

THE IMPLEMENTATION OF PAYROLL ACCOUNTING SYSTEM AS AN EFFORT TO IMPROVE THE SYSTEM OF INTERNAL CONTROL (A Study at PDAM Kota Malang)

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ABSTRACT

This research aims to determine the implementation of payroll accounting system in PDAM Kota Malang as an effort to improve the internal control system and to provide the alternative problem solving if obstacles related to the system exists. Using descriptive method, the researcher obtained relevant data by using interview and documentation. The result shows that the system is well-implemented and it supports the internal control. It is evidenced by the involvement of related functions in the processing the payroll effectively. Also, the authorization of every job is clear and following the procedure. This study suggests the company to add more specific information related to income tax discounted from the employees' take home pays. This research also recommends the company to apply more complete flowchart of payroll system.

Key Words: *Payroll Accounting System, Internal Control*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui penerapan sistem akuntansi penggajian di PDAM Kota Malang sebagai upaya untuk meningkatkan sistem pengendalian internal dan memberikan alternatif pemecahan masalah jika hambatan yang berkaitan dengan sistem ada. Dengan menggunakan metode deskriptif, peneliti memperoleh data yang relevan dengan menggunakan metode wawancara dan dokumentasi. Hasilnya menunjukkan bahwa sistem ini diimplementasikan baik dan mendukung pengendalian internal. Hal ini dibuktikan dengan keterlibatan fungsi-fungsi terkait dalam pengolahan penggajian secara efektif. Juga, otorisasi setiap pekerjaan jelas dan mengikuti prosedur. Studi ini menunjukkan perusahaan untuk menambahkan informasi yang lebih spesifik terkait dengan potongan pajak penghasilan dari upah bersih karyawan. Penelitian ini juga merekomendasikan perusahaan untuk menerapkan flowchart lebih lengkap dalam sistem penggajian.

Kata Kunci: *Sistem Akuntansi Penggajian, Pengendalian Intern*

INTRODUCTION

The goal of a company is to achieve plan that has been set, both for short term or long term. In order to achieve that company's goal, a company is expecting to coordinate with the whole inside part of them. The part or department must relate to each other, because of that all company activity as whole could be done effectively and efficiently. Therefore a system and procedure are required to support the

activities of company, thus the goal has been set by company can be achieved as the plan.

System and procedure of a company is very complex including payroll accounting system, which is the function is closely related to the employees in the company. According to Suparjono (2011:3) salaries have important role for employees as individuals because the size of salaries reflect the value of the employees work among the employees themselves, families and communities. Employee

income levels will determine the scale of life and their relative income show status, dignity and price. As a result, when employees view the salary they receive is inadequate then the performance, passion, and motivation could decrease.

According to Baridwan in Suparjono (2011:2) payroll accounting system is a function, organization, forms, records, and reports on payroll to employees, which is paid each month and coordinated in such a way to provide the financial information required by management to facilitate the management of the company. Payroll accounting system is including with payroll accounting system problem, such as the classification of payroll accounting systems, network-related functions that make up the system procedures and documents are used in the payroll process. Payroll accounting system is designed to handle transactions and payment of employee's salary and the payment. This system consists of network of procedures, which are time attendance recording procedures and working time, the procedure of creating payroll, payroll payment procedures, and the procedures of creating cash disbursement evidence.

Payroll accounting system also can reduce the existence of fraud or errors that occur intentionally or unintentionally which can result in losses for the company. Payroll accounting system can serve as a control in the activities of the company. Using payroll accounting system the company could manage the transaction of payment for the employee, thus the employee can receive their rights appropriate with their performance.

Basically internal control system is a company way to control the intern of a company in order the company can be better. Internal control system can be adequate if the system is applied and appropriate with the goal.

PDAM Kota Malang has implemented payroll accounting system in face of internal control. Payroll accounting system is one of the factors that are important for the performance of the companies. If there is a problem or fraud intentional or unintentional salary in a company, the company would not be able to run properly. From some several corporate transactions, payroll activities are important transactions in the internal control framework. Controlling the salary should be done with full accuracy and precision thus the transaction

would not result in losses that would be suffered by the company.

LITERATURE REVIEW

Accounting System

According to Mulyadi (2013:3) "accounting system is the organizational forms, records, and reports are coordinated in such a way as to provide the financial information needed by management in order to facilitate the management of the company".

