

Analysis Internal Control In Order To Design Standard Operating Procedure (Sop) For Fixed Assets Procurement And Management Activites: Case Study on PT ABC

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Abstract: This research aims to analyze internal control system and propose a design of standard operating procedures (SOP) for fixed asset procurement and management activities in PT ABC. This is a qualitative research with case study method at PT ABC which is engaged in rental fixed assets for supporting education facilities. We have interviewed the management of PT ABC, conducts observation, and analysis internal documents. Based on those data, we analyze the internal control system that has been implemented by PT ABC related with procurement and management activities of fixed assets, including identifying risk in those activities as the basis for the analysis of the ongoing internal control system. The results show that there are some weakness on internal control system, especially related to fixed assets management activities. Therefore, some risks have not been mitigated yet. In addition, the Company has not formalized internal control procedure yet, which caused unstructured implementation. Therefore, this research provides recommendation for improvement in internal control activities and proposed a design of standard operating procedure (SOP) related to procurement and management activities of fixed assets that tailored with the PT ABC needs.

1 INTRODUCTION

Companies use assets as one of the resources to support the company's operational activities in order to achieve company goals. Fixed assets are generally important for the company due to its significant value and long-term usage to achieve company's goals. Based on Indonesian GAAP 16 (IAI, 2014) states that property, plant and equipment are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and expected to be used for more than one period. In addition to its value, information related with assets are important for both companies and stakeholders for decision-making. Lansiluoto, Jokipii, Eklund (2016) stated in their research if firm does not have effective internal control, it is possible that the firm's financial statement contains a material weakness. Hence, it is critical for management to have and establish appropriate policies and controls surrounding fixed assets. With appropriate policies and controls, it is expected that the company will

have a reliable financial statement with no material misstatements in fixed assets.

PT ABC engaged in education services, (school operated under foundation) for children under 3 years old (early childhood education) up to 18 years old (high school), with market share is middle to upper class families. Until now school has 6 (six) branches (later call as site) in Jakarta and 1 (one) branch in Surabaya with total student reaching 1,500 students. One of the services is rental fixed assets for supporting education facilities at XYZ foundation. PT ABC is act as a holding and record all fixed assets and receive fee payment from XYZ foundation in the form of rental fee.

Assets remain important for PT ABC because fixed assets play a significant role in business activities, have a material value (65.58% of total assets of PT ABC in 2016), and the value of fixed assets is used as the basis for calculating rental fees. The rental fee is based on the fair value of total fixed assets, with tariff charged based on agreement is 4% from total fair value of fixed assets. The business

process of PT ABC also has an unique characteristic, which is PT ABC owned the fixed asset then renting the fixed asset to XYZ Foundation. The procurement process of fixed assets was done by PT ABC based on XYZ Foundation needs, while the management of assets is in the hands of XYZ Foundation.

Therefore, it is important for PT ABC to have adequate internal control related with fixed asset procurement and management activities, due to ineffectiveness in internal control can lead to inaccurate of total fixed assets. Inaccurate of total fixed assets may cause a risk that is potential loss of income for PT ABC, as well as incomplete information of assets will impact in improper decision making. Other than that, this is also poses a potential risk for PT ABC that is fixed assets are not suitable with the needs of site if the procurement process is not done properly and loss of fixed assets or fixed assets more quickly damaged if the XYZ foundation does not manage fixed assets properly.

Management has plans for expansion by opening several new schools in several major cities on Java and Sumatera with foreign investors, with the nearest project is in early 2018 with opening new branches in Bandung and Pekanbaru. Through this expansion the value of the company's fixed assets will be even greater and the presence of foreign investment requires the company to be able to provide reliable financial reports.

With the things mention above, the objectives of this research are to understand the internal control system that has been implemented by PT ABC related with procurement and management activities of fixed assets, identify risks related to procurement and management activities of fixed assets PT ABC's as a basis for internal control analysis of the ongoing system, and provide recommendation in the form of proposed a design of SOP procurement and management activities of fixed assets so that control activities can run effectively and efficiently.

2 LITERATURE REVIEW

2.1 Internal Control

Committee of Sponsoring Organizations of The Treadway Commission (2013) defined internal control as a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance. Romney and Steinbart (2015) stated internal control as the process

implemented to provide reasonable assurance that control objectives are achieved, including safeguard assets. COSO's Internal Control—Integrated Framework (2013) enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. Internal control consists of five integrated framework that is control environment, risk assessment, control activity, information and communication, and monitoring.

