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### RESEARCH ARTICLE

#### ACCOUNT RECEIVABLE FRAUD: THE ROLE OF INTERNAL CONTROL SYSTEM.

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##### Keywords:-

Effectiveness, internal control system, receivables, fraud.

#### Abstract

**Background:-** This study was conducted to analyze the effectiveness of the internal control system on the collection of accounts receivable with the aim to prevent the fraud. Accounts receivable are very fraudulent accounts.

**Research method:-** This study used qualitative method. Data collection techniques are done through interviews, direct observation, documentation, conducted on the company PT "X".

**Results:** The results shows that the company already has a fairly good internal control system against the collection of accounts receivable. Internal control system is good enough done by the company, among others, a clear separation of tasks between the functions of receivables, the rotation of the collectors, the existence of internal audits that continue to be done regularly is one of the internal controls are good enough to prevent the happening of the fraud. However, although the implementation of the internal control system, especially the collection of accounts receivable is effective, there are always any kind of vulnerability.

**Conclusion:-** Overall, the conclusion of this study is internal control system can be utilized by certain personnel for their personal interests by exploiting weaknesses. Therefore, the company still needs to conduct supervision on the internal control and irregularities are immediately dealt with.

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#### Introduction:-

The financial statements are the tools used by management as a basis for decision making. The financial statements, especially for the assets side, are assets owned by the Company.

However, the problem that often arises in the distributor companies is mainly in the significant balance of receivables in the financial statements. As we know, the receivables arise from the sale. But sales don't automatically mean that the company receives money, so that receivables arise and it needs a long time to collect them. The longer the receivables are to be collected, the more delayed the company's working capital is. On the other hand, the faster the receivables are collected, the more effective the company's working capital is and the better the turnover of receivables is. Therefore, the sale and the collectability of receivables are important for the Company. Thus, the company must have an effective internal control system, especially internal control system for sales and the collection of the account receivables.

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In accounting, Internal Control System (SPI) is applied in the company is a determiner factor in the reliability of the company's financial statements. The auditor relies on the effectiveness of SPI in preventing the occurrence of material fraud in the accounting process when the auditor remarks on the fairness of the audit report. The current audit standard, states that management is responsible for the preparation and fair presentation of such financial statements in accordance with Indonesian Financial Accounting Standards, and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The internal control system consists of policies and procedures designed by the management with reasonable assurance that the entity achieves its goals and objectives. The Audit Standard defines internal controls as the designed process, implemented and maintained by those charged with governance, management, and other personal to provide reasonable assurance about the achievement of an entity's objectives with regard to applicable reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. (SA 315.4). The term "control" refers to any aspect of one or more of the components of internal control.

Internal control system is very important to the company to carry out the business activities, because the internal control system will safeguard the company from dissipation, fraud and inefficiency, increase the accuracy and reliability of accounting data, boost to the compliance to company policies and improve efficiency. Internal controls filter through the whole business to: Help align objectives of the business to ensure thorough reporting procedures and ensure that the activities carried out by the business are in line with the business's objectives; Safeguard assets to ensure the company's physical and monetary assets are protected from fraud, theft and errors. Internal control is not only to prevent and detect fraud and error but also ensure that the systems quickly identify errors and fraud if and when they occur; Encourage good management – allowing the manager to receive timely and relevant information on performance against targets, as well as key figures that can indicate variances from target, allow action to be taken against undesirable performance – authorising a formal method of dealing with fraud, dishonesty or incompetence when detected, reduce exposure to risks – minimising the chance of unexpected events and the last to ensuring proper financial reporting and maintaining accurate and complete reports required by legislation and management, and minimising time lost in correcting errors and ensuring resources are correctly and efficiently allocated.

Fraud has become hot topics in the media recently. Basically, there are two types of fraud that occur in a company, namely external and internal. External fraud is fraud committed by outsiders against the company and internal fraud is illegal action done by employees, managers and executives of the company (Widjaja, 2013).