Salary

According to Terry L and Michael D. Crino in Moekijat (2006:16) the term of salary generally applies to a fixed weekly, monthly or annual rate of pay. According to Andrew F. Sikula in Hasibuan (2009:118) Salary are fixed compensations paid, to holder of official, executive or clerical positions, on a regular basis such as by the year, month or week.

Payroll Accounting Systems

According to Mulyadi (2013:17) payroll accounting system designed to handle transactions and salary calculation and payment of employee wages, payroll accounting system design and the wages should ensure the validity, completeness authorization, classification of valuation, timeliness and accuracy of post and the overview of each payroll transaction and wages.

It can be concluded if payroll accounting system is a series of computational procedures and payment of salaries for employees overall efficient and effective manner. Obviously with salary and wages accounting system that the company will be able to motivate employee morale and retain productive employees are less productive, so that corporate objectives for profit can be achieved with high employee productivity.

The Objectives of Giving Salary

There are several objective of providing salary. According Hasibuan (2009:85) payroll objectives, such as:

- a. Cooperation Ties
Providing salary is established formal ties of cooperation between employers and employees. Employers pay salary in accordance with the treaty agreed if employees do work is good.
- b. Job Satisfaction

By fringe benefits, the employee will be able to meet the needs - physical, social status, and his ego so as to obtain satisfaction from his work.

- c. Motivation
if the remuneration given large enough, the manager will be easy to motivate subordinates.
- d. Stability Employee
With the principle of fair compensation program and a decent external consistency and the stability is guaranteed because the employee turnover is relatively small.
- e. Discipline
By providing compensation the employee discipline, the better. Employees will be aware of and compliance with applicable regulations.
- f. Government Influence
If the salary the program in accordance with applicable laws (such as the minimum salary limit), the government intervention can be avoided.

Documents Required

In the implementation of payroll and wage in a company, related documents have important role for the survival of payroll employees. According to Mulyadi (2013:374) documents that are used in the payroll system are:

- a. Documents Supporting Changes in Salaries and Wages.
- b. Present Time Card
- c. List of Salary and Wages
- d. Recapitulation of Salary and Wages
- e. Statement Letter of Salary and Wages.
- f. Cash Disbursement Evidence.

Internal Control

According to Samsul and Mustofa (1992:71) internal control is “the way to secure company assets, obtain information for the management and obey company policy”. According to Ranatarisza and Noor (2013:161) internal control is “a way to direct, supervise and measure an organization's resources. This way has an important role to prevent fraud and protect the organization's resources”.

The Objectives of Internal Control System

According to Mulyadi (2013:163-164) internal control objectives are:

- a. Keeping the Organization Wealth.
A company sometimes is having trouble unless the company is protected. Security monitoring company property includes physically and accounting
- b. Check the Accuracy and Reliability of Accounting Data.
In performing their duties, managers need to understand accurate, precise and reliable of information. Internal control guarantees the processing of accounting data to produce reliable internal accounting. Accounting data reflect changes in property companies, the accuracy accounting data and accountability that inform the use of company property.
- c. Encouraging Efficiency.
Internal control in the company intended to prevent unnecessary duplication of effort or at least be able to reflect the waste of resources is inefficient.
- d. Encouraging Compliance with the Management Policy.
Manager held a procedure or rules of engagement to achieve the goal. Internal control system is intended to convince the manager that all the procedures outlined in easily predictable and identifiable and managers can easily implement the legalization and improvement actions quickly and precisely in case of irregularities.

The Principles of Internal Control

The principles of internal control according Hall (2008:135) are:

- a. Management Responsibility.
This concept holds that the establishment and maintenance of a system of internal control is a management responsibility.
- b. Reasonable Assurance.
The internal control system should provide reasonable assurance that the four broad objectives of internal control are met in a cost-effective manner. This means that no system of internal control is perfect and the

cost of achieving improved control should not outweigh its benefits.

- c. Methods of Data Processing.
Internal controls should achieve the four broad objectives regardless of the data processing method used. The control techniques used to achieve these objectives will, however, vary with different types of technology.
- d. Limitations.
Every system of internal control has limitations on its effectiveness.