2.2 Internal Control of Fixed Assets

Control activity of fixed assets can fall into the several categories (Romney and Steinbart, 2015). Proper authorization of transaction and activities, can be done since the procurement process up to managing fixed assets. authorizations are required when request for order fixed assets, transfer of fixed assets, ulitization asset, and write-off fixed assets. Segregation of duties, done with segregation duties employee for record, custody, receive, and buy and payment the fixed assets. Design and use of documents and records, ensuring documents or records used in controlling fixed assets are adequate and all activities are well documented. Safeguarding assets, records, and data, done by creating and enforce appropriate asset policies and procedures, maintain accurate asset records of all assets, restrict access to assets, and protect records and documents. Independent checks on performance, done with regularly perform physical check.

There are two essential elements of internal control when we are dealing with Property, Plant, and Equipment (PP&E). One is knowing what you are supposed to have, which is the purpose of the fixed-asset register or master file. The other is being able to locate the actual assets, to provide assurance that the property register represents what is physically present (King, 2011).

One of control activities to achieve the company's goal is to have the design and use of good documents and records (Romney and Steinbart, 2015). One form of documentation is to have a standard operating procedure (SOP). Standard Operating Procedure (SOP) based on United States Environmental Protection Agency (2007) is a set of written instructions that document a routine or repetitive activity followed by an organization. The development and use of SOPs are an integral part of a successful quality system as it provides individuals with the information to perform a job properly, and

facilitates consistency in the quality and integrity of a product or end-result.

They document the way activities are to be performed to facilitate consistent conformance to technical and quality system requirements and to support data quality. SOPs are intended to be specific to the organization or facility whose activities are described and assist that organization to maintain their quality control and quality assurance processes and ensure compliance with governmental regulations (United States Environmental Protection Agency, 2007).

Dini (2013) in her research, do analysis effectiveness internal control of fixed asset management in North Jakarta Administration City Government, that using COSO criteria and Peraturan Pemerintah No. 60/2008 tentang Sistem Pengendalian Intern Pemerintah as well as the PERMENDAGRI No. 17/2007 tentang Pedoman Teknis Pengelolaan Barang Milik Daerah as a valuation guide. The results show that the implementation of the internal control system in general is quite good but not as effective as it still has weaknesses. the difference with previous research is researcher not stop in provide recommendation for weaknesses in internal control but also provide recommendation in the form of proposed design of standard operating procedure.

3 RESEARCH METHODOLOGY

3.1 Research Methods

This research is a qualitative research with case study approach. Qualitative research is multi-method in focus, involving in interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of, or interpret phenomena in the terms of the meanings people bring to them (Wahyuni, 2015). This method is choose due to this research is aim to gain deeper understanding of the process or experience or phenomena from a person or group that occur in the field then make conclusion of the pattern or phenomenon that occurs. Other than that, qualitative research is choose due to data that researcher use for processing data is not numerical data, but using data from observation, interview results, analysis documents.

This research is case study approach on fixed assets procurement and management activities at PT ABC in consideration total fixed assets is use as

basis for calculation rental fee, which is this rental fee is income for PT ABC. Income is an important aspect because it affects the going concern of an entity. Thus, the researcher considers that this research will give a large enough impact for the object of research.

Data collection method that use in this research are observation, interview, and analysis internal documents. Observation was conducts in Head Office and site Serpong (choose because has the biggest total fixed asset). Researcher get a chance to know how the management of fixed assets done, such as the process of receive fixed assets, delivery fixed asset to other site, and how safeguarding asset run head office and site. Interview conducts to know business environment and business process of company and components of internal control for procurement and management activities of fixed assets PT ABC, which allows new questions to gain a deeper understanding. Interviews conducts by the researcher involve general affair general manager, general affair manager, procurement manager, finance staff and some general affair site staff. Researcher also analyze Company's internal documents to know the adequacy of documents.

3.2 Unit Analysis

The procurement and management activities of fixed assets PT ABC was involve the General Affairs department. General affair department divided into general affair head office (in PT ABC) and general affair site (under XYZ Foundation and located in every school/site). General affair site is responsible to general affair head office (PT ABC) related with the fixed assets management activities in each site.

Procurement activities involves ordering fixed assets, supplier or vendor selection, and receiving fixed assets process. Management activities of fixed assets involves recording fixed asset, transfer fixed asset, disposal fixed asset, receiving assets from donors, and monitoring fixed assets process.

