

Framework Of Compliance Of Sarbanes-Oxley For Improved Performance Of Stock Operational Business In Mutual Fund Company

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Abstract— Indonesia's capital market has shown rapid growth seen from the increase of the main variables of capital market activity. One significant increase in the development of the number of Mutual Funds considered effective by Bapepam until the end of 2005 has increased to more than 322 (three hundred and twenty-two) Mutual Fund managed by more than 103 (one hundred three) investment managers. To achieve a good portfolio performance, the Investment Manager must have access to all types of information related to investment activities, and the information must be precise and accurate. An important role is played by Information Technology in providing that information, so it can have a strategic position in the financial industry. The Sarbanes-Oxley compliance framework can be used to improve the performance of Mutual Fund companies by 33%, by optimizing the use of Information Technology in its operational processes. Due to the limitations of legislation, Sarbanes-Oxley's compliance framework cannot be fully implemented, but it can be done gradually in order to produce a good financial report.

Keywords: Improved Operational Performance, Mutual Fund, Sarbanes-Oxley Compliance Framework

1. Introduction

The purpose of this research is to map the business process of existing Mutual Fund companies by doing business process modeling so that it can be a simulated operational process that happened. In modeling the process will be studied using one of the business process modeling tools, namely ProVision 4.2.2 from Proforma Corp. by using the Sarbanes-Oxley approach to achieve compliance with applicable regulations, knowing whether the business processes that have been done so far have been running efficiently and business process improvement steps that can be done, know the points prone to business processes that are run and seek solutions to safeguard vulnerable points and better business processes based on existing company policies, by: (1) maximizing the function of each part of the business process based on existing theory (2) Redefining and simplifying some authority to make decisions, either authority possessed by employees and authority that exist in the Information System, so that decision-making can be done more quickly and accurately [4][14].

So far, the business process of Mutual Fund companies has made IT an important and integral part of daily operations. However, based on initial observations directly to the business process, it is still seen that the process is less effective in some parts of operations, especially in the back office / settlement after the transaction is done [1][7].

The problems and potentials identified at the beginning of the study are as follows:

1. The presence of three large data domains that are not integrated so that it needs to do the process of recurring data entry on the same information, ie data news info (in the form of stock information, bonds, NAV, etc.), custodian bank data (in the form of asset data managed by investors), and investor data.

2. Planning IT infrastructure that has not been able to meet all the needs of business processes that run, so that when there are new products need to be adjusted infrastructure that takes a long time. This is evident in Fig.1 which describes the condition of IT in the Mutual Fund industry.

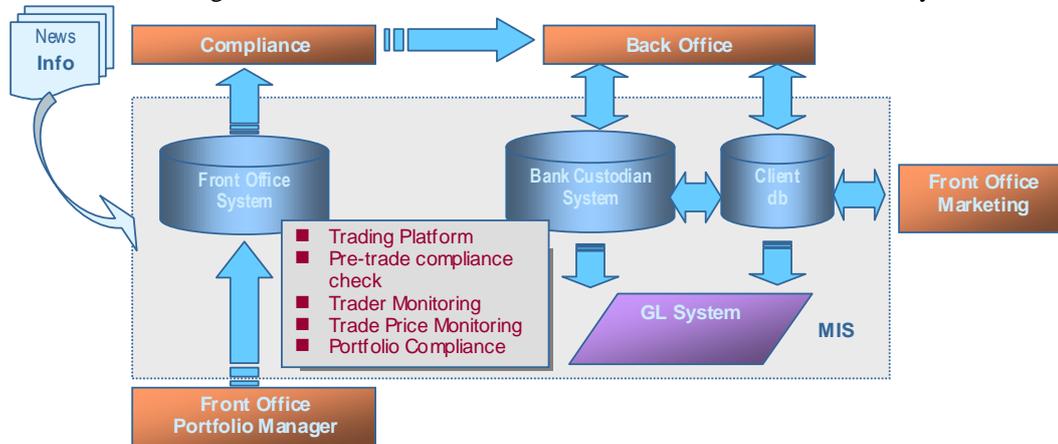


Fig.1 IT in the Mutual Fund Industry

From the above problem, the research question is: "What is the role of IT in improving the performance of the operational business process of Mutual Fund industry?"

While the specific question will be answered to get a picture: How the IT needs for the Mutual Fund industry? How to model the business processes that exist in the Mutual Fund industry? Where are the vulnerable points on the business process in the Mutual Fund industry? How to improve operational performance both through the use of IT infrastructure in information management?

