

**Analysis of Internal Control on Revenue Cycle Based on COSO Framework:  
Case Study on Transport Division PT. Seger Agro Nusantara**

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**Abstract** – The purpose for this research is to know how effective the internal control of revenue cycle based on COSO Framework, case study: Transport Division in PT. Seger Agro Nusantara. Recently, Transport Division changed its accounting system from MYOB into FINA Accounting Software because of business needs. However, COSO help to analyze the effectiveness of internal control in a company. This research is use qualitative. To gather information, the researcher use observation, review, and documentary analysis as the data collection method. The data collection starts from February until May 2014 in PT. Seger Agro Nusantara, Surabaya. The researcher will analyze the data and information gathered from PT. Seger Agro Nusantara by using COSO Framework. The result of evaluation by using COSO Framework is company needs to improve their internal control related to revenue cycle, such as: make a credit limit, installing GPS, do performance evaluation for employee, and others.

**Keywords:** *COSO Framework, Revenue Cycle, Internal Control*

**Abstrak** – Tujuan dari penelitian ini adalah untuk mengetahui efektivitas pengendalian internal pada siklus pendapatan berdasarkan COSO Framework, kasus pembelajaran: Divisi Transport di PT. Seger Agro Nusantara. Baru saja, Divisi Transport merubah akuntansi sistemnya dari MYOB ke FINA karena kebutuhan bisnis. Bagaimanapun, COSO membantu untuk menganalisis efektivitas internal control pada perusahaan. Penelitian ini menggunakan metode kualitatif. Untuk mendapatkan informasi, peneliti melakukan observasi, meninjau, dan dokumentasi analisis sebagai metode pengumpulan data. Pengumpulan data dimulai sejak Februari hingga Mei 2014 di PT. Seger Agro Nusantara, Surabaya. Peneliti akan menganalisis data dan informasi yang didapatkan dari PT. Seger Agro Nusantara dengan menggunakan COSO Framework. Hasil evaluasi berdasarkan COSO Framework, pengendalian internal pada siklus pendapatan masih perlu melakukan peningkatan seperti membuat batas kredit, menginstal GPS, melakukan evaluasi performa kerja terhadap karyawan, dan sebagainya.

**Kata Kunci:** *COSO Framework, Siklus Pendapatan, Pengendalian Internal*

## **INTRODUCTION**

Nowadays, business and operating environments have changed dramatically, becoming increasingly complex, technologically driven, and global. At the same time, companies are more engaged, seeking greater transparency and accountability for the integrity of systems of internal control that support business decisions and governance of the organization. It shows that internal controls are an important component of a municipality's daily operations, and all municipalities should introduce internal controls that best suit their needs. There was a perception that effective internal controls help prevent and detect fraud (Beasley, 2007). Internal controls provide a system of checks and balances, and have the potential to reduce fraud and theft. Furthermore, internal controls provide a system that can help identify an area for potential problems and errors. Internal control procedure should be documented, which could enable employees to report instances of management override of controls that could indicate fraud.

Moreover, internal control promotes efficiency, reduce risk of assets loss, and help ensure the reliability of financial statements and compliance with laws and regulations (COSO, 29 August 2013). Company should design and implement internal control policies that achieve their intended purpose and continue to function as designed. Based on the evaluation, any weaknesses should be addressed and solutions should be adopted timely. Otherwise, if a company has a weak internal control, there is a big chance of fraud, theft, and other risks.

Risk is the probability that an event or action will affect the organization. The primary categories of risk are errors, omissions, delay and fraud. In order to achieve company's objectives, management needs to be effectively balance risks and controls. Therefore, control procedures need to be developed so that they can decrease the level of risk where management can accept. By performing this balancing act "reasonable assurance" can be attained. In order to achieve a balance between risk and controls, internal controls should be proactive, value-added, cost-effective and address exposure to risk.

