



RESEARCH ARTICLE

# Operational Audit Analysis on Credit and Receivable Sales at PT. Penerbit Erlangga Mahameru Palembang Branch

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**Abstract:** Sales are significant and decisive marketing functions of a company to achieve its objectives and to make profits. Sales, the main revenue makers of a company, need good internal control in order to avoid fraud or manipulation. This study aimed at analyzing the internal control of credit and receivable sales at PT. Penerbit Erlangga Mahameru, Palembang Branch in order to get a clear picture of the application of the internal control. This is a field study taking place at the company as an object of this study by using descriptive qualitative method in the form of oral or written words of observable human behavior. The data of the study were gathered by interviews, observations, documentations, literature reviews, and data validities.

Keywords: Internal Control, Credit and Receivable Sales

## INTRODUCTION

An arduous competition requires companies to keep surviving by making profit of its sales. Therefore, it is important to make marketing strategies to maintain a company's market share. One of the marketing strategies is credit sales. These sales will not generate cash directly but cause debts for the customers and accounts receivable for the company.

Credit sales have a high risk for the company if the debtors fail to pay off their debts. The control system in the credits will be beneficial in reducing the risk.

In general, accounts receivable is one of the biggest parts of current and total assets of a company's assets. Consequently, the application of internal control over the accounts receivable is significant. There are some possible frauds in accounts receivable that can harm the company, such as no payment recording from the debtor, a delay in recording accounts receivable by cash lapping, a false bookkeeping on accounts-receivable mutation, and so on.

Operational audit on credit and receivable sales is an essential audit, including the whole aspect of company management because the problems related to credit and receivable sales tend to have errors in the bookkeeping. They result in the decreasing company's revenue. Operational audit on credit and receivable sales of the company has an impact on the accountant inspection carried by the auditor. When the system of credit and

receivable sales at a company is good and obeys the procedures and policies, it can prevent possible fraud to the company. A good and effective management of receivable sales is required to push the cash capacity for financing the company because unequal cash acceptance will be a burden in carrying out a company's programs.

A good management and control system of accounts receivable is an effort to upgrade the financial performance to suppress costs, especially related to the management of accounts receivable such as accounts-receivable elimination, problematic accounts-receivable billing, and accounts-receivable write offs.

PT. Penerbit Erlangga Mahameru is a privately owned company engaged in the field book printing which has 12 branches and 2 depots. The branches are located in Aceh, Medan, Pekanbaru, Palembang, Jakarta, Surabaya, Semarang, Bandung, Makassar, Samarinda, Yogyakarta, and Bali. The depots are located in Pontianak and Lampung. The Palembang Branch is one of the branches in the Southern Sumatra (SUMBAGSEL).

PT. Penerbit Erlangga Mahameru, Palembang Branch is located at Jln. Demang Lebar Daun No. 269 Ilir Barat I Palembang, covering South Sumatra, Bangka Belitung, Jambi, and Bengkulu. The business activities are sales of school books and non-school books paid by cash or credit sales. Thus, PT. Penerbit Erlangga Mahameru, Palembang Branch has big amount of accounts receivable because many customers pay the books by installments or credit sales. This makes the company require internal control over the accounts receivable.

PT. Penerbit Erlangga Mahameru, Palembang Branch experienced significant decrease of accounts receivable in 2011 (0.73%), 2012 (0.12%), and 2013 (0.02%), an increase in 2014 (0.04%), and a significant increase in 2015 (3.75%). Though the percentage balance of accounts receivable experienced a decrease in 2011-2013, the accounts

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receivable in 2011 is difficult to collect because of too long period. Moreover, though the percentage balance of accounts receivable in 2014-2015 experienced an increase, it was still new and has higher collecting possibility. The balance fluctuation of accounts receivable is related to the

effectiveness of management and control systems of accounts receivable at PT. Penerbit Erlangga Mahameru, Palembang Branch because with good accounts-receivable systems, the risk of bad credit or unpaid accounts receivable will be lower.

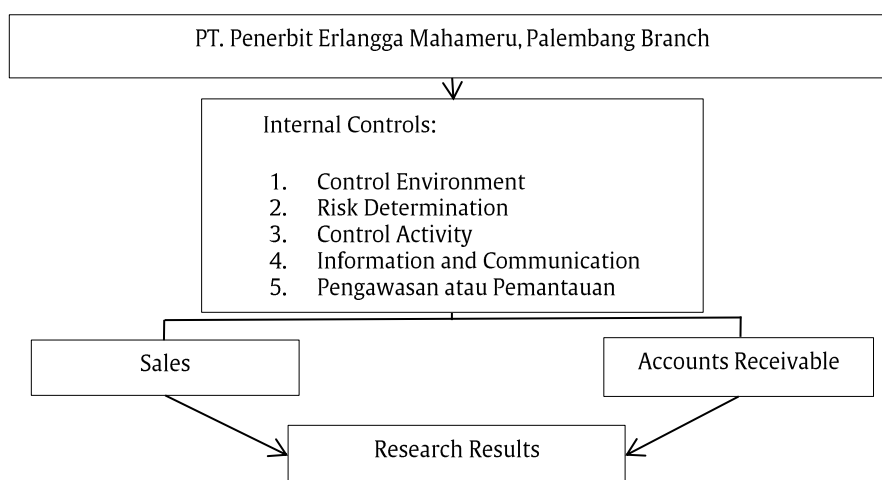


Figure 1. Thinking Framework Image

## METHODS

This study aimed to find out whether the operational audit on credit and receivable sales at PT. Penerbit Erlangga Mahameru, Palembang Branch is in accordance with the standard. This study also used a comparative qualitative analysis method by comparing the operational functions of credit sales and accounts receivable.