3.3 Data Analysis

Research is carried out with understanding the business environment and business processes of the company by doing interview with management PT ABC. To gain deeper understanding related with fixed asset procurement and management activities, researcher conducts interviews with people from general affair department such as general affair GM, GA and procurement manager and GA staff and other department that related with general affairs

such as finance staff. Research analyze internal documents to determine the adequacy of documents, whether it is in accordance with the needs of fixed asset procurement and management activities

Then researcher make analysis related with company's internal control system using the COSO's internal control framework, including identifying and analyzing the risks associated with the procurement and management of fixed assets, analyzing ongoing internal control system and provide recommendation of existing internal controls weakness.

4 RESULT

4.1 Internal Control Analysis on Fixed Asset Procurement and Management Activities at PT ABC

Components of internal control to be tested include the control environment, risk assessment, control activity, information and communication, and monitoring.

1. Control Environment.

Researcher do the analysis where the criteria examined are management's philosophy and operating style, commitment to integrity and ethical value, organizational structure, assigning authority and responsibility, and policy and practice of human resource development. The results show that vision and mission Company not written in any media and employees are not aware of their role in terms of internal control. Therefore, researcher provide recommendation to including vision and mission in the employee guidebook. Also, Company provides an overview of internal controls, the importance of internal controls for the company and what role employees should do in order for internal controls proceed effectively. Including control activities as one of the employee performance appraisal points.

2. Risk Assessment.

Researcher do the analysis where the criteria examined are establishment of overall company objectives, goal setting at level activity, risk identification, risk analysis, and risk management. The results show that Company not yet do identify and analysis risk, assessment risk and manage risk. Therefore, researcher do identify and analyze risk, to help Company to start doing risk assessment.

3. Control Activity.

researcher do the analysis where the criteria examined are proper authorization of transaction and

activities, segregation of duties, safeguard assets, accurate and timely recording of transaction, control over management information system, documentation of transaction, and activities independence check of performance, and training employee. Following were weakness that associated with criteria that mentioned above:

Tabel 1: Problem Identification and Recommendation Control Activities

Problem Identification	Recommendation
Site coordinator not routine in making "pertanggungjawaban" report, can be delayed up to 2 weeks	GA department must be routine in making an "pertanggungjawaban" report (at least once a week, adjusted with the frequency of receipt goods) and give penalties or punishment if reporting exceeds the specified time.
General affair and finance department never reconciles fixed asset data	Perform reconciliation (check and balance) between GA and finance at least once a month.
Company has not yet applied technology information system in recording fixed assets	Begin to use information systems technology to record the assets of PT ABC. This system can be purchased or built alone (depending on the maturity of the company's IT) and to be effective must be integrated with all procurement and asset management activities.
Transfer of assets (borrowed or permanently transferred) is not well documented.	Transfer of assets whether borrowed (temporary) or transferred (permanent) must have clear procedures, with supporting documents and approved by the GA Director/GM.
General affair never informs the finance department for assets that permanently transferred or disposed.	Inform finance for transfer or disposal assets, therefore fixed asset in finance always update. This can be done by regularly perform reconciliation between GA and finance. Provide punishment if it fails in performing its duties (informing disposal).
Company does not have a regular schedule for physical checks.	Company has a fixed schedule for physical checking of fixed assets head office and site, at least

	annually.
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4. Information and Communication.

Researcher do the analysis where the criteria examined are information and communication and form and tools communication. The result show that Company does not have standard operating procedure, therefore researcher provide propose design of standard operating procedures (SOPs) for fixed assets procurement and management activities at PT ABC with the aim of providing guidance to employees and facilitate employees in carrying out their duties.

5. Monitoring.

Monitoring is an evaluation to assess whether each element of internal control has been implemented and functioning as it should. The results show there are fixed assets that directly send to site without re-checking from GA head office. Therefore, researcher provide recommendation that require GA to re-checking fixed assets sends directly to site, at least for fixed assets that have a material nominal and have regular schedule to perform physical checks.

4.2 Risk Assessment and Control Activity Analysis on Procurement and Management Activity of Fixed Assets PT ABC

Based on internal control analysis above, Company never conduct risk assessment. Therefore, researcher do risk assessment in order to help Company. Risk assessment start with identify risk that related with fixed asset procurement and management activities, then researcher determine ideal control activities for those activities. Researcher then compare current (on going) control activities with the ideal control activities, for those activities that find doesn't have proper control activities, researcher will provide recommendation.

