sosial Tenaga Kerja
4. SK DIREKSI No: 107/062006 tentang Petunjuk Teknis Penyusun Sistem dan Prosedur
5. SK DIREKSI No: 190/082007 tentang Struktur Organisasi dan Tata Kerja PT ABC
6. SK DIREKSI No: 286/112007 tentang Kode Jabatan, Nama Jabatan, Uraian Tugas, dan Persyaratan Jabatan
7. SK DIREKSI No: 324/122010 tentang Pedoman Pengelolaan Investasi PT ABC
CHAPTER IV

ANALYSIS OF INTERNAL CONTROL ON SHARES INVESTMENT

There are several procedures on shares investment that was already established in PT ABC. In this research, the researcher only discussed about purchasing shares in Initial Public Offering (IPO) and secondary market (non-portfolio and portfolio). Based on researcher’s analysis on internal control on shares investment, PT ABC has a good accounting control to safeguard assets especially on investment and to ensure the availability, reliability, and accuracy of that information. PT ABC success in implementing the investment procedures and is able in achieving its objectives. It shown PT ABC managed to make a profit on the investment portfolio of shares 6.53 trillion IDR in 2013 (unaudited) from 4.21 trillion IDR in 2012 (audited).

A good accounting control on shares investment assets are protected from loss or misappropriation. The examples of selected activities control that implemented while doing the research and the results are:

1. Adequate separation of duties
   a. Responsibility for investment decisions and transactions is segregated from custodian’s functions.
b. The custodial function is separate from the responsibility for investment decisions, transactions and recordkeeping.

2. Proper authorization of stock investment transaction
   a. Investment criteria and objectives are authorized and executed in accordance with formal authorizations such as Investment criteria or objectives are documented in the plan instrument, authority to execute transactions is specified in the plan instrument, and investment transactions are reviewed by a plan committee for adherence to investment guidelines.

3. Adequate document and records
   a. Investment transactions are recorded at the appropriate amounts and in the appropriate periods on a timely basis such as reports submitted by trustees/asset custodians or investment director are reviewed and detailed subsidiary records are reconciled to trust reports on a regular basis
   b. Investment income and expenses are recorded at the appropriate amount and in the appropriate period on a timely basis. If income is allocated to more than one plan or participant accounts, allocation methods and calculations are reviewed.
   c. Access to computerized investment records is limited to those with a logical need for such access and documents are controlled in a limited-access.
4. **Independent checks on performance**

The need for independent verification arises because internal control tends to change overtime. PT ABC does a review of the investment activities of each month. Internal Control Agency will hold an internal audit every quarter to evaluate and give feedback the performance of employees. Investment Director also does the same every month by conduct internal meeting with investment committee, analysis portfolio division, money market and stock market division, compliance bureau, etc. Financial stability of financial institutions holding investments, financial statements of PT ABC and bureau reports are reviewed.

Although PT ABC has a good accounting control, PT ABC still missed administrative control which is break the rules and regulations on put shares investment. In the middle of falling stock prices in the stock market, President Director of PT ABC, September 2013, bought up shares blue chips (high risks stocks that found in LQ45) with a budget allocation about 22% - 25% the amount of assets under management amount, or about Rp35 trillion. Purchasing blue chips shares is an effort of PT ABC to rebuilding or recovering the price of blue chips shares that was declining when JCI condition was unstable.

PT ABC action was very risky that might be caused detrimental of the company. Especially funds in PT ABC are owned by labors that should be used carefully and wisely by management, because it concerns the welfare of the workers and the benefits to be received by the workers as the owner of the funds in the PT ABC. Predictably, corporate actions undertaken by the PT ABC that bought up shares massively were used for a number of the political elite benefits
who have shares in the Stock Exchange in order to avoid losses due to the drop in stock price. The most unwanted thing to be happened is PT ABC’s directors action will caused loss to the company and the stakeholders, especially labor.

This action contradictory to the principle of social security as stipulated in Undang-Undang Nomor 40 Tahun 2004 tentang Sistem Jaminan Sosial Nasional and Undang-Undang Nomor 24 Tahun 2011 tentang Badan Penyelenggara Jaminan Sosial related to the principle of prudence. This action also occurs a violation of Peraturan Pemerintah Republik Indonesia Nomor 22 Tahun 2004 Tentang Pengelolaan Dan Investasi Dana Program Jaminan Sosial Tenaga Kerja, article two, paragraph one and two, which reads as follows:

(1) bahwa pengelolaan dana Program Jaminan Sosial Tenaga Kerja oleh Badan Penyelenggara semata-mata untuk kepentingan peserta. (2) Pengelolaan dana sebagaimana dimaksud dalam ayat (1) wajib mempertimbangkan tingkat keamanan, tingkat hasil, dan tingkat likuiditas sesuai dengan kewajiban yang harus dipenuhi.

Nevertheless, PT ABC still missed administrative control which is applicable rules and regulations, but PT ABC performance on investment activities run effectively and efficiently.
CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Based on the data description and analysis described in the previous chapters, the researcher concludes that internal control system of investment on shares which is implemented in PT ABC is performed well. Based on researcher’s research and auditor management letters, can be said since 2011 fraudulent which was met in PT ABC declined, mainly on the investment. This occurs due to factors change of management and improvement of standard operating procedure, especially on investment. PT ABC already has a good accounting control to safeguard assets especially on investment and to ensure the availability, reliability, and accuracy of that information. However, PT ABC still missed a good administrative control to carry out investment activities effectively and efficiently in accordance with applicable rules and regulations. Especially when PT ABC bought blue chips stock in the third quarter of 2013 was considered as violation the law, rules, and regulations because PT ABC as state owned enterprises should not buy shares which have high risk especially when the market price went down up to 17%.
5.2. **Recommendation**

In regard to enhance a positive development in internal control system of investment on shares implemented by PT ABC, the researcher has a notion that the company missed applicable rules and regulations which is bought high risk shares when the market price went down. Although, PT ABC aims to maintain the country's economic stability, but in the future PT ABC better be careful in placing investments because they manage public money. PT ABC should be more careful in using the social security funds for investment, especially considering the stock is a very high degree of risk. Because of the limitation on research and object and period, the researcher realizes that there is still area improved in this research. Therefore, the researcher recommends that there should be further research is undertaken with more comprehensive analysis.
APPENDICES

Flowcharts Symbols

- Start/Stop/Terminal
- Manual Operation
- Document
- Manual Input
- Computer Process
- Decision
- On-Page Reference
- Paper File (Temporary)
- Paper File (Permanent)
- Electronic Data Storage
- Logic Flow
REFERENCES


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Has done her research in our company in order to write the skripsi, title: **THE ANALYSIS OF INTERNAL CONTROL ON SHARES INVESTMENT IN** PT ABC since November 11\(^{th}\) 2013 until December 19\(^{th}\) 2013, and has discussed with us the content of her skripsi, including the findings and recommendations.

Jakarta, January 13\(^{th}\) 2014

PT ABC

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