CHAPTER I

INTRODUCTION

1.1. Research Background

Every company, be it large or small requires internal control for company protection and development itself. Optimal benefit is goal of the company, whether it is long term or short-term, company will do everything to achieve the goal. To achieve the goal, the company should maximize the planning, organizing, monitoring, and controlling effectively and efficiently.

The company must implement the internal control system in operational activities. Internal control system indicate the action of company for controlling and directing the operational activities. This act can prevent negative effect of company, like error and manipulation. Internal control system reveal that the management policy and direction run properly. The establishment and maintenance of internal control system are the responsibility of management. In carrying out its responsibilities, the management is obliged to convince the shareholders and investors that the company is well managed and controlled properly. To achieve the aim of the company, management is required to be proficient, skill, and prudent in applying discretion appropriately and effectively.

In addition, management should be able present the financial information which is reliable to the users, especially the management itself for making further decision making. Therefore, an adequate internal control system is
necessary for management to carry out the responsibilities. In company, specifically large company, management can not supervise all of its operational activities. For that reason, management can utilize the internal control system to implement the decision in achieving the company's goals and to organize activities that are the responsibility of management.

According to Niswonger (1999), internal control is policies and procedures which protect assets from misuse, ensure for accuracy business information, and ensure laws and regulations follows properly. According to Widjajanto (2001), internal control is control system which includes the organizational structure and all the method set by company. While according to the COSO report, there are five interrelated components of internal control (Tunggal, 2014):

1. Control Environment determines the pattern of an organization influence to control people consciousness. The control environment is the foundation for all the components of internal control in providing discipline and structure.

2. The risk assessment is the identification and analysis of the entity or the relevant risks to achieve its objectives by forming a basis for determining how the risks should be managed.

3. Control activities are policies and procedures which help to ensure management directives implemented.
4. Information and communication is identifying, understanding, and exchanging information in a form and time that allows people performing their responsibilities.

5. Monitoring is a process that assesses the quality of internal control performance all the time.

For company, the internal control structures is used to prevent fraud and provide reasonable assurance in order to minimize the fraud and detect fraud earlier. A company implements the internal control system as a support in running the business. The system is adapted to the conditions in each company, because each type and shape of different companies. According to Wilkinson (2000), good internal control structure becomes important, because if a company had poor internal control structure, it can make serious problems through the reliability of the internal control system and might be needs more attention in improve the quality contribution to company.

A good internal control system is the key factor of effective organizational management. A good system is needed for a company, whether manufacture or service company in running the business operations. The existence of these systems could help tasks related organizational units. Every company will use suitable system according company business, simple and easy in implementation. In managing a company, growing every time, the complex problems might be arise in company’s operations. This pushes the motivation of management to always improve the function of control over all forms of the
company's operations, in order to align with the company's objectives, achieve in terms of capital, income, and expense.

Internal control can become effective if it can apply internal control, According Baridwan (2002) there are four elements internal control:

1. An organization structure that separates responsibilities appropriately.
2. An authority or job description which are useful and accounting procedures supporting the implementation of accounting controls on property, debts, income and expenses.
3. Healthy practices on every part of the organization.
4. A proficient level of employees suitable with its responsibilities.

Besides the internal control system in general, the internal control system over sales, cash receipts, purchases, and cash disbursement should be designed well. The company circumstance and environment is very crucial applying internal control system, since there is no company absolutely same. The internal control system implementation from one company may not be necessarily applied at other company. The factors of the internal control are the size of the organization, the authorization level of activities, the vulnerability of the assets, or a broad geographic spread and the rate of employee turnover.

On this issue, the revenue cycle will be the main issue whether internal control over is in accordance with existing procedures. According to Hall (2008), revenue cycle is a direct exchange of final products and services into cash in a single transaction between the seller and the buyer. Thus, a sequence
business activities and process activity is related to information in providing goods and services to customers and collecting cash payment from those sales.

Internal control system over revenue cycle is a control system which is used to manage all over income consisting of cash receipt in cash, account receivables, and sales on credit. This control system is expected to control and monitor over revenue cycle so as to prevent moral hazzard. In revenue cycle, its review the procedures of sales and cash receipts, whether the procedure for sales order, account receivable, and sales distribution, etc. Implementation of the procedures are not or less in accordance with the standards established by the company will be a problem for the company. The absence of standard procedures is one of the problems that may arise in the company. In every company, internal control system is very important, because this aspect can make sure human resource in company congruence with company goals.

The revenue cycle always exists in every company, one of which is PT. Angkasa Pura 1 Juanda (Persero). Implementing an internal control system is requirement aspect to prevent fraud and error. If implementation of internal control system run well, it also can improve employee performance. The strong company's internal control is to develop and trustworthy of company. Good internal control structure is to support the accuracy of the data and accounting records that can guarantee the security of company assets and efficiency in operations. Good internal control system will avoid the company from fraud or irregular activities. Internal control is not only run by some
parties but must also be carried out and followed by all the parts involved. So, the title that chosen for this research is ‘The Analysis of Internal Control System on Revenue Cycle (Case Study at PT. Angkasa Pura 1 Juanda)’.
1.2. Research Problem

Based on the research background explained previously, the research problems are:

1. How is the implementation of internal control system over revenue cycle at PT. Angkasa Pura 1 (Persero) Juanda?
2. What is the obstacle found in internal control system process over revenue cycle at PT. Angkasa Pura 1 (Persero) Juanda?

1.3. Research Objective

Based on the research problem formulation above, the objective of this research are:

1. To evaluate whether the existing system of internal control is sufficient to protect the assets of the company, in order to avoid misuse of funds flowing into the company every day.
2. To investigate that the internal control functions properly in accordance with company procedures. Especially revenue cycle, procedures are made to be obeyed in accordance with the existing provisions. When the system runs properly then the company will run well. Enterprise control system is necessary for the achievement of corporate objectives and control activities within the company on a daily basis.
1.4. **Research Contribution**

The researcher hopes that this research can contribute to:

1. The researcher, can increase knowledge and skill of internal control procedures, relevant on company involved.

2. The academic, the research can be reference to conduct the next research about accounting system, especially internal control system.

3. The company, can implement one of the social responsibilities of the corporation or institution for society, obtain profound idea and additional support to improve the performances of the company, and a mean to demonstrate to the public about how the company actually run in a reasonable scope.

4. The theory, the research can revise the exist theory, explain the phenomenome with the theory on the same issues.

5. The practice, the research research result can be use in real practice, at least could be use to improve the available practice better.