The misstatement of the financial statements can arise from fraud or error. Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Although fraud is a broad legal concept, for this purpose, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor –misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually occurred. The following terms have the meanings attributed below:

**Fraud:-**

An intentional act by one or more individuals among management, those charged with governance, employees, third parties, involving the use of deception to obtain an unjust or illegal advantage.

**Fraud risk factors:-**

Events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud.

Widjaja (2013: 17) defines fraud as involving an irregularities and illegal actions characterized by intentional manipulation. Fraud is a hidden crime, nothing is done daylight, and there are no victims who immediately realize that Fraud has occurred. In the face of an increasingly widespread level of fraud, there is a need for prevention and detection. If a failure occurs in preventing and detecting fraud, it will have very serious consequences for a company.

The numbers of fraud cases that occur are caused by several factors including the absence of internal control in an organization, weak supervision or control, low level of honesty, character of each person. According to Amin, fraud occurs because there are conditions that cause it to actually happen which is often called "Fraud Triangle" (Widjaja, 2013). Fraud triangle consists of pressure, opportunity and attitude / rationalization. Pressure means pressure from the management to cheat. Opportunity means there is a situation within an agency that allows for fraud. Attitudes / rationalizations show an attitude in which an agency rationalizes dishonest acts / fraud.

In connection with the above explanation, the writer wants to analyse the effectiveness of the control carried out by the company to find out whether internal controls that have been effective can reduce or prevent fraud. Before knowing whether an internal control of a company is effective or not, we should look at the components of the internal control division within the scope of the control environment, the entity risk assessment process, and information systems relevant to financial reporting including related business processes and communications, controlling and monitoring activities against control. From the existing system we will see the internal control system over the good cycle of collectible receivables. This can prevent the occurrence of the fraud. Based on the explanation mentioned above, the author is interested in conducting a research titled "Account Receivable Fraud: The Role of Internal Control Systems".

#### **Literature review and hypotheses development:-**

##### **COSO Conceptual framework :-**

Evaluating the internal control of receivables should be done so that the company can assess the effectiveness and efficiency of the internal control activities. Evaluation of internal controls is carried out by applying the basic concepts, principles and elements of internal control according to the committee of sponsoring organizations (COSO).

The five internal control components provide a useful framework to consider how different aspects of an entity's internal control are related to the receivable collection cycle applied by PT "X" as follows:

1. The control environment;
2. The entity's risk assessment process;
3. The information system, including the related business processes, relevant to financial reporting, and communication;
4. Control activities; and
5. Monitoring of controls.

Based on the results of observations made on the receivable billing system in PT X, here we will evaluate of the internal control system according to COSO are as follows:

##### **Control Environment:-**

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control. We shall obtain sufficient knowledge of the control environment to understand the attitudes, awareness, and actions of those charged with governance and management concerning the entity's internal control and its importance in the company.

Elements of the control environment that may be relevant when obtaining an understanding of the control environment include the following: (See SA 315.A70) Communication and enforcement of integrity and ethical values Commitment to competence Participation by those charged with governance

1. Management's philosophy and operating style
2. Organizational structure
3. Assignment of authority and responsibility
4. Human resource policies and practices

When gaining an understanding of the control environment, we consider each of these elements and their interrelationships. In particular, we recognize that significant deficiencies in any one of the elements may undermine the effectiveness of the others.

**Risk Assessment:-**

Risk assessment is the company's process for identifying and analysing the risks (both internal and external) that are relevant to the achievement of its objectives. In addition, a risk assessment process provides the client with a basis for determining how to manage its risks (e.g., the actions to address specific risks or a decision to accept a risk because of cost or other considerations). Risk assessment is an important part of the company to identify possible risks caused by both own employees (fraud) and customers related with receivables, among others, bad debts.

**Information and Communication:-**

Control activities are the policies and procedures that help ensure that management's directives are carried out (SA 315.20). The information system, which includes the accounting system, consists of the methods and records established to record, process, summarize, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity (SA 315.18). Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting (SA 315.19).