This study was conducted at PT. Penerbit Erlangga Mahameru, Palembang Branch, located at Jln. Demang Lebar Daun No. 269 Ilir Barat I Palembang.

## RESULTS AND DISCUSSIONS

From the analysis, it can be arranged a systematic development. The findings of this study disclosed the operational audit on accounts receivable. The followings are the findings and recommendations of the study:

### Operational Audit Evaluation on Credit Sales

#### First Finding

- Title : Different discounted prices accepted by the customers and those proposed to the company and unmatched quantity of the ordered products.
- Condition: The salesmen were also the ones who gave discounted prices, did survey, and delivered the products.
- Criteria : The purchase orders from new costumers accepted by the salesmen were delivered to the credit analyst. Then the credit analysts checked the order and did survey to the customers or made a confirmation to the customers about the discounted prices and the quantity of the ordered products. If the data were valid, the credit analyst proposed it to the sales manager assistant, sales manager, head of the accounting, and head

of the branch for authorization. Then, the approved orders were prepared and delivered by the warehouse department to the customers. The products accepted by the customers were check in accordance with orders.

- Cause : The salesmen also acted as the ones who gave discounted prices, did survey, and delivered the ordered products to the customers, all of which were supposed to be done by the credit analysts.
  - Effect : The discounted prices not accepted by the customers, bad credit, and high sales return.
  - Recommendation : It is recommended to separate the tasks. The survey should be done by the credit analysts, and the product delivery should be done by the warehouse department.
- #### Second Finding
- Title : Incomplete and random purchase-order forms.
  - Condition : The company did not print the unit number on the forms.
  - Criteria : Printing the unit number on the forms by the company is to avoid fraud and make the checking process and transaction proof easy and on time.
  - Cause : The management did not control the use of the forms.
  - Effect : Fraud, form manipulation, difficult credit-sales checking because of incomplete forms.
  - Recommendation : All forms including purchase order form, billing form, and return form should be numbered to ease the form control.

The followings are the internal control elements related to the separation of the functions:

- **The Separation of Sales and Credit Functions**

This is meant to create internal check on the credit-sales transaction. In the sales transaction, the sales function tend to sell as many products as possible, often ignoring the accounts receivable collecting process of the transaction. Thus, the internal check on credit status of the customer before the credit sales is required. The separation of the sales and credit functions will result in the lower risk of non-collectible accounts receivable.

- **The Separation of Accounting Function from Sales and Credit Functions**

This is meant to create internal check of the sales transaction and to avoid frauds in the transaction, so the accounts-receivable bookkeeping is accurate and reliable, and the accounts receivable is payable.

- **The Separation of Sales and Delivery Functions**

To ensure the accuracy and validity of the orders placed by the customers, there should be a separation of sales and delivery functions, so frauds can be minimized. The operational activities at PT. Penerbit Erlangga Mahameru, Palembang Branch showed that the implementation of internal control was not effective yet, especially in the separation of the functions at the company. If this condition continues, it will result in the employees' excessive burden to complete the tasks.

Apart from being in a condition that makes the employees be burdened by double tasks, PT. Penerbit Erlangga Mahameru, Palembang Branch also needs to use documents or sales invoices with a procedural authorization. If every transaction is authorized by the authorities and recorded through proper procedures, the assets of the company can be secured, and the accounting data are accurate and reliable.

In addition, the documents or forms as the transaction proofs should be valid and have a good internal control structure.

By considering the previous description compared to the documents of PT. Penerbit Erlangga Mahameru, Palembang Branch, it is concluded that the documents are not adequate yet and do not show a good internal control. There are two types of documents used by the company, namely:

- Documents with printed unit number such as purchase order, product delivery form, and receipt which were not used in a good sequence.
- Documents without printed unit number such as sales invoice and billing forms.

The random use of documents or forms with printed unit number happened because the company did not record the unit number of the forms. This caused fraud and form manipulation because the management could not control the use of the forms. Whereas, the management should still record the unit number of the cancelled forms, for example due to an error in recording. By applying the unit number recording, the management can recheck the used and cancelled forms.

The documents without printed unit number will also result in document fraud and manipulation. The possible fraud is that there are two invoices with the same unit number, so the company deliver the same order twice. Moreover, the company will be difficult to recheck the completeness of the sales invoice.

