

The Adoption of Revenue Internal Control in the Event Organizer Company



Stella Tio Caroline, Anastasia Caroline Tanasal, Yanti, Rindang Widuri

Abstract: *This research aimed to identify potential risks in revenue cycle and how company manage it, analysis of COSO's elements implemented in the current company's internal control and its effectiveness, and suggest improvement as needed based on COSO's internal control framework. The method of data collection was obtained from interview and observation. Results obtained are internal control in the revenue cycle applied to the company in general is weak, and there is ineffective implementation of internal control which can lead to the possibility of fraudulent act in the company. Hence, as the company's business keeps growing, it is important to focus more on its revenue cycle system as well as the internal control in order to achieve the most effective and efficient methods in operating the business.*

Keywords : *evaluation, internal control, COSO, revenue cycle.*

I. INTRODUCTION

The era of globalization has delivered various impact on economic sectors, one of them is entrepreneurship. However, the impact provided appears to be two sides of coin. On one hand, technology enables a business expansion as well as product diversification of the business. Moreover, the process of information exchange visually and verbally can be done simultaneously. This condition encourages information disclosure that will ease entity to access the information that will increase their competitive advantage.

On the other hand, technologies lead to risks that become more complex. As an example, fraud act in financial statement will trigger potential damage to entity's reputation that leads to bankruptcy. On this context, internal control is needed as a guarantee that entity has been operated according

to applicable procedures and potential risk can be mitigated.

Committee of Sponsoring Organizations of The Treadway Commission (COSO) defined internal control as a process, affected by an entity's board of directors, internal control system, so company can avoid fraud. COSO framework focuses on five integrated components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring activities.

In an effective internal control system under [13] it must meet five major interrelated components. The five internal control components are:

A. Control Environment

Control Environment is a set of standards, processes, and structures that form the basis of internal control throughout the organization. Directors and management establish clear policies regarding the importance of internal control and expected standard of conduct. The control environment is a reflection of the attitude and action of the owner & management, thus becoming the foundation of all other internal control components.

B. Risk Assessment

Risk Assessment is a dynamic and recurring process for identifying and analyzing risk in achieving entity goals and determining how risk should be managed and also identifies the areas where the greatest threat or risk of inaccuracies or loss exist, with the greatest risks receiving the greatest attention and control.

C. Control Activities

Action established by policies and procedures to help ensure management directives to mitigate risks to the achievement of objectives are carried out at all level of the organization, at various stages of business process and reporting. Examples of control activities are authorization approval, verification, reconciliation, review, separation of duties, and responsibilities.

D. Information and Communication

Information is required to carry out internal control responsibilities in support of achieving financial reporting objectives. Communication is an ongoing and repetitive process of providing and obtaining the information necessary to design, implement, and evaluate internal controls, and to assess effectiveness.

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* Correspondence Author

Stella Tio Caroline*, Accounting Department, Binus Graduate Program – Master of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11530. Email: stella.caroline@binus.ac.id

Anastasia Caroline Tanasal, Accounting Department, Binus Graduate Program – Master of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11530. Email: Anastasia.caroline@binus.ac.id

Yanti, Accounting Department, Binus Graduate Program – Master of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11530. Email: yanti@binus.ac.id

Rindang Widuri, Accounting Department, Binus Graduate Program – Master of Accounting, Bina Nusantara University, Jakarta, Indonesia, 11530. Email: rindangw@binus.edu

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In other words, this information and communication is a form of identification, capture and exchange of information in a particular form and time frame, such a way as to make the people within the organization able to carry out its duties and responsibilities both internally (to all level of the organization) and external (to parties who are concerned).

E. Monitoring

It is a dynamic and recurring process for identifying and analyzing risk in achieving entity goals and determining how risk should be managed. and also identifies the areas where the greatest threat or risk of inaccuracies or loss exist, with the greatest risks receiving the greatest attention and control.

Well-implemented internal controls can increase the accountability and transparency of business operations. This can happen because every business activity in the entity is clearly documented and the occurrence of irregularities is prevented. With the expected benefits, the risk of fraud can be minimized. Activities are coordinated and managed, and the company's operations are supported to make them more effective, efficient and transparent. In addition to good internal controlling, operational review of existing internal control activities is required to ensure that internal controlling activities are performing well.