**Control Activities:-**

Control activities are the policies and procedures that help ensure that management's directives are carried out (SA 315.20). The information system, which includes the accounting system, consists of the methods and records established to record, process, summarize, and report entity transactions (as well as events and conditions) and to maintain accountability for the related assets, liabilities, and equity (SA 315.18). Communication involves providing an understanding of individual roles and responsibilities pertaining to internal control over financial reporting (SA 315.19). Based on the evaluation of the system of authorization of the implementation of receivable it can be concluded that the system of receivable authorization has been going well. This is evident from the provision of clear authorization from the authorities, and the accounting records performed by the accounting department.

**Monitoring:-**

Monitoring is the process that assesses the quality of the performance of internal control over time (See SA 315.22). PT "X" has clearly assigned responsibilities to each department. The turnover of accounts receivable becomes the responsibility of those in charge of the receivables, for example the salesman is also responsible for the arrears of customers if the latter is unable to pay off the receivables in the end. It is the collector's main job to work the best he can to minimize the bad debts. Currently PT "X" implements a punishment system for salesmen found guilty of cheating and for the sales department whenever a customer who fails to pay its debt.

**Research method:-**

In general data that have been obtained from the research can be used to understand an unknown problem or information to be known, solve problems by minimizing or eliminating problems, and anticipating problems by trying to prevent problems from occurring.

The following explanation will be about the types of data, data sources, collection techniques used in this study. The research method used in this research is qualitative method in the form of primary data and secondary data obtained directly from PT "X" which is engaged in distribution.

The type of data used in this study consists of two types, namely:

Primary Data is data obtained from the direct source, which is from PT. "X", with qualitative methods. Qualitative data consist of a general description of the company, business fields, applicable procedures, the data from interviews with personnel related to the research, and data from direct observations of the work unit regarding the Internal Control System and then developed and further processed for specific purposes as needed.

Secondary Data is data obtained through further processing of primary data. Presented in the form of tables, flow charts to support the given explanation.

Data collection techniques used in this study is as follows:

**Interview:-**

Interview conducted on PT "X" by conducting direct interviews by asking questions to authorities or other parties who have connections with the object under study. The aim is to get the information about the internal control system implemented in the company, especially the collecting of accounts receivable cycle.

**Observation:-**

Observations were made to collect data in detail. Observations are made by observing directly the objects that are related to the research.

**Documentation:-**

Documentation techniques are techniques that collect data by gathering data, such as forms and documents related to the accounts receivable billing system.

**Results and discussions:-**

PT "X" has expanded its business as a distributor. In line with its growth, it needs internal control system for further growth, efficiency and effectiveness. The bigger the company is the bigger the possibility of fraud incidence is, as the employees take advantage of the condition.

Therefore, we try to study the internal control system in particular especially the receivable collection cycle. The company has good critical control system as a tool to prevent fraud.

Previous researchers mostly discussed the influence of internal control structure components to prevent fraud in companies but they didn't elaborate what the application of an effectively internal control system is to prevent fraud and in what cycles it can be applied.

Evaluating the internal control of receivables should be done so that the company can assess the effectiveness and efficiency of the internal control activities. Evaluation of internal controls is carried out by applying the basic concepts, principles and elements of internal control according to the committee of sponsoring organizations (COSO).

**Control environment:-**

The control environment of receivables at PT "X" has worked. This is because PT "X" upholds the integrity and ethical values. PT "X" has a standard of ethical behaviour that is in accordance with the company's vision and mission and always communicates it to all employees.

Every employee in PT "X" on the average has a quite good competence because the recruitment process is tight enough to get a suitable employee. A company having a competent employee is necessary to create a good control environment. The company has implemented the system since the beginning of recruitment when they hire the prospective employee who passes the tests with good results.

The participation of the board of commissioners involves the supervising the management of the company. This is proven by the monthly meeting between the management, namely the directors and head of each department and the board of commissioners. Meeting aim to know the operations that have been implemented by the management and to provide suggestion for internal control system functions can be carried out as expected and to follow-up important things among other unpaid receivables, long term receivable or bad debt receivable. Then the board will contribute ideas and what action to take. In addition, every month the internal audit participates to report the results of the examination. The regular meetings can make the existing problems be followed up immediately. The directors do not set aggressive targets for personnel in that departments can determine its budget and this budget is compare to the actual and is always reviewed every month and if a problem arises it will be discussed together.

