

# Internal Controls in the Sales Cycle to Minimize Risks

## (Case Study at PT XYZ)

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**Abstract**—Sales are a major source of corporate earnings. Improved sales are an important goal in supporting a company's operational processes. As a sales strategy, sales on credit is an option to increase the demand for a firm's goods. However, offering credit can negatively impact a company's business if it is not properly managed. This study aims to analyze the sales business process and internal control system embedded in the sales cycle of PT XYZ, a newspaper publisher. The company's largest asset is receivables that as of 31 December 2016, amounted to 50% of the company's total assets. The company has a low rate of collectible receivables, with some long outstanding receivables for more than 10 years. Other problems faced by the company are operating losses and high sales return. This research is conducted by using a qualitative approach and descriptive analysis to examine the sales and components of internal control. Data is collected by interviewing key personnel, observation and examining documents. The result of this research is recommended actions for the improvement of internal controls of the sales cycle and a risk analysis design using risk calculations. This research is expected to enable the firm to take decisive action to face its significant risks.

**Keywords**—Sales, Receivables, Internal Controls, Risk

### I. INTRODUCTION

Sales is a major source of corporate earnings and increasing sales is an important goal for a company's operational processes. A company strives to ensure that its operations are in line with the company's objectives. During the operations process, a company will certainly find problems and risks that can hinder its goals. Therefore, companies need a system to minimize risks.

Many companies sell on credit in order to increase demand for their goods. However, credit sales can have a negative impact on a company's business if they are not properly managed. Uncollectible receivables represent cash that is unavailable to pay dividends, debts, employees' salaries, legal obligations, and tax liabilities or to finance company operations. As a result, a firm's production processes become stalled. Hence, Salek [1] argues that cash is a vital resource in a company. Therefore, every dollar of corporate earnings in the form of receivables should be managed properly and collectible.

PT XYZ is a company engaged in the publishing and printing of newspapers. The company's business activities are advertising, newspaper sales, event procurement, magazine publishing and digital media. The company's largest revenue comes from sales of ads and newspapers. Ad sales represent 60% and newspaper sales are 23% of the total sales of the company. Therefore, the company's management focuses on both types of sales. In line with that, this research is also focused on the sales of advertising and circulation.

Based on the statement of financial position of PT XYZ, as of December 31, 2016, the company's largest asset is embedded in the trade receivables. Half of the company's assets are embedded in accounts receivable, followed by due-from as 17% and fixed assets as 9% of company's total assets.

As of December 31, 2016, the company's receivables are dominated by transaction with the matured ages. Almost all invoices are with the ages more than 90 days old. The Company's aging schedule shows that the number of receivables in 2016 with age more than 90 days is amounted to 90% of total receivables of the company. This is not much different from the receivables in 2015. The management reveals that the long outstanding receivables are from invoices in 2008. These high-age receivables have been a continuing problem in recent years.

Research conducted by Doyle, Ge and McVay [2] found that significant internal control weaknesses were found in companies that were small, less profitable, overly complex, rapidly growing or restructured. PT XYZ is a company with a small number of resources. It is not listed on the Indonesia stock exchange and the company is in a small sales market. Weak internal controls could create space for risk and potential fraud. Small and medium sized companies face challenges in implementing effective internal control systems. This is due to employee constraints, resource constraints and limited income to cover the costs of establishing internal control (SEC: 2006).

Based on the description of the sales process at PT XYZ, the implementation of the internal control system in the sales cycle and other unidentifiable risks, there is a problem in the sales business processes and the internal control over sales cycle at PT XYZ. This observation offers an interesting topic

of study; the researcher wants to examine the business process of sales and the internal control over sales cycle at PT XYZ.

In line with the formulation of the research problems stated above, there are three main objectives of this study: (1) to evaluate the sales cycle at PT XYZ; (2) to evaluate the internal controls of the sales cycle at PT XYZ; and (3) to propose improvements to the internal control system of the sales cycle at PT XYZ.

This research is conducted based on a qualitative descriptive method. Data and information is collected through literature and field study consisting of a series of observations, interviews and checking of related documents. This research journal consists of five chapters as follows.