Internal control not only designed for multinational company, but also for small medium enterprise business. There is different implementation based on size, organization structure, and operational activities. In Australia [7], internal control system used by 160 big company effectively help manager to reduce potential fraud. With internal control system, employee performance evaluation and bonus policies can be done fairly. Internal control encourages the creation of code of ethics as well as training about risk management. In Turkey, [1] internal control effectively to detect fraud in financial statement. This has led to the financial competence of small medium enterprise business lower compared to big company that have better vision about indication of fraud in financial statement. In Albania [2], internal control applied in small medium enterprise company have a positive impact in its operational activities, 72,1% employees argued that code of conduct in company can be implemented appropriately because there is internal control system. In addition, interaction between management and employees tend to go well.

Operation activities in the company influenced by existing internal controls [10]. The implementation of effective and efficient internal control will help the company in achieving its goals to increase profitability. The revenue cycle is the cycle in which cash flow received by companies. If cash inflows are hampered, this will affect the company's operations so that internal control is needed to overcome them.

Meanwhile, revenue cycle is a recurring 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 [8]. Revenue cycle consists of sales order entry, shipping, billing, and cash collections. These three activities are interrelated, so if one of them has a problem, it will directly interfere with the other.

In this study, the researcher intends to analyze the

implementation of internal control in one of the exhibitions organizing companies, PT A. The company has 27 offices in 8 regions: Sumatra, Kalimantan, Central Java, East Java, Sulawesi, Bali and Lombok, NTT and Papua. Each branch employs 2 to 3 employees, adapted to the store's exhibition volume. In general, PT A managed exhibitions include automotive, property, fashion and multi products. Branch employees include: administrative, marketing and operational staff and are responsible for the regional manager of the branch. In total, the company has 77 employees.

The company uses the Accurate system as a medium for recording and reporting on all operations of the subsidiary. However, the Accurate system is only operated in the Head Office and is not integrated in branches. Therefore, branch office reports will continue to be manually created by completing the contract form and tenant invoices. Exhibition period, price and exhibited product. The problem with PT A so far is the presence of bad debts and even the uncollectible condition. Then there are often some fictitious claims from branches, which are due to the weak internal control of the company.

Based on the above problems, we want to do research about internal control in the revenue cycle of PT A. The purposes of this study are: (1) identify potential risks in revenue cycle and how company manage it, (2) analysis of COSO's elements implemented in the current company's internal control and the effectiveness of uncollectible receivable, and (3) suggest improvement as needed based on COSO's internal control framework.

II. METHODOLOGY

This research using qualitative descriptive approach by assessing the current revenue cycle implemented in the PT A, along with the internal control applied within the cycle. In qualitative research, natural processes are used to understand phenomena in rules that are specific to a topic, and the researcher does not manipulate the interest in the phenomenon being discussed. The description model represents an image of the details of an event, a social situation, or a relationship. The results of the descriptive study are a thorough explanation of the topic under study [9]. This study applies a case study model to analyse the business processes of PT A as well as the existing model of its internal control practice and then identify potential risks in operational activities primarily with regard to its revenue recognition and bookkeeping method. Based on the researchers' intention to get a detailed picture of the company's business processes, potential risks, and risk management measures, the respondents in the survey in this study are among the people at the company's executive level which deals with sales and promotion activity, from the board of directors to the managers. In addition, the data used are primary data from surveys that were carried out in part. Semi-structured interviews make it easy for the interviewer to flexibly extract information from sources because they are flexible or not fixed to prepared questions.

The questions asked are open questions that allow the resource person to provide more comprehensive answers, from general to specific questions [5]. Respondents' answers were analyzed by researchers with reference to the principles of the 5 elements of COSO internal control.

This will be important to see to what extent the company has inherited the elements of COSO's internal control in its internal control activities particularly for ensuring revenue recognition is in accordance with actual sales that projected to be undertaken and how effective these control activities are for risk mitigation to avoid unrealistic revenue recognition.

III. RESULT ANALYSIS

A. Company Business Profile

The business process of PT A will be demonstrated as follow:

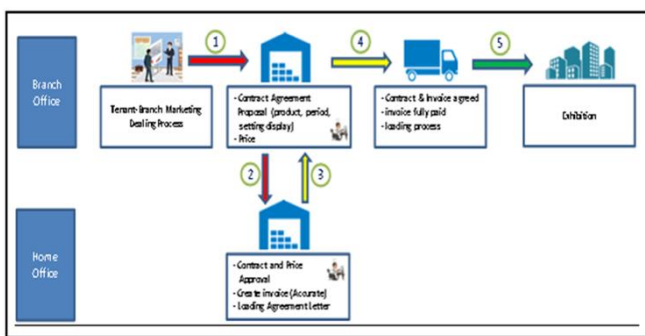


Fig.1 Business Process PT A

The tenant issues offer for the organization of the exhibition in the marketing department of PT A. The branch office then manually submits a proposal by filling out the following information: size of the exhibition stand, duration of the exhibition, price and type of product, as well as the location of the shopping center where the exhibition is potential tenant of the destination. The contract proposal is obliged to be approved by the Regional Manager at the branch office, then the document will be sent by e-mail to the head office. The administration department at the head office will process and print all contracts sent from each branch by requesting approval from the marketing supervisor and administrative supervisor. Furthermore, the administration at the head office will input into the Accurate system to be made a bill in accordance with the rental price that has been set and recorded in accounting. Bills and contracts, which made in 2 (two) copies must have been approved by the FAT Manager (Finance, Accounting dan Tax). The invoice and the agreed contract will be returned by e-mail to the branch office to ask the potential renter for a signature for approval. Potential tenants are required to comply with all terms and conditions contained in the contract, including the payment of bills for rental space. The bill payment method is to make payments directly to the account number of the head office. Marketing staff / branch offices must monitor the bills of each potential tenant before the due date. Proof of payment / details of payments by prospective tenants are to be reported to the head office for payment by check via a bank account. The head office has to inform the marketing staff / employees of the

branch office about the payment status. If the payment does not match the bill, the marketing staff / employees in the branch office are responsible for the underpaid bill of the potential tenant. When the invoice has been paid, the head office, with the approval of the FAT Manager, will issue a warehouse-approved loading dock for goods and print out receipts that will be sent to the branch office and submitted to interested parties. The head office must inform the marketing staff / employees of the branch office about the payment status. If the payment does not match the bill, the marketing staff / employees in the branch office are responsible for the underpaid bill of the potential tenant. If the bill has been paid, the Head Office will issue a loading-dock of goods approved by the operational supervisor and print receipts with the approval of the FAT Manager (Finance, Accounting and Tax) to be sent to the branch office and submitted to prospective tenants. PT A must appoint one of the staffs who will be responsible for taking care of all tenant administration with the mall. The designated staff is also responsible for the design of the display booth for the tenants.

B. Potential risks embedded in the revenue cycle

Description	The Potential risk embedded in the revenue cycle	Response of the identified risk that has been done by the company
Billing Method	Mark up value of the bills by the branch office, as well as the additional contract clauses outside the contract submitted to the head office.	The head office adds the bill serial number to the tenant. Furthermore, head office directly contacts the tenants about the agreed bills.
Inspection of exhibition activities	Marketing or branch office staff does not inform head office about the exhibition activities.	The head office does unannounced visits to the exhibition site on a regular basis.
Billing and Payment Term	Tenant does not pay off the exhibition bill, and lead to uncollectible account receivable. The tenant run away from the responsibility.	Exhibition bill payment schedule is tightened by the head-office, which tenant must pay the bill before the exhibition is held.
Reimbursement Policy	Fictitious claims from branches.	Head office required that every submission of claim must be included in an official receipt, not in the form of handwriting.

C. Adoption of COSO's Elements Implemented in The Current Internal Control of Revenue Cycle

Based on the interview, implicitly the company has adopted 2 elements of COSO internal control: risk assessment and control activities. Risk is defined as the possible occurrence of an event that may occur and adversely affect the achievement of the entity's goals [13] In this context, the company has identified risk in the company's activity and how to manage it. Furthermore, control activities are policies and procedures that help to ensure direction from management on internal controls and have been implemented to address the risks [8]. In this context, the company have set the rules to mitigate the risks.

The Adoption of Revenue Internal Control in the Event Organizer Company

An effective internal control is described by five components of the COSO Internal Control framework function because they have been identified as a foundation in corporate governance [6].

Based on the risk management done by company, there are several leaks in the mitigation process.

First, serial number of the bill to avoid price manipulation. In this condition, it is still possible that the tenant and branch office staff working together to manipulate the price and then sharing profit between them.

Second, make unannounced visit to prevent exhibition practices that not reported to the head office. In this case, fraudulent act still has the potential to occur because when a representative of the head office visits the exhibition, there is no fraud, but it has potential to occur in the other exhibition location. Third, head office required that every submission of claim must be included in an official receipt, there is still potential fraudulent act because the head office does not know the true purpose of the claimed money, whether for personal gain or unrelated to the company's operations.

There is three COSO elements that have not been implemented in the company: the control environment, communication and information, and monitoring. Control environment is the center of all control activities, management must give all parties of the company, both at the head office and branches, the same perception about understanding and preventing risks preventing risks through the creation of corporate value and work culture. Furthermore, communication and information are the process of delivering information at every level of the company. The foundation of all the risks on this company is inexistence of the standard procedure.