The organizational structure of PT "X" clearly describes the separation of the functions and responsibilities between the collection of receivables, recipients of receivables collection and recording of receivable. The delegation of authority and responsibility has been going well, as seen from the employees who are obliged to work based on their job description. The company also has Standard Operating Procedures (SOPs) for employee to perform it in each department.

Every day in the morning before conducting activities, all staff from top to bottom are always gathering to recite company's vision and mission, having briefings headed by each head of department and attended by each personnel. Meanwhile there is also a monthly meeting led by the General Manager, in which each head of departments reports the previous month's performance. This meeting is held at the beginning of the month to know the performance of each department, and thus each person can convey his responses, suggestions or feedback towards improvement.

In managing human resources, the company provides three (3) months training for new employees to complete basic skills that are useful in carrying out tasks and human resources aimed at improving the company's performance. Furthermore, for other employees training are routinely held and often the topic arises from the employees themselves. For employees who succeed in creating interesting topics will get rewards.

**Risk assessment:-**

To assess risk, PT "X" has a procedure to check the profile of new consumers and ask for all documents related to new customers such as TDP, SIUP and other documents and the company determines the credit limit for each customer. For new customers, the company use cash basis system for sales and 3 after the order, the credit system can be applied. Accounts receivable plays an important role in the company engaged in the distribution because the receivables arise from the many customers. Therefore, the most-high risk faced by the company is not collectible of receivable or bad debt and embezzled by the collectors. To minimize the risk, the company has had credit procedures and policies to monitor and control such risks, such as procedures to deal with customers who can't afford to pay arrears that have passed for 3 months. The head of marketing is directly responsible for collecting the receivables. If the customer does not make payment then the company will confiscate the existing goods and apply the black list system to the customer.

**Information and communication:-**

Transaction processing, information and transaction data of PT "X" have been done with Oracle system. All customer related data are kept into the information system and if there is a request for receivable limit increase, it must be verified firstly by the branch head and if the increase is significant, it must be authorized by the director level.

Information and communication of PT "X" receivables have been running well, this is because access to computerized system is easy and fast in obtaining data on receivables. The head of the receivable department always reminds the head of marketing for all important information occurring in the field.

The information systems relevant to the financial reporting objectives are the accounting system consisting of methods and records specified in processing and reporting transactions of an entity. Accounts receivable PT "X" is valid if recorded on the database of customer systems authorized by the head of marketing and directly recorded by the bookkeeping Department at the time of the transaction in accordance with the real conditions. Accounts receivable information is the basis of the company's performance evaluation by the director in the making decision.

**Control activities:-**

PT "X" has had a good separation of control function, this can be seen as follows:

1. Payment receipt from customer department (Cashier) is separated from sales and credit department.
2. Separate credit department from sales department.
3. The accounting department (cashier) is separated from the credit department.

This is done in order to minimize the occurrence of irregularities in the form of money fraud (cash lapping) and employee cheating (fraud). Cash lapping is lapping occurs when a employee steals cash by diverting a payment from one customer, and then hides the theft by diverting cash from another customer to offset the receivable from the first customer. Lapping is most easily engaged in when just one employee is involved in all cash handling and recordation tasks.

Physical control over assets and records of PT "X" has been carried out fairly well. The company has a special cabinet for storing documents as well as a safe for storage of company money that has not been deposited into the bank. In addition, PT "X" also apply the policy of depositing cash receipts occurring that day in the bank the following day.

Related to the employee's performance, PT "X" gives annual awards to employees who excel in full filling the criteria that have been determined by the company and provides compensation for their achievements, this is also one way to motivate employees in implementing the company objectives. Another way to motivate employees is to promote them to director (those in charge of governance) if they have work for a long time and have shown good performance.

**Monitoring:-**

Supervising and monitoring of receivables has been well done. PT "X" has clearly assigned responsibilities to each department. The functional organizational structure applied by PT "X" helps department head monitor its employees' performance. Those employees are obliged to report only to their department head and to carry out instructions given by the department head.