- Chapter I is the Introduction. This chapter contains the background of the problems, identification of the problems, research objectives, research benefits, and the research methodology.
- Chapter II is the Theoretical Review. This chapter contains the theoretical review that forms the basis of the study.
- Chapter III is the Research Methods and the Overview. This chapter contains a description of the methodology and a brief description of the company's business operations.
- Chapter IV is the Analysis and Discussion. This chapter contains the analyses, discussions related to the analyses, and the result of the research.
- Chapter V is the Conclusions and Suggestions. This chapter contains the essence or conclusion of the research results.

## II. THEORETICAL REVIEW

### A. Internal Control

The AICPA in 1948 defined internal control as a control consisting of coordinating methods and calculations adopted by a firm to maintain assets, examine the accuracy and reliability of accounting data, and promote operational efficiency and compliance with specified managerial policies. This theory is also supported by Brink [3], who states that internal control is a process that is implemented and designed by management to provide reasonable assurance about the constraints of financial reporting, the conformance with established policies and procedures, the safeguarding of corporate assets, the firm's effectiveness and operational efficiency while achieving the corporate mission and objectives upholding its values of integrity and ethics.

By referring to the above theory, good internal control can help a company to achieve its goals. Companies can understand internal controls based on five components: the control environment, a risk analysis, the control activities, information and communication and monitoring. The objectives of the internal controls are based on COSO (2013) as follows.

- Effectiveness and efficiency of operations. Internal control is expected to reduce activities that are not relevant to the operational process and corporate objectives. Internal control is also expected to reduce the use of ineffective and inefficient resources.

- Reliability of financial reporting. Internal control is expected to provide reasonable assurance of the company's financial statements. Internal controls are also expected to provide confidence that the preparation of financial statements is in accordance with applicable reporting standards.
- Compliance with applicable laws and regulations. Internal controls are expected to bring all aspects of a company into compliance with prevailing rules and regulations.

### B. Sales

**Definition** The definition of sales, according to Mulyadi [4], is the activity of selling goods or services to earn profit. Marom [5] states that a sale is a transaction in the form of merchandise sales as the main business of a company that is usually done on a regular basis. IAI in SAK No. 23 paragraph two (2009) states that the sale of goods includes goods produced by the company for sale and goods purchased for resale.

According to Soemarso [6], a credit sale is a sale of merchandise in cash that is not recorded as a debit on the estimated accounts receivable and is a credit on the estimated sales. A company's goal in selling on credit is to improve and facilitate sales, meet the requirements demanded by creditors, attract new customers and provide general transaction convenience [7].

According to Romney [8], four business activities comprise the basis of a sales accounting information system: sales order entry, shipping, billing and accounts receivable, and cash collection. The detailed activities are shown in Table I.

In order to ensure that the sales flows are running properly, there should be an activity to control sales activity. According to Arens [9], control activities in the sales cycle are: adequate separation of duties, proper review and authorization, sufficient documents and notes, prenumbered document, monthly reports, and internal verification procedures.

### C. Receivables

Receivables are claims filed against customers for money or services [10]. Receivables are oral promises of buyers to pay for goods and services sold. Usually, receivables are collected within 30 to 60 days.

Based on Financial Accounting Standards No. 43, receivables are a type of financing in the form of purchase and or transfer of receivables or short-term receivables of an enterprise arising from business transactions. Warren [11] mentions that receivables are claims arising from some type of transaction from the sale of goods or services on credit in the form of money to the buyer.

#### Accounting System of Receivables

The accounting system for receivables generally starts from the delivery of bills to registered customers. When payments from customers are received, the cash received is recorded on the books. Long outstanding receivables will be allowed and if there is still no payment, they will be written off.

TABLE I. ACCOUNTING INFORMATION SYSTEM FOR SALES

<b>1. Sales order entry:</b> a. Acceptance of sales orders from customers b. Credit check and approval c. Check availability inventory	<b>2. Shipping</b> a. Collection and packing b. Delivery of goods
<b>3. Billing and accounts receivable</b> a. Billing customers b. Listing accounts receivable	<b>4. Cash collections</b> a. Handling cash receipts from customers b. Depositing customer money in the bank.