Based on analysis, there are several activities that find not have proper control activities, for those weaknesses researcher provide recommendation, please find below:

Table 2: Recommendation Control Activity for Procurement and Management Activity of Fixed Assets PT ABC

Analysis (Risk and Current Control Activities)	Recommendation
Risk: kickbacks. -There are no job rotation rules and obligation to take holidays or leave in procurement department.	Obligation to take holiday or leave as Company rules.
Analysis (Risk and Current Control Activities)	Recommendation
Risk: Receive assets not accordance with the specifications. -Not all sites receive purchase order from head office, seldom based on verbal info from head office.	Copy of purchase order must be given to the site (if the goods are directly received at the site).
Risk: Mistake in accounting. -Not all sites receive purchase order from head office, seldom based on verbal info from head office.	
Risk: Loss of fixed assets. -For items received directly on site, head office never performs physical checks.	GA department should be routine in making "pertanggungjawaban" report (at least once a week, adjusted with the frequency of receipt goods) and give penalties or punishment if reporting exceeds the specified time.
Risk: Records of fixed assets are not accurate. -Company still using excel to record assets. -Never done checks and balances process.	-Started using technology information systems to record the assets of PT ABC, integrated with all procurement and management activities of PT ABC's fixed assets. - Routinely perform check and balance assets between GA and finance.

<p>Risk: Assets are lost and asset records are not accurate. -Not all fixed assets that come out from site are issued delivery order. -Transfer of fixed assets between sites is not documented (no special documents, only verbally or via email) and not communicated to the finance department. - Authorized verbally by GA GM.</p>	<p>-Transfer of fixed assets either borrowed (temporary) or transferred (permanent) must have clear procedures, with supporting documents and approved by GA Director/GM. - Establish standard operating procedure (SOP) related to management activities of Company's fixed assets.</p>
<p>Analysis (Risk and Current Control Activities)</p>	<p>Recommendation</p>
<p>Risk: Records of fixed assets not accurate. -The write-off of fixed assets (discarded, sold, or donated) is not communicated to finance.</p>	<p>- The removal of fixed assets (discarded, sold, donated) that still have book value must first obtain GM Finance approval and all removed assets must be communicated to the finance department to update the company's fixed asset records. - Establish standard operating procedure (SOP) related the management activities of Company's fixed assets.</p>
<p>Risk: Records of fixed assets not accurate. -GA does not have a fixed schedule to perform physical checks. -Not all fixed assets companies have tagging and number assets in each site has a different format (not standardized).</p>	<p>-Company has fixed schedule for physical checking FA head office and site, at least annually. -All of the company's fixed assets must have tagging (sticker or barcode) and number assets on each site should be standardized. - Establish standard operating procedure (SOP) related to management activities of the Company's fixed assets.</p>

4.3 Proposed Design of Standard Operating Procedure (SOP) for Fixed Asset Procurement and Management Activities at PT ABC.

Based on internal control and risk assessment analysis above, the Company does not have internal

control that is formalized therefore the procurement and management activities of fixed assets are still running not effectively. Therefore, researcher provide proposed standard operating procedure (SOP) and related documents that can support the smooth those activities.

Researcher proposed 7 (seven) design standard operating procedure related with fixed asset procurement and management activities, that is procurement fixed asset, utilization fixed asset, stocktaking fixed asset, borrow fixed asset, transfer fixed asset, retirement fixed asset, and loss fixed asset.

Each proposed SOP is design with PT ABC needs and consist of:

1. Approval of SOP by top management and related senior management.
2. Objective and scope.
3. Responsibility, stated people or department that responsible for those process.
4. Definitions, identifying any acronyms, abbreviations, or specialized terms used.
5. Conditions, explain definition and classification of fixed assets and authorization for each process.
5. Process, explanation for each process.
6. Flowchart, showing the step or workflow that explain in process.
7. Documents related process, stated documents that needs for each process.

Based on analysis on transfer assets process it is found that this process is not documented well enough, therefore researcher also design documents related to borrow and transfer asset.

5 CONCLUSION

Based on the results of the analysis and discussion that has been discussed in the previous section, it can be concluded that PT ABC already has internal controls related to procurement and management activities of fixed assets but internal controls are still not formalized and still found some problems in the implementation of such control. For any weaknesses that found in the internal controls, the researcher propose recommendation.

Based on the results of risk analysis related to procurement and management activities of fixed assets PT ABC still found some risks that have no control activities.

Based on the results of risk analysis and control activities, researcher provide proposed design of

standard operating procedure (SOP) related to procurement and management activities of fixed assets that tailored with PT ABC needs.

Research has several limitations that are the evaluation of internal controls focuses on procurement and the management activities of fixed assets PT ABC and does not cover the entire system of PT ABC and the proposed standard operating procedure (SOP) is limited to procurement and management activities of fixed asset.

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