Otherwise, Committee of Sponsoring Organizations (COSO) made and publishes Internal Control-Integrated Framework in 1992 and was accepted by the SEC as a framework for attesting to internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 (SOX). COSO Framework will enable organizations to effectively develop and maintain systems of internal control that can enhance the likelihood of achieving the entity's objectives and adapt to changes in the business and operating environments. The Institute of Internal Auditor proved that some companies were improving their internal control after implemented Sarbanes – Oxley Act. COSO is expected to be applied in company especially in the middle-upper company that had more complex operational activities. Internal control functions will be increasing their oversight role, particularly within larger companies (Ernst & Young, September 2005). Big companies have more complex operating activities rather than middle and small company. Include of revenue cycle, if did not supported by a good internal control it will lead into fraud and made company loss. Finally, company need do evaluation through implemented internal control based on COSO.

## **THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT**

According to Romney and Steinbart (2012:352), revenue cycle is “A recurring a set of business activities and related information processing operations associated with providing goods and services to customers and collecting cash in payment for those sales.” Bodnar and Hopwood argue that (2012), revenue cycle is “Events related to the distribution of goods and services to other entities and the collection of related payment.”As the conclusion, revenue cycle is a process that related to providing goods and services to customers and collecting cash of payment.

According to Romney and Steinbart (2012:353), there are four basic revenue cycle activities: sales order entry, shipping, billing, and cash collection:

- Sales Order Entry: Begins with the receipt of orders from customers.
  - Taking the Customer's Order
  - Credit Approval

- Checking Inventory Availability
- Responding to Customer Inquiries (optional)
- Shipping: Filling customer orders and shipping the desired merchandise.
  - Pick and Pack the Order
  - Ship the Order
- Billing
  - Maintaining Account Receivable
  - Invoicing
- Cash Collection: Collecting and processing payments from customers

**Table 1**  
**Threats and Controls in Revenue Cycle**

Activity	Threat	Controls (first number refers to the corresponding threat)
General issues throughout entire revenue cycle	1. Inaccurate or invalid master data	1.1 Data processing integrity controls 1.2 Restriction of access to master data 1.3 Review of all changes to master data
	2. Unauthorized disclosure of sensitive information	2.1 Access Control 2.2 Encryption
	3. Loss or destruction of data	3.1 Backup and disaster recovery procedures
	4. Poor performance	4.1 Managerial reports
Sales order entry	5. Incomplete/ inaccurate orders	5.1 Data entry edit controls 5.2 Restriction of access to master data
	6. Invalid orders	6.1 Digital signature or written signature
	7. Uncollectible accounts	7.1 Credit limit 7.2 Specific authorization to approve sales to new customers or sales that exceed a customer's credit limit 7.3 Aging of accounts receivable
	8. Stockouts or excess inventory	8.1 Perpetual inventory control system 8.2 Use of bar-codes or RFID 8.3 Training 8.4 Periodic physical counts of inventory 8.5 Sales forecast and activity reports

	9.Loss of customers	9.1 CRM systems, self-help Web sites, and proper evaluation of customer services rating
Shipping	10. Picking the wrong items or the wrong quantity  11. Theft of inventory  12. Shipping errors (delay or failure to ship, wrong quantities, wrong items, wrong addresses, duplication)	10.1 Bar-code and RFID technology 10.2 Reconciliation of picking lists to sales order details  11.1 Restriction of physical access to inventory 11.2 Documentation of all inventory and reconciliation to recorded quantities 11.3 RFID and bar-code technology 11.4 Periodic physical counts of inventory and reconciliation to recorded quantities  12.1 Reconciliation of shipping documents with sales orders, picking lists, and packing slips 12.2 Use RFID systems to identify delays 12.3 Data entry via bar-code scanner and RFID 12.4 Data entry edit controls (if shipping data entered on terminals) 12.5 Configuration of ERP system to prevent duplicate shipments
Billing	13. Failure to bill  14. Billing errors  15. Posting errors in accounts receivable	13.1 Separation of billing and shipping functions 13.2 Periodic reconciliation of invoices with sales orders, picking tickets, and shipping documents  14.1 Configuration of system to automatically enter pricing data 14.2 Restriction of access to pricing master data 14.3 Data entry edit controls 14.4 Reconciliation of shipping documents (picking tickets, bills of lading, and packing list) to sales orders  15.1 Data entry controls 15.2 Reconciliation of batch totals 15.3 Mailing to monthly statements to customers 15.4 Reconciliation of subsidiary accounts to



management better control the organization and to provide a board of directors with an added ability to oversee internal control

According to Romney and Steinbart (2012:207), there are 3 frameworks that used to develop internal control systems: Control Objectivities for Information and Related Technology (COBIT) framework, Committee of Sponsoring Organizations (COSO), and COSO's Enterprise Risk Management Framework. In this thesis, researcher will focus on COSO's framework

There is a direct relationship exists between objectives, components, and the entity which are what an entity strives to achieve, components which represent what is required to achieve the objectives, and entity structure (the operating units, legal entities, and other structures). The relationship can be depicted in the form of a cube.