### Uncollectible receivables

A customer may not be able to pay his responsibilities due to a decrease in their sales revenue as a result of the economic downturn. A company may determine a receivable is uncollectible by its appearance on a periodic report called a receivable aging schedule. Receivables aging schedules classify accounts receivables based on the age or duration of the outstanding invoice. If the age of receivables is high and the collectability of accounts receivable decreases from the usual, this indicates a customer is having difficulty in paying the receivables. There are two methods of accounting for the handling of bad debts, the direct write off method and the allowance method. The methods used in estimating the value of uncollectible receivables are:

- Percentage of sales: Estimated losses are expressed as a certain percentage of credit sales and do not include cash sales.
- Estimated from accounts receivable balance: The estimated loss of accounts receivable is expressed as a certain percentage of the accounts receivable balances of magnitude based on past experience.
- Analysis of receivables using an aging schedule: The understanding that the longer a receivable is not repaid, the less likely it is collectible.

### III. RESEARCH METHOD AND COMPANY OVERVIEW

This research is a qualitative descriptive research with a case study. The case study method was chosen because this research initiated with problems faced by XYZ Company that required direct involvement of the researcher to understand the problem.

The object of this research is the sales cycle of PT XYZ Company. PT XYZ is a printing and sales company with its head office in South Jakarta. This study focuses on the internal control system of PT XYZ's sales cycle. Primary data sources used in this study are observations and interviews. At first, the researcher conducted interviews of the key personnel related to the sales cycles and then observed the flow and procedures described. Finally, the researcher examined documents related to the sales process flow and internal controls.

### IV. RESEARCH RESULTS AND DISCUSSION

#### A. *Research Results*

The results of this research show PT XYZ's internal control process has weaknesses in each component. The researcher gives recommendation for implementation of better internal controls. This research also proposes a design for a risk assessment form that consists of helps to calculate the severity of a risk by looking at the risk impact and risk

likelihood. This form can help the company to calculate its risks and to prepare actions to face the significant risks.

#### 1) *Discussion*

The discussion is based on the analysis of the sales cycle flow and internal controls at PT XYZ.

##### a) *Evaluation of the Sales Cycle*

Evaluation of sales cycle is conducted for only two types of the company's sales, circulation and advertising sales cycle.

- **Circulation-Sales Cycle**

The process of circulation sales includes the process of receiving orders, issuing letter orders (sales orders), the process of printing newspapers, billing, delivery, cash receipt and recording and filing. The weaknesses found in the circulation cycle are described in Table II.

- **Advertising Sales Cycle**

The process of advertising sales includes the process of receiving orders, processing sales, filling media orders, creating confirmation letters, creating advertising orders, running ads, billing recording and documenting. The weaknesses found in the advertising cycle are described in Table III.

#### B. *Internal Control System Analysis*

##### 1) *Control Environment*

Problems in the control system are as follows. The company does not use standard operating procedures (SOPs). The company has not yet implemented standard rules of conduct or a company code of ethics. Employees are unaware of the existence, benefits and matters concerning SOPs and codes of conduct. There is no written criteria or criteria on job candidates. The company does not yet have written job descriptions. The company does not have scheduled training for employees. There are no regular job reviews and procedures. The firm does not update and review the organizational structure. The company never conducts regular and consistent rotation of positions. The investigation found unreserved transactions from financial managers.

##### 2) *Risk Assessments*

The deficiencies identified in the area of risk assessment are as follows. The company does not yet have a written regulation on the risk identification process to be performed by the company. The company does not perform risk analysis activities or has a special team assigned to conduct the risk analysis process. Because the scale of the company's sales market is not too large, the company is not concerned about risk factors when providing credit to customers. The company does not have risk mitigation activities. The company has never made risk registers or trend risks of aging every year.

TABLE II. EVALUATION OF THE SALES CIRCULATION CYCLE

Business Process	Documents	PIC	Weakness Found
Receiving order	Purchase Order Sales agreement with newspaper distributor	Circulation Subdivision	There are no policies and regulations governing customer selection and evaluation. There are no sales agreements with regular customers. Often sales are made without going through a purchase order.
Issuing Letter Order (Sales Order)	Letter Order (Sales Order)	Circulation Subdivision	Still found sales transactions that do not use a letter order (sales bundling).
Printing process	Signed Letter Order (Sales Order)	Printing team	No weakness detected.
Newspaper Delivery	Delivery order	Circulation Subdivision– Expedition Team	No weakness detected.
Issuing Invoice	Invoice	Finance & Accounting – Billing	Late in sending invoices, especially to government agencies.
Issuing and Delivering Tax Invoices	Tax Invoices	Finance & Accounting – Tax	Tax invoices are not issued and delivered in timely manner.
Cash Receipt	Invoice, Receipts Notes, Customer Account	Finance & Accounting – Collector, Cashier	-No weakness detected.
Journal and Documentation/filing	Journal, Ledger, Aging Schedule	Finance & Accounting – Head Accounting	Aging schedules are not updated in timely manner.