IV. CONCLUSION

Based on the results of the analysis of researchers, internal control pattern conducted by PT. A has not been effective. The company adopts 2 (two) COSO internal control elements such as risk assessment and control activity. Meanwhile, the controlling environment as a central element in internal control has not been implemented yet, followed by elements of communication and information as well as control elements. The respondent's response to the weak internal control could result in ineffective adoption of the company's COSO elements. Furthermore, internal control activity is still centralized or centered in the head office, so that it has not accommodated internal control activity in the branch. This can result in applied internal controls likely to still have a gap in case of identified risks.

V. RECOMMENDATION

The company should enhance its documentation in order to have a better control and reliability over business transactions. Segregation of duties should be implemented within the company to minimize the possibility of fraud and employee theft. Hence, the authors provide several recommendations which are considered more suitable and effective to accommodate COSO's Internal Control, as follows:

No	Activity	COSO	Weakness	Recommendation
1	There is no standard for internal control	Control environment	there is a difference in the handling of risks that occur	At the management level, it is necessary to develop and publish written standards and procedures for internal control from COSO elements. Management is also committed to actively remembering corporate values and culture across all industries
2	The Accurate system is still centralized at the head office	Control environment	Implementation costs reduce the potential for branch income	Management determines the operationalization of the business in all branch that are to be accessed through the Accurate system to reduce fraud potential and ensure business continuity.
3	Prenumber of bill; direct inspection of tenants to prevent manipulation of exhibition rental prices	Control Activities	Collaboration between tenants and branches to commit fraud	The draft contract including the exhibition price agreement in the branch must involve the head Office; The matrix approval level from financial managers to operational manager, not just regional managers.
4	Do regular visits to the exhibition site to avoid exhibits not reported by the branch.	Control Activities	Exhibition fraud does occur in places visited by the head office representative	The head office made an MoU with a partner mall for the exhibition site regarding CCTV data retrieval; Give sanctions dismissal of regional managers and branch parties involved.
5	Official bill request when submitting a claim	Control Activities	There are claims for fictitious receipts of the company's operational activities	Use partner workshop for operational car service claims: to ensure the fairness of the claimed monetary value can be monitored; All activities must be entered into the Accurate system to facilitate the identification of operational activities;

Fig. 2 Implementation of COSO Elements

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AUTHORS PROFILE



Stella Tio Caroline is currently a second-year master's student in Magister Accounting in the Binus Graduate Program at Bina Nusantara University, Indonesia. She got Accounting bachelor degree from ABFI Institute Perbanas, Jakarta. She had an AB Tax Brevet program from Sekolah Tinggi Akuntansi Negara (STAN). She works as Business Process & Policy Staff in the Finance Department of Bina Nusantara University. Experienced in the field Policies and Procedure (SOP) from 2015 until now. She has experience in the field of Finance & Accounting from her past work in a real estate company from 2013 until 2015. Her research scope is in the field of taxation, technology, and accounting information system.



Anastasia Caroline Tanasal is currently working in PT Bank Central Asia Tbk and a second-year master's student in Accounting at Bina Nusantara University, Indonesia. She also got accounting bachelor degree from Bina Nusantara University, Indonesia and had an AB tax brevet program from Indonesian Accountant Association (Ikatan Akuntan Indonesia). While study Bachelor degree, she also joins lecturer assistant and has some experience in teaching. In addition, she once got a Djarum's Scholarship from 2015 to 2016. She had experienced in corporate credit analysis from 2017 until now. Her main research scope is in field of taxation, finance, and management.



Yanti is currently a second-year master's student in Magister Accounting in the Binus Graduate Program at Binus University, Indonesia. She got Accounting bachelor degree from Trisakti University. While study Bachelor's degree, she also joints lecturer assistant and had some experience in teaching. She works as Management Accounting Section Head in the Finance Department of Bina Nusantara University from 2016 until now. She also worked as a semi senior auditor at Public Accountant Osman Bing Satrio & Eny from 2014-2015. Her research scope is in the field of technology, accounting and finance areas.



Rindang Widuri is a Assistant Professor, and Head of Master of Accounting Program at Bina Nusantara University, Jakarta, Indonesia. She earned B.Sc. and Master degrees in Accounting Information Systems from Bina Nusantara University, and Ph.D. in Accounting from RMIT University, Australia. Her primary area of expertise is the adoption of technology in financial reporting and accounting education. She has awarded several research grants from international (Australia Awards) and national institutions (Directorate of Higher Education, Ministry of National Education, Indonesia).