In relation with monitoring, each department's performance is assessed from its ability to report timely and to follow up any review given by the supervisor.

In general PT "X" has implemented control activities well. Control activities are policies and rules regarding employee's behaviour that is made to ensure that management control objectives can be achieved which include:

**Proper use of authority to perform an activity or transaction:-**

In the organization, each transaction occurs only with the authorization of the person who has the right to approve the transaction. Therefore, in the organization there should be a system to regulate the distribution of authority in approving each transaction. This system makes audit trail easy to carry out because the authorization limits the transaction activity to the appointed person. Authorization prevents the misappropriation of transactions to others. The authorization that is authorized by the manager are related to the authorization activity in terms of credit approval, determination of the selling price, the terms of sale, the terms of the carriage of goods, and the sales discount. There are in the hands of the Sales Director. In addition, the receivables are authorized by the accounting and sales department by signing the sales invoice. The recording into receivable card and into sales journals, cash receipts journals, and general journals is authorized by the accounting department by signing the source documents (sales invoices, cash receipts, and credit memos).

**Separation of duties and responsibilities:-**

Based on the evaluation of the organizational structure of PT "X", it can be concluded that PT "X" had already an organizational structure that describes the separation of functions and responsibilities clearly between the function of recording receivables, billing receivables, and the receipt of collection of receivables. Thus, conditions are one effort to minimize the occurrence of errors and deviations that may occur.

The job description separates the operation and maintaining functions from the accounting function (recording). And a function should not perform all the stages of a transaction. By separating the operation and maintaining functions from the accounting function, the prepared accounting records may reflect actual transactions in the operating and maintaining functions. If there were no separation, there would be a possibility the real transactions are not recorded. Thus, the accounting information result is not reliable, and as consequence, the assets of the company are insecure.

**Adequate preparation and use of documents and records:-**

Procedures should include the adequate design and use of documents and records to help ensure adequate recording of transactions and events. Furthermore, adequate documents and records will provide accurate and reliable information about the organization's assets, debts, income and expenses. At PT "X" cash receipts are authorized by the cashier by applying a "paid" stamp on the sales invoice and attaching the cash register to the invoice. Sales invoices and delivery orders are numbered of documents (printed serial numbers).

**Adequate security of assets and records:-**

Sufficient security includes restrictions on access to the depository of assets and the company's records to avoid theft of assets and the company's information data. PT "X" implements the following policies, such as appointing one person who keeps the cash, net allowing everyone to have access to the storage cabinet, and putting all the neatly arranged archives, given documents codes, into a closed storeroom. In addition, PT "X" always backup all of the data periodically in order to prevent data loss.

**Independent checking on performance:-**

All records of existing assets must be periodically checked against existing physical assets. This checking should be performed by an independent organization to safeguard the objectivity of the examination, which is usually performed by the internal audit. Not only the internal audit but also the accounting manager does the checking periodically. They reconcile the list of receivables with accounts receivable in general ledgers. Another important control is the accounting department, assisted by the sales, periodically sends an account receivable statement to

each debtor to test the accuracy of accounts receivable recorded by the receivable department or confirms by calling the customers, especially those whose payments are late.

To know whether the system of internal control at PT "X" is effective or not, we need to know the description of Internal Control System related to collection of receivables in that company. A more detailed description of the internal control system of receivable billing are as follows:-