### 3) Control Activities

Some problems were also identified in the firm's control activities. First, the company does not have company performance review procedures or a fixed indicator for performance reviews. Control activities for approvals on bundling sales is still weak. Sales can be processed without purchase orders. There is no review of the financial condition of customers or prospects. The aging schedule is not on time, and the balance of receivables on the aging schedule differs by the large amount with the outstanding balance on the accounts receivable ledger. Many advertising sales do not have a contract. The company has no policies for receivables or the collection of accounts receivable. Information systems are not mutually integrated and there is recording of errors. Finally, newspaper subscriptions are still sold on credit to customers with poor credit records.

### 4) Information and Communication

Two identified issues in information and communication are the different information systems used between divisions in the company and that the information is not integrated.

### 5) Monitoring

The investigation found that there is a lack of regular monitoring activities by managers. A manager has no separate agenda/evaluation or unannounced inspection activities. Auditors' recommendations are ignored by the management, so the auditor finds the same problem in the following year.

## C. Proposed Improvements in the Internal Control System

### 1) Control Environment

Based on the analysis result of the control environment in the company, there are improvement action that can be considered by the company as described in Table IV.

### 2) Risk Assessment

Based on the identification of problems in the process of risk analysis, the researchers suggest the company conduct a risk analysis to minimize risks in achieving corporate goals. At first, the company must follow the management's guidance to implement risk assessment, at the level of activity, division and company. Later, the company can create a special team to carry out risk analysis. In this study, researchers designed a framework for performing risk analysis. Fig. 1 there is a risk analysis form which contains a guidance to calculate risk based on impact scale and likelihood of risk. Impact and likelihood scales are determined along discussion with financial and marketing managers. Scores are determined based on the manager's experience and estimation. By knowing these levels of risk, the company can determine the appropriate response strategy for those risks that have a significant impact.

During this research, after interviewing the key personnel, making observations of the process flow and checking related documents, we propose a risk assessment form in which each risk is given a score, to discuss the risks that have been encountered and the manager's estimation of possible risks. Table V outlines the results of the discussion of risks in the sales cycle.

After calculating the risk level of the internal control of the sales cycle as shown in Table VII we see that the risk level can be reflected in the form of a matrix as shown in Fig. 2. This matrix can facilitate a manager in monitoring risks and performing appropriate actions to respond to significant risks.

### 1) Control Activities

Under the conditions of control activities in the sales cycle of PT XYZ, the design of control activities that PT XYZ may apply are described in Table VII.

TABLE III. EVALUATION OF THE ADVERTISING CYCLE

Business Process	Documents	PIC	Weakness Found
Receiving Order	Purchase order signed and stamped. Sales agreement with newspaper distributor.	Marketing Advertising	The Advertising Agreement is not in writing.
Sales Processing	Media order filled and signed by the customer. A Confirmation letter created by the admin and signed is approved by the ad marketing manager. OPI signed by the advertising marketing manager.	Marketing Advertising	No weakness detected.
Advertising process	OPI signed by the advertising marketing manager.	Editorial Team	No weakness detected.
Issuing Invoice	Invoices signed and approved by financial manager.	Finance & Accounting – Billing.	Delayed delivery of invoices to customers, especially government agencies.
Issuing Taxes Invoice		Division Finance & Accounting – Tax Admin.	Tax Invoice is not published and delivered.
Cash Receipt	Invoices signed and approved by financial management.	Division Finance & Accounting – Collector, Cashier.	No weakness detected.
Journal and Documentation/filing	Journal, Ledger, Aging Schedule.	Finance & Accounting – Head Accounting.	Aging schedules are not update.