**Figure 1**  
**COSO Cube**



Source: Committee of Sponsoring Organizations, 2012, p. 19.

Romney and Steinbart (2012:207), there are five components of the COSO's Internal Control framework: control environment, control activities, risk assessment, information and communication, and monitoring. Will be explained below:

➤ Control Environment

According to Arens (2012:315), Control environment consist of the actions, policies, and procedures that reflect the overall attitudes of top management, directors, and owners of an entity about internal control and its importance to the entity.

➤ Control Activities

Romney and Steinbart (2012:215), control activities are “Policies and procedures that provide reasonable assurances that control objectives are met and risk responses are carried out.

➤ Information and Communication

Information and communication constitute the seventh component of the ERM model. This relates directly to the primary purpose of AIS, which is to gather, record, process, store, summarize, and communicate information about an organization.

➤ Monitoring

ERM process must be continuously monitored and modified as needed, and deficiencies must be reported to management

## **RESEARCH METHOD**

This study uses a quantitative approach to alternative or interpretive, where researchers wanted to understand more deeply about the entity under study. In the study, researchers directly involved in order to get to know the object of further research. This research using three methods to get information: interview, direct observation, and documentation. This research is aim to know how effective the internal control of revenue cycle in PT. Seger Agro Nusantara. Firstly, researcher will do observation through the revenue cycle then interviewed to entity which are involved and do documentation by seeking evidences.

## **RESULT AND DISCUSSION**

There are some problems faced by Transport Division in their revenue cycle that also related with COSO. Here, the problems finding based on activities in revenue cycle:

➤ Sales Order Activity

There are some problems in sales order activity, such as:



- Changing in accounting system software from manual and MYOB into FINA. There was a possibility when administration staff makes a wrong record of sales order in FINA that will affect into other transactions and cycles. Wrong record of transactions lead into not creditability of financial report. As financial report is needed for the decision making and going concern of this business.
  - No segregation duties. Administration staff will record all the transaction for revenue and expenditures that will lead into fraud because he knows all the transactions cycle. Also the administration staff had another job such as going to the truck scale that takes a lot of time especially if it is in peak season. That makes data are not up-to-date. Other factor is unclear responsibility and job description for each employee makes employee do others job and cannot meet company's goal.
  - Data are not up-to-date because there is no segregation of duties. This will affect to the decision making because company needs to see the current data and make a right decision on that time. Company cannot determine how much the profit and loss does not know their business performance.
  - Dilemma in Transportation Standard Cost. When the commodity market is low, some customer wants to lower the cost for transportation but it can lead into two dilemmas: company gets loss because the lower transport cost or the cost is remaining constant but customer will cancel the order. In fact, this division has their transportation standard cost but sometimes they should consider the external condition.
  - No Credit Limit for customer it is risky when customer cannot pay their receivable. It will affect to the company activities.
- Shipping Activity
- Shipping the wrong items or quantities of goods and shipping to the wrong location can cause customer dissatisfaction, resulting in the loss of future sales. Shipping errors may also result in the loss for company.

- Billing Activity
  - Don't check *Surat Jalan* when makes Sales Invoice. Administration staff sometimes don't check *Surat Jalan* while make Sales Invoice while administration staff only use *Tanda Terima Barang* as based on making Sales Invoice. It should be collect and check all the complete documents before making others documents. It can lead into the wrong Sales Invoice. For example: if the *Tanda Terima Barang* from customer is false or try to manipulate the data ( if the shrinkage percentage is not normal) and the administration will make a wrong Sales Invoice and company gets loss.
  - Data are not up-to-date can lead into delay of making and sending the Sales Invoice. This will affect into the cash collection activity and credit limit per customer.
- Cash Collection Activity
  - No segregation of duties. The accounting staff also does other jobs as accounting staff in import division. This make accounting staff does not focus on the jobs and delayed job.
  - Data are not up-to-date makes delay of cash collection from customer.