1. Account Receivable Department (AR) performs conformity checks between the *Surat Jalan* (Packing List) and printed number of Packing List from the warehouse.
2. AR Department will print some documents such as invoice signed by the sales supervisor, tax invoice signed by Head of Finance and Accounting. The AR invoice is printed on the same day as the Packing List (SJ) by AR staff. Receipt is printed whenever requested by the customer.
3. The AR Department will match invoice with AR Invoice, Tax Invoice and Packing List physically.
4. Checking the completeness of signature and authorization on the Packing List (administrative warehouse, head of warehouse, customers and drivers), and matching the data of Packing List with the customer's Purchase Order (PO) (item, quantity, PO number)
5. To make sure the signatures on the Packing List are complete and items, quantities and prices use in accordance with customer's PO / order confirmation signed by the customer
6. AR invoice is made 4 duplicates: White (1) for customer, red (2) for AR staff as attachment of payment, yellow (3) for customer, green (4) for tax department. Duplicate the tax invoice 3 voids: white (1) for customer, red and yellow (2,3) for tax department. Receipt just for the customer. Packing list is duplicated 4 times: white (1) for customer, red (2) for file in tax department, yellow (3) for customer and green (4) for warehouse administration.
7. AR Invoices are sorted out based on the billing area (in town / out of town / outside the island, abroad)
8. AR staff makes the handover lists of invoices, containing the name of the customer, the invoice number AR, the nominal, maturity date for collectors based on the billing area (in duplicate) of the invoice and signed by the AR staff. The billing is done at least 7 days prior to maturity.
9. The collector checks the completeness of the invoice together with the handover list. If the billing is done by a salesman, then there should be an assignment letter that has been approved by the Head of Finance and Accounting department.
10. If it is complete and appropriate, the collector will sign the handover list of the invoice, one duplicate of which is kept by AR Staff and the other is brought by the collectors.
11. For out of town billing, a collection isn't needed as it is done by an expedition. For out of town billing, original documents such as invoice, tax invoice, receipt and packing list are given to the expedition and the receipt will be kept by the AR. AR staff should always monitor the customers whether it has received and return the "*TandaTerima/Receipt Note (TT)*" from customers, if the AR hasn't received it, AR staff must copy the Packing List and then keep it in the safety box. AR staff is required to confirm it to the customers by phone.
12. For billing in the city, after the collectors get payment from the customers, he has to submit it to the cashier in the afternoon. If the customer hasn't paid, the original invoice must be returned or the customer must exchange it with a Receipt Note (TT) signed by the customer and stamped with the name of the company.
13. If the customer has paid, the AR staff will input the payment in the system in accordance with the same amount of payment from the customer. AR Receipt report will be examined by the Head of Finance and Accounting (FAC) where FAC matches the receivable data with the cash receipt.
14. Every month, the Head of FAC checks the document physically such as AR Invoice, SJ, TT, check/ BG from customer.

The purpose of performing the internal control of account receivable as follows:

1. To ensure that the outstanding balance of receivables really belongs to the company.
2. To ensure that the existing receivables can be collectable.
3. To ensure that the company has already carried out the receivables policy.
4. To ensure that the receivables are free from fraud.

In the implementation those mentioned above, the company faces several risks. When the company sells goods and/or services on credit, it risks failure in collecting the accounts receivable on time or may result in failure in collecting correct amounts of receivables. Therefore, authors try to give an overview of the forms of fraud that often occur within a company or the risks related with receivables, among others:

1. Failure to collect the receivable from the customer due to a mistake made in identifying the characteristics of the customer the first time or giving an over limit receivable.



2. Errors made in entering data when updating accounts receivable. It is due to negligence of the receivables at the time of inputting data repayment from the customer.
3. Cash lapping occurs when an employee steals cash by diverting a payment from one customer and then hides the theft by diverting cash from another customer to offset the receivable from the first customer.
4. Forging data in which the collector currently is falsifying the data by giving the customer the duplicate invoice whereas the original invoice is returned to the receivable department (AR) so that it doesn't know that the customer has paid.
5. The existence of collusion between among the cashier, the receivables department and collector when the customer has paid but the payment is not input in the system so that the balance of receivables in the system still exists but the fact the original invoice is not available.
6. The outstanding receivables still exist because the AR department argues that the sales return from customer hasn't been input into the system.