TABLE IV. IMPROVEMENT RECOMMENDATIONS FOR THE CONTROL ENVIRONMENT SYSTEM

No	Identified Problems	Improvement Recommendations
1	The company never renews or uses SOPs.	Design new SOPs and a process for updating them.
2	The company does not have standard rules of conduct or a company code of ethics.	Create a code of ethics in proper documentation.
3	Employees are unaware of the existence, benefits and matters concerning SOPs and codes of conduct.	Conduct a communication campaign for the company code of ethics to the employees.
4	There is no written criteria or candidate criteria.	Update SOPs and the descriptions of candidate criteria.
5	The company does not have job descriptions in writing.	Create job descriptions for each position.
6	The company does not train employees.	Create mandatory rules to conduct a training. Allocate funds for training.
7	There are no regular job reviews and procedures.	Make a special agenda for review of work at the end of each year using continuing indicators.
8	Never The company has never updated or reviewed the organizational structure.	Reviewing the organizational structure periodically.
9	The company never conducts regular and consistent rotation of positions.	Conduct a rotation of positions every year to reduce the risk of abuse of authority and responsibility.
10	There are unreserved transactions from financial managers.	Apply a tiered authorization process.

### 2) Information and Communication

Information and communication are involved in the effective implementation of all of the other internal control components. Therefore, information and communication touch every component inside the COSO internal control pyramid. Information and communication enable the achievement internal controls, risk assessment, control activities, and monitoring—everything under the umbrella of the control environment. Table VII describes the improvement plan for information and communication.

### 3) Monitoring

After internal controls are established, monitoring is implemented to help ensure that the internal controls operate effectively. Monitors are designed and implemented with the aim to 1) periodically identify and fix internal control issues and 2) generate more accurate and reliable information for the firm's decision-making processes.

Monitoring procedures associated with the preparation of financial statements include 1) performing evaluation and testing on internal control periodically, and 2) let supervisors examine control activities. According to COSO (2013), three basics goals in achieving effective monitoring are: 1) setting the foundation for monitoring, including a positive tone from top management, an effective organizational structure to support the unification of employees with the right capabilities, initial objectives and authorities to separate monitoring and evaluation; b) design and execute monitoring procedures that focus on persuasively implementing key controls that can address risks in achieving objectives and 3) assessing and reporting results, including evaluating the known shortcomings of internal controls and reporting monitoring results to related employees and leaders to take appropriate action.

Risk Assessment Form  
Sales Cycle

Department: Finance & Accounting, Marketing  
Subdivision: Circulation  
Class of Transaction: Sales  
Period: 2017

1. Purpose of Company: xxx
2. Purpose of Division: xxx
3. PIC:
4. Risk Criteria:
  - a. Scale of Likelihood

**Table 5. Likelihood Criteria**

Score	Level	Likelihood
1	Very rare	It may happen once in more than two years.
2	Rarely to Happen	It may happen every 1 to 2 years.
3	Possible	It may happen every 1 to 6 months.
4	Often	It may happen at least every week / month.

Source: Griffith [12]

- b. Scale of Impact

**Table 6. Impact Criteria**

Score	Level	Impact
1	Very Low	Causes minor inconvenience, does not affect the achievement of corporate objectives.
2	Low	Causes inconvenience, does not affect the achievement of significant corporate goals.
3	High	Causes stunted achievement of short-term corporate goals within a limited timeframe.
4	Very High	Cause inhibits the achievement of corporate goals in the long term.

Source: Griffith [12]

**Figure 1 Matrix of Risk Analysis and Risk Level**

<b>Likelihood</b>	Very Often (4)	Medium	High	High	Extreme
	Possible (3)	Low	Medium	High	High
	Rare (2)	Low	Medium	Medium	High
	Very Rare (1)	Very Low	Low	Low	Medium
		Very Low (1)	Low (2)	High (3)	Very High (4)
<b>Impact</b>					

Source: Griffith [12]