In summary findings based on COSO Analysis:

**Table 2**  
**Table Findings from Revenue Cycle Analysis**

Sales Order Activity	<ul style="list-style-type: none"> <li>• Changing in accounting system software from manual and MYOB into FINA. There was a possibility when administration staff makes a wrong record of sales order in FINA.</li> <li>• Lack of motivation that makes employee cannot do their job well.</li> <li>• Lack of communication in Transport Division.</li> <li>• No segregation duties. Administration staff will record all the transaction for revenue and expenditures that will lead into fraud because he knows all the</li> </ul>
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	<p>transactions cycle.</p> <ul style="list-style-type: none"> <li>• Data are not up-to-date because there is no segregation of duties.</li> <li>• Dilemma in Transportation Standard Cost.</li> <li>• No Credit Limit for customer it is risky when customer cannot pay their receivable.</li> </ul>
Shipping Activity	<ul style="list-style-type: none"> <li>• Shipping the wrong items or quantities of goods and shipping to the wrong location can cause customer dissatisfaction.</li> </ul>
Billing Activity	<ul style="list-style-type: none"> <li>• Don't check <i>Surat Jalan</i> when makes Sales Invoice.</li> <li>• Data are not up-to-date can lead into delay of making and sending the Sales Invoice.</li> </ul>
Cash Collection Activity	<ul style="list-style-type: none"> <li>• No segregation of duties. The accounting staff also does other jobs as accounting staff in import division.</li> <li>• Data are not up-to-date makes delay of cash collection from customer.</li> </ul>
Other problems	<ul style="list-style-type: none"> <li>• Employees need more guidance to learn FINA and do their job because it is a new program and employees need to adapt.</li> <li>• No performance evaluation for employees' makes employees do not know their performance and poor performance can makes inefficient in operational activities.</li> </ul>

## **CONCLUSION AND RECOMMENDATION**

In summary, researcher gives recommendations to overcome problems that occur in Transport Division. Some improvement needs to do to make a better internal control especially in revenue cycle, such as: Owner should give a motivation to employees to overcome lack of motivation problem, such as: give briefing and motivation in meeting, give a performance evaluation, and give incentives.

Internal control can provide reasonable assurance that the following control objectives are achieved. It is help to promote and improve operational effectiveness. Based on Transport Division main problem, which is no segregation of duties, control activities can help to reduce treat by giving job description to each employee. Giving

job description can help employee to work more focus and make data up-to-date. This will affect to the decision making because company needs to see the current data and make a right decision on that time. It is show that internal control can help to be more effective.

Dilemma in Transportation Standard Cost can be solved by installing GPS (Global Positioning System) which have a lot of benefit, such as: Accurate driving directions not only will save time in deliver the goods, but also will save the substantial gas money; also for tracking to increase security and protects the driver; increase sales revenue; faster service; efficient service; and reliable service. It should be supported by having a good technology system to make it run well.

Further is about Credit limit policy which is operational manager and owner are the one who can authorized credit limit approval (credit limit is Rp100.000.000,00); through signing "*Formulir Permintaan Pernambahan Kredit*" that provide a request of credit limit increasing. Further, not only limit the amount, company also give a limit time for 2 weeks to pay.

Should checked *Surat Jalan* when makes Sales Invoice. Administration staff sometimes should check *Surat Jalan* and *Tanda Terima Barang* while makes Sales Invoice. It should be collect and check all the complete documents before making others documents to minimize fraud, miscommunication, misunderstanding between company and customer, and loss for company.

Data should be up to date to minimize delay of making and sending the Sales Invoice. By having a segregation duties and new job description, hope employees can do their job well because up to date of data will be easier to check the accuracy and use for decision making.

Performance evaluation for employees is needed. Owner and operational manager should do employees performance evaluation every six months. In hope can give feedback to employee and increase their performance that will lead into achieving company's goal.

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