## Operational Audit Evaluation on Accounts Receivable

- **First Finding**

- Title : Manipulation of accounts-receivable billing in the form of undeposited cash.
- Condition : The salesmen who collected the debt did not directly deposit it to the cashier.
- Criteria : Debt collectors should collect the debt and deposit it to the cashier, and the payment receipt made by the cashier is given to the finance staff for checking and inputted by the finance staff. Last, the files are archived.
- Cause : The absence of task separation between the salesmen and debt collectors.
- Effect : This possibly causes data manipulation and fraud on accounts receivable done by the salesmen.
- Recommendation : The task separation between the salesmen and debt collectors should be done, so the manipulation or fraud can be avoided.

- **Second Finding**

- Title : A different total of accounts receivable recorded by the company and the customers.
- Condition : An inspection on the cash recording validity and the amount of cash deposited by the debt collectors to the cashier was rarely done.
- Criteria : The finance department should confirm the customers by phone to ask whether their debt balance is in accordance with the company recording and to confirm whether the customers pay the amount of cash deposited by the debt collectors to the cashier. This inspection can be done in a sudden with a minimum target of confirmation that must be achieved by the finance department.
- Cause : The management did not control the recording on cash receipts.
- Effect : The undone inspection of the recording validity and the amount of received cash caused the possibility that the cash was used by the debt collectors for their personal business.
- Recommendation : Inspection and confirmation via telephone by the finance department on the customers' debt and cash receipts should be done periodically.

- **Third Finding**

- Title : The difficulty experienced by the finance department in doing an inspection on the customers' messy documents.
- Condition : All documents were stored in one storage without classification.
- Criteria : The file storage and recording should be classified alphabetically, according to unit number, or transaction type and date.
- Cause : The management did not provide storages and procedures to classify the documents.
- Effect : The management was difficult to find the documents when they were needed for an internal check on the customers' documents. It resulted in a weak control and possible manipulation.

- Recommendation : Document classification should be done alphabetically or according to unit number and region. The documents are stored in the specific storage to ease the search and checking.

Based on the results of operational audits, it was found that the salesmen had duties to sell the products and collect the customers' debt. This happened because the management did not write the description of the duty of each division systematically. This means that the employees do not know their duty and responsibility limit, and the employees can hand off when a manipulation happens. It will also be difficult for the management to know the achievement of the employees. In addition, the double duty also shows a weak internal control because there is a possibility that the salesmen who are also the debt collectors manipulate the cash receipts by recording smaller amount of cash than the actual cash received, and the salesmen postponed the cash receipt recording.

As a facility to secure the company's assets, the company has set a policy requiring the employees to deposit all cash to the bank. However, sometimes the policy was often violated because the debt collectors sometimes did not quickly deposit the cash to the cashier and submit the billing report to the administration staff. This will result in possible fraud or cash manipulation. Besides, the company also never checked the cash with the balance in the recording. This will ease the employees to commit fraud or manipulation. After all procedures are implemented, including the purchase order and debt collecting, it is also important to have a concern on the document storage. As already known, basically there are two types of documents, namely:

- 1) Temporary archive is a document storage whose document will be taken for further process. The followings are the orders of document archiving:  
A = Alphabetically  
N = According to unit number  
T = According to date
- 2) Permanent archive is a document storage whose document will not be taken for further process in the related accounting system.

## CONCLUSION AND RECOMMENDATION

This study resulted in several conclusions, namely:

### a. Credit Sales

1. There is a double duty when the salesmen also acted as credit analysts that gives discounted prices to the customers, so there are different pieces accepted by the customers and proposed to the company. In addition, the salesmen also acted as order shippers who deliver inappropriate number of products.
2. Some forms used by the company do not use printed unit numbers, and the forms are rarely inspected which result in incomplete and non-sequential documents.

### b. Accounts Receivable

1. Besides doing sales to the customers, the salesmen also collect the debts from the customers, so the cash is often undeposited.
2. There is a difference in recording accounts receivable done by the company and the customers due to the minimum inspection after the transactions.

3. The finance department archives the credit sales and the customers' debt without a standardized procedure, so it is often difficult to check the customers' documents because the documents are not well organized.

This study also proposes some suggestions, namely:

1. The task separation is required. The salesmen should only offer the products and negotiate the prices to the customers, and they are not given an authority to give discounted prices. The credit analysts confirm the discounted prices negotiated by the salesmen and the customers. If the discounted prices are valid, the sales invoice will be made, and the products will be delivered by the shipping department.
2. All forms including purchase order form, billing form, and return form should be printed with unit numbers. The supervision on the use of the forms is required so the form control and check can be done easily.
3. The task separation between the salesmen and the debt collectors should be done, so frauds or manipulation by the salesmen in collecting the customers' debts can be avoided.
4. It is better for the finance department to check and confirm the customers' debts and cash receipts to the customers via telephone periodically.
5. The customers' document classification done alphabetically, by unit number or region area, is necessary. The documents can be stored in a certain storage to ease the search and checking.

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