Fig. 1. Risk Assessment Form

TABLE V. RISK LEVEL OF INTERNAL CONTROLS IN THE SALES CYCLE AT PT XYZ

No	Risk	Impact	Likelihood	Score	Risk Level
Risk 1	Fraud committed by employees. Acts that violate ethical values, errors, frauds that can harm the company.	3	3	9	High
Risk 2	Newspaper agencies / distributors fail to pay accounts due to financial difficulties.	4	3	12	High
Risk 3	Sales overstated in error due to miscommunication at the time of a bundling sale.	2	2	4	Medium
Risk 4	Mistakes in newspaper distribution: newspaper wrong address, newspaper could not be delivered due to the agent has broken up, newspaper are broken on board.	2	3	6	Medium
Risk 5	Double Invoices: canceled invoice is still recorded.	1	2	2	Low
Risk 6	Failure to receive receivables from government agencies that have passed the turn of the year.	4	2	8	High
Risk 7	Outstanding VAT is high because the invoice sent does not included tax invoice.	2	4	8	High
Risk 8	Inappropriate order input.	3	3	9	High
Risk 9	High newspaper returns.	3	3	9	High

<b>Likelihood</b>	Very Often (4)		Risk 7		
	Possible (3)		Risk 4	Risk 1, Risk 8 & Risk 9	Risk 2
	Rare (2)		Risk 5	Risk 3	Risk 6
	Very Rare (1)				
		Very Low (1)	Low (2)	High (3)	Very High (4)
<b>Impact</b>					

Fig. 2. Matrix of Risk Likelihood and Risk Impact on Sales Cycle at PT XYZ

TABLE VI. IMPROVEMENT ACTION RECOMMENDATIONS FOR CONTROL ACTIVITIES

No	Control Activities, Weaknesses and PIC	Impact	Improvement Recommendations
1	Proper review and authorization. <b>Weakness:</b> The company does not have a company performance review procedure. <b>PIC:</b> Company/All business functions.	Errors and cannot be detected early and properly. Continuous ineffectiveness and inefficiency of work.	Create a review guidance for the work of each division. Establish a review guidance for work performance in quarter, semester or per year. Determine the mentor for each employee to accommodate complaints and be able to monitor the day-to-day employees.
2	Proper review and authorization- Individual indicator determination of performance. <b>Weakness:</b> The company does not yet have a fixed indicator in terms of individual performance reviews. <b>PIC:</b> Company /All Business Functions.	Improper feedback on employee performance appraisal. There are potential human errors and pressure to commit fraud. Poor and ineffective efficiency of work.	Create performance indicators for each level of position in the company.
3	Proper review and authorization- Authorization of important transactions and events. <b>Weakness:</b> The absence of a manager approval process at the time of bundling combined sales processing. Sales without any purchase order can still be processed by management. <b>PIC:</b> Finance	Improper transactions, fictive sales and overstating selling of ads and newspapers.	Use an integrated recording system between divisions.
4	Proper review and authorization- Authorization of important transactions and events. <b>Weakness:</b> There is no review of the prospect's financial condition. The company does not have a customer selection policy or credit sales approval. The sale of newspapers on credit still continued to customers with poor credit record. <b>PIC:</b> Finance	Credit sales are performed to distributors that have financial difficult. Failure of customers to pay receivables. Bad debts are getting higher.	Establish a credit sales approval policy, which includes customer financial analysis, terms and limit of credit sales authorization.
5	Monthly reports- Aging schedule. <b>Weakness:</b> Aging schedule which is not update. <b>PIC:</b> Finance	The company escaped and failed to detect customers who have matured debt. The difference between the aging schedule amount and the ledger balance will lead to wrong and not in time decision-making. Errors in estimate provision of receivables and disclose the accounts receivable not in realizable value.	Managers perform monthly reviews of aging schedule and printed aging should be signed by manager / Create aging report updates for accounts receivable periodically. Create policy for procedures and sanctions over payment deadlines.  Conduct a comparison analysis of billing results on monthly basis.
6	Sufficient documents and notes – Documentation of transactions and adequate internal control. <b>Weakness:</b> Many circulation sales do not have a contract. <b>PIC:</b> Finance/Order acceptance	Fictive Sales.	Management review at the functional or activity level. Document all important agreements. Create a simple contract template from the company signed directly by the distributor to avoid sales manipulation and cheating by distributors.
7	Control of information processing. The information systems of each division are not mutually integrated. Circulation sales are still recorded manually. The discounted price list has not been stored in the system and is still manual.  <b>PIC:</b> Finance / Marketing	Double recording for same transaction. Discounting does not comply with company regulations that can harm the company.	Move manual recording to system logging (SAP) for all transactions. The system will show a default warning message indicating that the sales order number has been previously inputted. At the time of purchase order input, the entry will give mandatory sign, so that when the entry is empty then the transaction will not be processed. Criteria are set automatically for the number of inputs and criteria letters numbers and symbols. It will help when input numbers is not meeting the number and criteria, then the input will not be processed. So, the wrong and fake number will not be processed. The sales order document is numbered in sequence. Data on pricing and discounts on the system in the verification periodically are stored in the database.

