

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Human resource is key asset for the development of the company. The role of human resources in a company is very important. To achieve the goals and objectives of the company, the existing human resources need to be managed properly to carry out business activities effectively and efficiently. The increasing company's growth will need many employees. The involvement employee in company is making planning company's goal in short term and long term, conducting company's activities and controlling to achieving company's purpose. All the company's activities in achieving the company's purpose should be conducted effectively and efficiently but the misappropriation and inefficiency that can cause the high loss for the company. The company cannot be separated from function of human resource and payroll system. The main objectives can be achieved by the company through appropriate human resource policy and system is to ensure that the company can recruit, maintain and motivate the employee with high performance. One of problem in human resources is related with payment of salaries and compensation system. Human resource and payroll system is series business activities and data processing activities in related with human resource management in company effectively.

The increasing of company's activities can makes complexity of activities. It means that there is increasing of employee involved in the company. It can arise difficulties for management to control company with result it needs the control to maintain the company's resource in order to avoid the mistake and fraud that may occur. Therefore, the company needs internal control. The human resource

and payroll system can run well if it is supported by good internal control. The human resource and payroll system can run well if it has element of effective internal control. Based on Committee of Sponsoring Organizations of the Treadway Commission (COSO), an effective internal control structure has five interrelated components that are control environment, risk assessment, control activities, information and communication and monitoring. The control environment is considered to be an entity control because it addresses characteristics from management's perspective such management should show a commitment giving regular training process for employees in the payroll system. Risk assessment is as the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed such as fictitious employees may be added to the payroll. Control activities for payroll include organization structure that segregate the functional responsibilities firmly, authorization system and recording system that gives sufficient protection to asset, health practice in conducting duties and function of each organization unit and qualified employee based on the responsibilities. The other important internal control includes information, function, document used, accounting record, procedure process that form system and reconciliation of amounts and accounts and independent checks on performance. Information about controls should be communicated to management in a timely manner, so that shortfalls can be addressed promptly. Monitoring ensures that the internal controls operate as intended over time, and is accomplished through on-going evaluations, separate evaluations or a combination of both such as ongoing monitoring in payroll takes the form of supervisory activities and payroll reconciliations should be reviewed by an appropriate level supervisor.

There is a need to recognize risks in the areas of human resource and payroll to prevent financial losses. Identification, timely prevention and detection of risk are crucial activities that companies need to undertake. An important goal of any internal control system is safeguarding assets. Because payroll processes affect both human and financial resources, problems or weaknesses in payroll internal controls can give high cost. Recognizing the risks to the payroll process, understanding their potential effects and knowing how to address them can result in significant loss prevention over time. Some risks for payroll are payroll is intentionally understated, inappropriate parties receive payments and employees receive duplicate or overpayments. Another potential for payroll misstatement lies in mistakes. Payroll errors may occur when payroll personnel doesn't possess sufficient knowledge to carry out their duties. When payroll fraud occurs, understatements or overstatements of payroll expense may exist. High turnover increases the inherent risk assessment due to the level of employee additions and terminations and the risk associated with processing. For example, there is a greater risk that pay will be inappropriately dispersed to terminated or fictitious employees.

Understanding the impact an event could have is important in knowing how to address it appropriately. Incorrect financial data may result in poor management decisions and may negatively affect stakeholders. Payments to fictitious employees and incorrect payment can negatively impact liquidity and increase tax expense. Payroll transactions are done in line with imposition of Article 21 Income Tax to employee's income. Overpayment to salaries and compensation can increase the payment of Article 21 Income Tax. It can make financial loss to the company. Overpayment can occur because of fictitious employees and miscalculation. Underpayment to salaries and compensation can decrease the payment of Article 21 Income Tax.

Underpayment can occur because of inaccuracy calculation of Article 21 Income Tax, understated the salary expense and improper taxable object. Underpaid tax can cause tax sanction for the company. Violations of tax regulations can result in significant fines and sanction. Payroll transactions are subject to audit by tax office for Article 21 income tax withholding. Therefore, tax review can be used to improve the calculation Article 21 Income Tax before tax audit from tax office.

This research is done at PT Aneka Cipta Engineering Medan. The company is engaged as distributor of diesel and engine. The company as withholding agent of Article 21 Income Tax has obligation to calculate, withhold and report Article 21 Income Tax of the employee. The company provides basic salary to employee. Besides that, the other compensation is given to employee in increasing employee's motivation such as bonus, food allowance and so forth. The calculation of Article 21 Income Tax is done each month. The company implements gross method in withholding of Article 21 Income Tax of the employee. It means that the company will reduce the payment of salary and compensation expense to employee in amount of Article 21 Income Tax. The company never get tax audit from tax office especially tax audit of Article 21 Income Tax. The public accountant and tax consultant aren't used by the company. The company doesn't know whether the company has conducted tax obligation properly to Article 21 Income Tax based on tax regulation. Tax review also can give information of design and effectiveness of internal control in payroll transaction and tax compliance of Article 21 Income Tax.