The Benefit of Internal Control for Company

There is several benefit of using internal control for the company. According to Jusup (2011:13) the benefits of internal control for the company are:

- a. Guarantee if all transaction is recorded as complete and accurate.
- b. Ensuring if only the transaction which has been authorized that can be done.
- c. Ensuring that all transactions are supported by adequate documentation.
- d. Minimize the risk of fraud.

RESEARCH METHOD

This research uses descriptive research. According to Sugiyono (2005:14) descriptive research is “a form of word, sentence, scheme and picture”. According to Kurniadi (2011:31) descriptive research is “type of research that trying to describe a symptom, events are occurring in the present (actual problems)”.

RESEARCH FOCUS

1. Structure of Organization
By looking at the organizational structure can be known about the distribution of tasks and responsibilities, also the parts that are responsible regarding the particular functions of the organization so that can know the job description of each part.
2. Forms and Documents
This study aims to describe the form and document, the function of form and document related to the payroll accounting system in PDAM Kota Malang.
3. Network Procedure of Payroll Accounting System

This study is view each procedures related to the payroll accounting system, thus the researcher can know if the procedure can improve the internal control of company.

4. Element of Internal Control
This research focuses on the elements of internal control, thus the researcher can know if the payroll accounting system that has been implemented can support the internal control of the company.

DATA ANALYSIS

1. Analyzing the implementation of payroll accounting system applied by PDAM Kota Malang. Through several aspects:
 - a. Documents used in the procedures
 - b. Related function divisions related to the procedures
 - c. Payroll accounting system procedures
2. Analyzing and describing the implementation of payroll accounting system as an effort to improve the system of internal control in PDAM Kota Malang.
3. Describing the existing problems and provides good and useful alternative solutions for the company.

RESULT AND DISCUSSION

The Implementation of Payroll Accounting System in PDAM Kota Malang.

1. Related Function

Related functions of payroll accounting system in PDAM Kota Malang as follows:

- a. Human Resource Department
This function has task to manage employee payroll start from acquiring employee present data until determining how much salary that will received by the employee based on appraisal of employee performance that received from each department in PDAM Kota Malang. In PDAM Kota Malang HRD are divided into three sections that are:
 - 1) Human Resource Development Section:
This section has task to collect the attendance list and process the attendance list with a program on the computer.
 - 2) Employee Performance Appraisal Section:

This section has task to provide assessment for employee performance in PDAM Kota Malang.

3) Employee Welfare Section:

This section has task to process the payroll in PDAM Kota Malang and send to financial part for further task.

b. Financial Department

This function has task to analyze and correct the salary given by Human Resource Department, verify payroll document to Manager and Director of Administration and Finance, creating payment check and voucher (cash disbursement evidence), transfer money to BCA and Mandiri Bank, note and record payroll by application and create financial report. In PDAM Kota Malang Financial Department are divided into three sections that are:

1) Analysis and Planning Section

This section has task to analyze and to correct payroll document that given by welfare section. If the document is right, this section will request a signature to Manager and Director of Administration and Financial Department to verify. If still there is mistake, the verification of documents will be cancelled and returned to welfare section to be fixed.

2) Cash and Billing Section

This part has task to create bank voucher evidence (cash disbursement evidence) and payment check after the payroll documents have signed by Manager and Director Financial Department. Bank voucher evidence (cash disbursement evidence) and payment check is requested signature to Manager and Director Financial Department. After signed, this section will transfer salary money to Bank.

3) Accounting Section

This part has task to note and record payroll, creating journal and creating financial reports.

2. Document Used

Document that is used in payroll accounting system are:

a. Attendance List

This document is contained of employee fingerprints which are filled by the employee two times a day. This attendance list is used as a basis for calculating employee performance reports by each department. PDAM Kota Malang used fingerprints or automatic attendance list.

b. Discount List

This document contains of employee discount list in PDAM Kota Malang.

c. Salary Slip

This document contains details of salary, allowances, discounts, and the amount of salary received by the employee.

d. Cash Disbursement Evidence

This document contains of transaction evidence which have been done by the company.

e. Letter of Salary Increase Periodically

This document contains of salary increase periodically based on decision letter that has been out.

f. Salary List

This document contains of all of employees salary including discount list, allowance employee, gross income and clean income.

g. Allowance List

This document contains of employee allowance, such as work compensation allowance (*tunjangan kompensasi kerja*), clothing and health.