TABLE VII. IMPROVEMENT RECOMMENDATIONS IN INFORMATION AND COMMUNICATION

No	Controlling components	Component Information	Communication components Recommendations
1	Control Environment	Standards of conduct or code of conduct in writing and formal form.	The Board of Directors conveys a message of standard of conduct or code of ethics to all employees through words or in the form of daily actions.
2	Control Environment	Updated SOP.	All level managers communicate and share SOPs to all employees.
3	Control Environment	Job description of each position.	Job description can be understood by all employees.
4	Risk Assessment	Guidelines and procedures for risk assessment.	The risk assessment team and the manager understand risk assessment guidelines and procedures in accordance with the rules set by the company.
5	Risk Assessment	The slogan of importance of responsive to risk.	Communication in the form of a campaign using posters on the walls of the workspace, corporate website, and the corporate magazine.
6	Control Activities	Guidance procedure review of company performance.	Supervisor reviews existing policies and procedures with key employees.
7	Control Activities	Aging schedule.	Supervisor reviews existing policies about the method in estimated aging receivables, the consistency of method used and the procedures with key employees.
8	Control Activities	Sales agreement.	Supervisor reviews existing policies related to agreement and procedures with key employees.
9	Control Activities	Pricing policies and procedures.	Review the price list on the system with a written pricing policy. Review and communicate the pricing method used.
10	Control Activities	Discounted policies and procedures.	Review the percentage of discounts on the system with a written pricing policy from marketing managers.
11	Control Activities	Information on customer data.	Data changes are updated on a timely basis.
13	Control Activities	Information on market prices.	Review of competitor prices and market prices frequently and communicate them in frequent meetings.
14	Monitoring	Audit findings.	Audit findings are shared with employees.
15	Monitoring	Results analysis of the work review.	Perform debrief of supervisor after getting result of performance review analysis.

## V. CONCLUSION AND RECOMMENDATIONS

### A. Conclusion

#### 1) Sales Cycle

The sales cycle of the company is conducted according to a projected procedure based on the sales information system. However, there are some disadvantages encountered in the implementation of the selling procedure, such as bundling sales without authorization from the manager, having an unpublished tax invoice, and sending invoices late to government companies.

### B. Internal Control

There are still some weaknesses that must be improved in the internal control system in PT XYZ's sales system. The components of the company's control environment need management and improvement attention. The company does not have SOPs, a standard of conduct, or a code of ethics. In the analysis of risk analysis components, the company does not have a formal risk analysis procedure, a credit lending policy, or customer review policy and procedures. The aging schedules are rarely reviewed, so bad debts are high. In the component analysis of the internal control activities, it was discovered that sales invoices are submitted without tax invoices, which results in bad debts. The company has not yet adopted an integrated system of divisions. There are several sales transactions that are manually recorded.

In the analysis of the information and communication components, the company uses an information system that is not mutually integrated between divisions.

The results of the analysis on the monitoring component indicate that the company does not have a periodic and procedural monitoring process; the company also does not have separate monitoring agenda or unannounced inspections.

It was also discovered that audit recommendations are not addressed and the same problem remains the following year.

### C. Recommendations

Companies are PT XYZ should create or updates its corporate SOPs, policies of conduct and company code of ethics. Management should also renew the organizational structure, rotate office staff and conduct regular training to improve employee competency. The company should be able to draft a formal risk analysis process according to the authors' recommendation in Chapter 4. It should establish credit approval policies and create a special team to analyze customer credit risk. Developing and implementing the control activities in accordance with the proposals in this study would be beneficial. PT XYZ should consider general controls related to technological aspects and integrate the information systems for all divisions so that divisions have cohesive information. Directors and managers should monitor periodically the overall process of the sales cycle and conduct control activities in every meeting. Further research is suggested to expand the analysis of the business cycle of PT XYZ beyond the sales cycle to other business cycles.

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