Based on preliminary research, it can be known that the company doesn't make segregation of tasks properly such as accounting staff conduct payroll processing function and general ledger function and human resource staff conducts human resource

activities, personnel records and timekeeping function without supervision. This condition can give risk in over payment of salary and compensation. It can increase the Article 21 Income Tax object. The supporting documentation isn't designed and implemented properly and completely such as the maintaining personnel records timely and regularly and complete time sheet and time card. The company often calculate the Article 21 Income based on data that has not been updated such as marital status, the amount of dependent and termination of employee. It will make the company conducts over withholding of Article 21 Income Tax because of low personal exemption. Besides that, the company make over payment to nonexistent employee. The company doesn't use the computerized program in calculating Article 21 Income Tax that it can increase the risk of inaccuracy of calculation. Some functions in payroll system isn't based on authorization of manager such as change of data in payroll calculation isn't supervised and authorized by human resource manager and overtime activities recording aren't approved by manager. This condition can increase the risk of over payment of salary and compensation with change of salary rate, allowance rate and the overtime hours. The company doesn't conduct regular monitoring activities such as verification of list of salary to time record, human resource records and payroll record and verification of article 21 income tax calculation to list of salary and monitoring of recording in time record and data of human resource. In the control environment, management doesn't show a commitment in improving controlling of payroll system and Article 21 Income Tax with giving regular training process for employees in the payroll system. The employees who have duties in conducting tax obligation of Article 21 Income Tax don't have regular training of tax with result that the employees don't have understanding of new tax regulation.

Based on this background study, then the writer is interested to conduct the research with title as follows : **“Tax Review on Article 21 Income Tax Based on Effectiveness of Internal Control in Salary Compensation Expense at PT Aneka Cipta Engineering Medan”**

1.2 PROBLEM FORMULATION

Based on the background study that has been described previously, the problem formulated by the writer in this research are as follows:

1. How the effectiveness of internal control in salary compensation expense at PT Aneka Cipta Engineering Medan?
2. What are the impact of tax review Article 21 Income Tax in salary compensation expense at PT Aneka Cipta Engineering Medan?

1.3 RESEARCH FOCUS

The writer will conduct the research with focus to tax review of Article 21 Income Tax of permanent employee based on effectiveness of internal control in salary compensation expense at PT Aneka Cipta Engineering in year 2016.

1.4 RESEARCH OBJECTIVE

The objective of doing this research are as follows:

1. To know the effectiveness of internal control in effectiveness of internal control in salary compensation expense at PT Aneka Cipta Engineering Medan
2. To know the result of tax review on article 21 income tax in salary compensation expense at PT Aneka Cipta Engineering.

1.5 BENEFIT OF THE RESEARCH

The benefits of this research can be seen as follows:

1.5.1 THEORETICAL BENEFIT

This research can give understanding of tax theory about tax review of Article 21 Income Tax.

1.5.2 PRACTICAL BENEFIT

Practical benefits of this research are as follows:

1. This research increases the knowledge of writer about tax review of Article 21 Income Tax.
2. This research gives recommendation for company in internal control of Article 21 Income Tax.
3. This research can be used as reference for other research with same topic.

1.6 SYSTEMS OF WRITING

The systems of writing in this *skripsi* will be as follows :

CHAPTER I : INTRODUCTION

This chapter consists of background of the study, problem formulation, research focus, research objective, benefit of the research and systems of writing. This chapter describes the importance of human resource, importance of internal control and the risk of ineffective internal control. The company doesn't put attention on tax matter especially Article 21 Income Tax. The company doesn't hire tax consultant and public accountant. There are some problem in internal control of payroll system in the company such as segregation of duties, documentation and monitoring of payroll process and obligation of Article 21 Income Tax.

CHAPTER II : LITERATURE REVIEW

This chapter consists of theoretical background, previous research and framework of thinking. The theoretical background consists of some grand theories such as definition of tax, function of tax, definition of tax audit, definition of internal control, element of internal control, internal control in payroll system. The literature study is done to some theories of Article 21 Income Tax and tax review such as Article 21 Income Tax, Article 21 Income Tax subject, Article 21 Income Tax object, Article 21 Withholding Agent, Article 21 Income Tax rate and non taxable income, Article 21 Income Tax calculation for employee, definition of tax review, the purpose of tax review and tax review procedure.

CHAPTER III : RESEARCH METHODOLOGY

This chapters consists of method, research object, data collection method and data analysis method. The research design used is qualitative and descriptive research design that describes the phenomena and condition of internal control of payroll system and Article 21 Income Tax in the company. The data collection methods used are observation, documentation and inquiry. The observation is done to company's activities and ineffectiveness of internal control of payroll system. The writer will obtains some documentation related with this research such as list of salary and Article 21 Income Tax document. Inquiry is done to know internal control in the company such as the calculation of Article 21 Income Tax document, segregation of tasks, monitoring, proper and complete document, design and implementation of internal control of payroll.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapters describes general view of company, data analysis and discussion of tax review of Article 21 Income Tax. The general view of company consists of the company's history, business activities, organization structure, internal control of payroll system and implementation of Article 21 Income Tax. In data analysis and discussion, it describes analysis of design and implementation of internal control in payroll system, effectiveness of internal control, tax review of Article 21 Income Tax and the impact of tax review of Article 21 Income Tax on the company's tax compliance.

CHAPTER V : CONCLUSION

This chapter presents the conclusion of this research, implication of this research and the recommendation for calculating Article 21 Income Tax. In the conclusion of this research, it can be known the effectiveness of internal control in salary compensation expense and the impact of tax review Article 21 Income Tax in salary compensation expense. The implication of this research consists of theoretical implication and practical implication after conducting tax review Article 21 Income Tax. The recommendation is done to improve effectiveness internal control on salary compensation expense and Article 21 Income Tax.