3. Accounting Record Used

Accounting record that is used in payroll accounting system is:

a. General Journal

Journal used in PDAM Kota Malang is general journal in the form of application in a computer. General journal is used for first transaction recording in PDAM Kota Malang.

b. General ledger

General ledger used is large cash in Financial Department in PDAM Kota Malang. This ledger is used for recording all transaction in PDAM Kota Malang.

4. Payroll Network Procedure

a. Present Time Recording Procedure

Employee attendance recording process is using fingerprint or automatic present time. In that machine the data will be saved. Every two weeks present data will be acquired by the officer with flash disk and send it to Human Resource Department. Human Resource Development section saves the data in computer database. Human Resource Development section will manage the data with attendance program available in Human Resource Department.

- b. Employee Appraisal Performance Process
 - 1) *Penilaian Sasaran Kerja Pegawai* (PSKP). PSKP is the appraisal of employee performance based on target achieving which has been set by the company based on analysis and suggestion from employee.
 - 2) *Penilaian Perilaku Kerja Pegawai* (PPKP). PPKP is an appraisal for employee performance based on observation direct from the head of employee toward employee behavior.

Employee performance appraisal is done by combining PSKP and PPKP. The weight value of performance appraisal is PSKP by 60% and PPKP by 40%.

- c. Payroll Process Procedure

The welfare section uses a payroll application, employee data and employee attendance list data. After obtaining data, welfare section is processing the data in a computer into salary list, recap salary list, allowance list and discount list and then printed. The documents will be signed by assistant manager of welfare and manager of human resource department.
- d. Cash Disbursement Evidence Creating Procedure

The documents (salary list, recap salary list, allowance list and discount list) will be made cash disbursement and payment check documents. Cash disbursement and payment check document will be signed by the Manager and Director of Financial Department.
- e. Payroll Payment Procedure

After signed by Manager and Director of Financial Department, cash and billing section transfer salary money to Bank

BCA and Mandiri. In accounting section, based on the cash disbursement the accounting section is recorded the transaction payment of the company in general journal and summarize it in the cash.

Analysis and Data Interpretation

1. The Implementation of Payroll Accounting System in PDAM Kota Malang.

Based on the implementation of payroll accounting system in PDAM Kota Malang, the implementation of payroll accounting system in PDAM Kota Malang is good, it can be seen from:

- a. Document used by PDAM Kota Malang, among others:
 - 1) Employee Attendance List
 - 2) List of Discount
 - 3) Allowance List
 - 4) Salary List
 - 5) Cash Disbursement Evidence
 - 6) Letter of Salary Increase Periodically
 - 7) Salary Slip
- b. The related function in PDAM Kota Malang has already separated, thus each function has its own authority. In PDAM Kota Malang, the related function in implementing payroll system are:
 - 1) Human Resource Department, which is consisted of Human Resource Development section, Welfare section and Employee Performance Appraisal section.
 - 2) Administration and Financial Department consist of Accounting section, Financial Analysis and Planning section, and Cash and Billing section.
- c. There is procedures that establish the payroll system, such as:
 - 1) Present Time Recording
 - 2) Employee Appraisal Performance Process
 - 3) Payroll Process Procedure
 - 4) Cash Disbursement Evidence Creating Procedure
 - 5) Payroll Payment Procedure
- d. In organization structure of PDAM Kota Malang already existed internal control staff thus with the existence of internal control staff, internal control in the company can be

done. Internal control is useful for control operational way in the company, thus match with internal control that has existed in PDAM Kota Malang.

2. Internal Control can be Improved Due to the Implementation of Payroll Accounting System

Based on the research that is conducted in PDAM Kota Malang, the researcher is found several elements that support the internal control of the company due to the implementation of payroll accounting system.

a. Organization Structure that Separates the Functional Responsibility

Functional responsibilities are divided to the units of organization in implementing the main activities of the organization. It can be seen from:

- 1) The function that creating payroll list is already separated from the function that has a task for salary payments. To create internal control systems, accounting function should be separated from saving function.
- 2) Present time recording function is already separated from operation function (like technique and production function). According to Mulyadi (2013:165) operation function is a function that has an authority to implement the activities (for example, purchasing).

b. Authorization System and Recording Procedure

In an organization, every transaction is authorized by the official who has authority to verify the transaction. The authorization system and recording procedure are as follows:

- 1) Every employee in PDAM Kota Malang has a Letter of Appointment as an employee (*Surat Keputusan Pengangkatan sebagai Karyawan Perusahaan*) which has been signed by General Director. This will prevent the salary payment to employee that don't have right to accept.