Based on the researcher's observation of the collection cycle of receivables in the internal control system related to, there is an effective control on activities done by PT X to overcome the fraud or uncollectible receivable, among others, as follows:

1. PT "X" separates those who handle/record sales transactions, from those who receive payments from customers namely the cashier is separated from sales department and accounting department (cashier) is separated from the credit department.
2. PT "X"'s internal audit is quite good in which the internal audit examines to every branch periodically and always follow-up any findings obtained by the internal audit during inspection.
3. Conducting rotation and obliging employees, especially the accounts receivable and cashier to take their leave.
4. The company directly impose strict sanctions on the part of the collector in particular if it is found that the collector commits fraud and reaches the crime level so as to give a psychological effect on others who will commit the crime.
5. On the other hand, every year, PT "X" also gives awards to employees who perform well, and the assessment is not only from superiors but also from subordinates so that the assessment is quite objective.
6. Provide a special channel to report to the internal department if anyone finds fraud
7. All credit transactions, deductions and write-off of receivables, which are not in accordance with established rules, must be approved by the competent authority.
8. The Company always reconciles the aging schedule list with the general ledger and the financial statements.
9. For the late payments from customers, the computer systems will give a warning and receivables department actively contact the customers to ensure the correctness of the outstanding receivables.
10. The company has already had the ability to control the working atmosphere in the work environment, among others by instilling work ethics and improving the welfare of employees or workers.
11. Internal audit always performs a complete testing procedure such as testing the customers who get the lowest price / get the biggest discount, test whether there is a receivable that exceeds the credit limit, examine if there is payment / repayment of receivables that exceed a certain time limit, comparing sales orders, warehouse records and invoices, whether all data are the same, checking credit notes to ensure goods are returned (backed up) and comparing with the receipt of goods (in the warehouse), paying attention to account receivables recorded, cash and payment slip. Note the difference date, payer's name. This procedure is performed in order to detect the possibility of lapping. In lapping, payments from certain debtor are recorded in the account of other debtors as if the bookkeeping were wrong. This is to cover the fraud that has been committed.
12. Conducting regular invoice counting to ensure that all outstanding balance of receivables are still completed with supporting documents.

### **Conclusions and research limitations:-**

The description and analysis that the author has done on PT "X" about the effectiveness of the internal control system over the collection cycle of receivables can be summarized as follows:

1. Internal control is defined as a process, which is influenced by human resources and information technology systems, designed to help the organization achieve a certain objective. Internal control is a way to direct, monitor, and measure the resources of an organization, and it plays an important role to prevent and detect fraud.
2. The company has implemented a good internal control system. The internal control is a process-run by the board of commissioners, management, and other personnel entities-which is designed to provide reasonable assurance on achieving the following three classes of objectives:

1. the reliability of financial reporting,
2. the effectiveness and efficiency of operations, and
3. compliance with applicable laws and regulations.

PT "X" has had a good system and procedure of the collection cycle of account receivable and they are well executed. Based on observations made, there are strict rules in issuing sales invoices to prevent false or wrong sales invoices. The outstanding receivables that are not yet settled are confirmed to the client, ask the payment status and will be followed up verbally or in writing. Client payments are confirmed by checking the company's bank account and informed the cashier. The balance of receivables is reconciled each period to avoid recording an overstated or understated balance. The billing staffs report the Receivable Aging Report and Receivable Turn Over to the company's management for performance appraisal. In addition, to prevent the lapping, the company rotates the collector because if the same customer has the same collector, it will be risky because the customer may pay the collector based on trust, without giving the invoice, so that it will be hard to be detected by the receivables department.

Companies should increase clearer risk assessment, set up risk management teams to prevent credit sales risks such as bad debts and others. Risk management teams needn't comprise of new employees. Instead, the company can appoint any one who is accustomed to analysing the risk. The results of these assessments and analyses are reported to higher management to be followed up. It also serves as a feedback to get input from the company's employees about the obstacles and problems that exist, so that the company can jointly improve the performance of the company's internal control system. No matter how good a reliable system is, it has drawbacks. Internal control system can be utilized by certain personnel for their personal interests by exploiting the weaknesses.

However, the important thing is no matter how good internal control is there's still a possibility of fraud. As a consequence, the management must monitor periodically, especially the internal audit and audit committee in an important role carrying out continuous monitoring. Fraud arising from collusion by cooperating with several parties is very difficult to be detected by the leader of the company. However, this tendency of undetected cheating can be reduced if the internal control system is applied and well executed.

Suggestions for future researchers, related to the internal control system in an effort to prevent fraud, are too carry out a case study in other types of company and on other cycles in which fraud often occurs.

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