- 2) Every employee salary data changes are based on Director Decree (*Surat Keputusan Direksi*). In PDAM Kota Malang Financial Director has the authority about the employee salary data changes, thus employee data changes are guaranteed the truth and the legality.

- 3) In PDAM Kota Malang employee attendance list is authorized by human resource development section in Human Resource Department.

- 4) Cash disbursement evidence in PDAM Kota Malang is made by section of cash and billing which then the form is authorized by the Manager and Director of Financial Department. The organization has been set the system that regulates the authority function. This is one of internal control way that is conducted by the organization.

c. Healthy Practice

Healthy practice means perform the duties and the authority systems that has been set by the company can guarantee organization activities. These are some of healthy practice in the organization:

- 1) In PDAM Kota Malang the process of attendance recording is using fingerprint for presence. The employee puts fingerprint when during early come and finish work, thus it can be used as a base calculation for appraisal. Using fingerprint is one of internal control way, because by using fingerprint can minimize the possibility of fraud that will happen

- 2) In PDAM Kota Malang, salary list is verified and analyzed by the section of financial analysis and planning. The organization has been set the system that regulates authority divisions. This represents one of internal control activities to improve company performance.

- 3) The use of serial number printed form (*formulir bernomor urut tercetak*) such as cash disbursement

evidence and payment check is authorized by the Manager and Director of Financial Department. This will perform the transaction responsibilities keep implemented.

- 4) There is taking leave of absence (*pengambilan cuti*) for eligible employee in the organization. The related employee will be replaced for a while with the other employee to replace the task, thus if there is a fraud, it can be revealed by the employee which replaces the employee concerned before.
- 5) Surprise audit is often conducted to the section of the organization by internal control staff. The internal control staff has own schedule to conduct audit surprise, thus the section in the organization does not know if surprise audit will be conducted suddenly. This will push the employee to conduct the duties.
- 6) Job rotation in the organization is often conducted appropriate with the necessary. This shows the organization can keep the independence of the employee in implementing the duties, thus can minimize the fraud.

3. The Weaknesses that are Found in PDAM Kota Malang

Based on the research that is conducted in PDAM Kota Malang, the researcher is found several weaknesses, such as:

- a. There is no statement of the income tax amount (*pajak penghasilan pasal 21*) in the salary slip. According to Mulyadi (2013:78) the benefits of using form are “to record the company transaction, to minimize the mistake by express all of events in the form, to communicate the main information from one person to another person or to another organization”. Related to the payroll accounting system, an organization required a document that informs a list of discount applied to reduce the amount of salary received by an employee (so

called as discount list). Therefore, there is a need of information about the of the discount mention in the salary slip. Based on that, this study suggests adding discount of Pph21 in salary slip, thus employee that works in the organization can know how much the discount of Pph21 related with income.

- b. Flowchart that is used by PDAM Kota Malang in figure 4.2 has the weakness, because it doesn't show the procedure, the document used and the related function in details. Flowchart in details is required because good information is needed by the company to improve the performance of the company. According to Mulyadi (2013:64) the benefits of flowchart are “to find the weakness of the system that is used, the changes of system is easier to describe in the flowchart, the description of system in overall is easier to be gained by using flowcharts”.

CONCLUSION AND RECOMMENDATION

Conclusion

From the formulation of problem and the result of discussion which has conducted by the researcher about the implementation of payroll accounting system as an effort to improve the internal control system in PDAM Kota Malang, it can be concluded as follows:

1. Based on the implementation of payroll accounting system in PDAM Kota Malang, the implementation of payroll accounting system in PDAM Kota Malang is good, it can be seen from:
 - a. Document used by PDAM Kota Malang, among others:
 - 1) Employee Attendance List
 - 2) List of Discount
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 - 6) Letter of Salary Increase Periodically
 - 7) Salary Slip
 - b. The related function in PDAM Kota Malang has already separated, thus each function has its own authority. In PDAM Kota Malang,

the related function in implementing payroll system are:

- 1) Human Resource Department, which is consisted of Human Resource Development section, Welfare section and Employee Performance Appraisal section.
 - 2) Administration and Financial Department consist of Accounting section, Financial Analysis and Planning section, and Cash and Billing section.
- c. There is procedures that establish the payroll system, such as:
- 1) Present Time Recording
 - 2) Employee Appraisal Performance Process
 - 3) Payroll Process Procedure
 - 4) Cash Disbursement Evidence Creating Procedure
 - 5) Payroll Payment Procedure
- d. In organization structure of PDAM Kota Malang already existed internal control staff thus with the existence of internal control staff, internal control in the company can be done. Internal control is useful for control operational way in the company, thus match with internal control that has existed in PDAM Kota Malang.
2. The implementation of payroll accounting system as an effort to improve the internal control system can be seen from:
- a. Organization structure that separates the functional responsibility
 - 1) The function that creating payroll list is already separated from the function that has a task for salary payments. To create internal control systems, accounting function should be separated from saving function.
 - 2) Present time recording function is already separated from operation function (like technique and production function). According to Mulyadi (2013:165) operation function is a function that has an authority to implement the activities (for example, purchasing).
 - b. Authorization System and Recording Procedure

- 1) Every employee in PDAM Kota Malang has a Letter of Appointment as an employee (*Surat Keputusan Pengangkatan sebagai Karyawan Perusahaan*) which has been signed by General Director. This will prevent the salary payment to employee that don't have right to accept.
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 - 3) In PDAM Kota Malang employee attendance list is authorized by human resource development section in Human Resource Department.
 - 4) Cash disbursement evidence in PDAM Kota Malang is made by section of cash and billing which then the form is authorized by the Manager and Director of Financial Department. The organization has been set the system that regulates the authority function. This is one of internal control way that is conducted by the organization.
- c. Healthy Practice
- 1) In PDAM Kota Malang the process of attendance recording is using fingerprint for presence. The employee puts fingerprint when during early come and finish work, thus it can be used as a base calculation for appraisal. Using fingerprint is one of internal control way, because by using fingerprint can minimize the possibility of fraud that will happen
 - 2) In PDAM Kota Malang, salary list is verified and analyzed by the section of financial analysis and planning. The organization has been set the system that regulates authority divisions. This represents one of internal control activities to improve company performance.
 - 3) The use of serial number printed form (*formulir bernomor urut tercetak*) such as cash disbursement evidence and

payment check is authorized by the Manager and Director of Financial Department. This will perform the transaction responsibilities keep implemented.

- 4) There is taking leave of absence (*pengambilan cuti*) for eligible employee in the organization. The related employee will be replaced for a while with the other employee to replace the task, thus if there is a fraud, it can be revealed by the employee which replaces the employee concerned before.
 - 5) Surprise audit is often conducted to the section of the organization by internal control staff. The internal control staff has own schedule to conduct audit surprise, thus the section in the organization does not know if surprise audit will be conducted suddenly. This will push the employee to conduct the duties.
 - 6) Job rotation in the organization is often conducted appropriate with the necessary. This shows the organization can keep the independence of the employee in implementing the duties, thus can minimize the fraud.
3. There are still the weaknesses that the researcher should give recommendations. Such as:
- a. Salary slip that is used by PDAM Kota Malang there is no discount of Pph21, while in document of discount list of PDAM Kota Malang there is discount of Pph21.
 - b. Flowchart that is used by PDAM Kota Malang doesn't show the procedure, the document used and the related function in details.

Suggestion

Based on conclusion above, the researcher give some suggestion:

1. Better in salary slip used by PDAM Kota Malang to add discount of Pph21 because with added discount of Pph21 in salary slip that is used, means improving the information to avoid the miss understanding between the organization and employee. Because a

transparency is needed by the organization in order to improve the performance of the company to achieved the goal that has been set..

2. Flowchart that is used by PDAM Kota Malang has the weakness, because it doesn't show the procedure, the document used and the related function in details. Based on that, the researcher provides a flowchart in details related to the payroll accounting systems. Flowchart in details is required because good information is needed by the company to improve the performance of the company.

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