Based on data released by BAPEPAM in the Capital Market Statistics as of September 2005, there have been 170 securities companies that can manage Mutual Fund[2][16]. All these companies do not have the same standard of Mutual Fund management as BAPEPAM continues to make improvements to existing regulations to protect investors from possible unpredictable and guaranteed losses. So the focus of this research includes (1) Analyzing business operational process at PT XYZ with Mutual Fund product of 16 units. Data obtained through direct interviews with authorized employees in the operational period of one month normal circumstances (2) Mapping and improvement of business processes is limited to business process modeling and workflow as well as the results of current business process simulations, improved business processes and business processes ideal (3) The application of Burton's business process management methodology (Burton, 2001) uses only the second stage of Design Mode consisting of the Vision phase, Understand phase and Renew phase (4) Mapping and simulating using ProVision Version 4.2.2, for simulation using discrete method without using the distribution function on data (5) In the simulation of ideal business process using the assumption of validity and validity of data obtained reaches 99% (6) Conformity analysis techniques using Sarbanes-Oxley section 404, which emphasizes on internal control of business processes undertaken.

2. Related Work

The current consumption of products and services exceeds the world's natural resource capacity. According to WWF (2012), it is equivalent to 1.5 planets used to support human activities[18]. Despite attempting to reduce global "unsustainability", resource consumption continues to grow, and consequently, its disaster is easily predictable. There is an urgent need for a better understanding of dynamic adaptive behavior toward systems and their resilience in the face of distractions [6]. Sustainability for an organization is about maintaining the differences between internal and external stakeholders [8] and in particular, the triple bottom line of People, Planet and Profit [7]. Therefore, banking continuously refers to the delivery of financial products and services, developed to meet the needs of the community and protect the environment while generating profits. This comes from things like banking ethics and ethical banking policies, illustrated by the case of the Bank Cooperative as a business communicator, and strict guidelines on who can do business, or not [10]. According to

Lynch (1991), the banking code of ethics is about practice with a code of conduct - not just companies that give and invest in 'ethical' funds [13]. In line with This, GABV – Global Alliance for Banking on Values (2012) defines a sustainable bank for not only doing the harm but actively using the finances to 'do good'[9]. The financial crisis in Indonesia 2008 is a crisis of vagueness where there is no balance of interests of various stakeholders, tending to focus on the personal use of senior management [15]. The crisis reignited the 'unsustainable' thinking of business models adopted by banks [7][12]. Banks need to rebuild their image and cut costs to regain competitiveness after a crisis [1].

2.1. Mutual Fund Industry

Mutual Fund is one option in investing that can be done easily in the capital market. Funds are collectively collected by issuing shares or units of participation to individuals and institutions which are then invested in portfolios consisting of capital market securities and or money markets selected and managed by Investment Managers professionally, as shown in Fig.2. The diversification in the portfolio in the Mutual Fund will minimize the risks faced by the investors, as well as obtain an optimal profit.

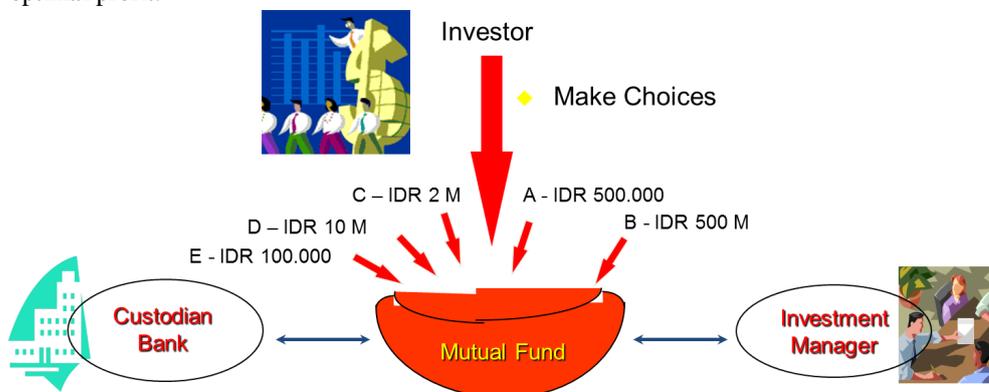


Fig. 2. Important Components in Mutual Fund

2.2. Sarbanes-Oxley (SOX) Act

Sarbanes-Oxley (SOX) Act is a regulation designed to increase confidence in equity markets and the integrity of a company's financial statements [4]. SOX consists of several parts designed to improve the quality of financial statements. Section 404 of SOX is very precise and is associated with improving operational IT functions without neglecting conformity factors in financial management companies such as Mutual Fund managers. In Fig.3, the internal control function of the overall conformity which forms part 404 of Sarbanes-Oxley is seen. Using the SOX approach, this thesis aims to analyze the operational process of the Mutual Fund management company which then determines the vulnerable points in the process. In the end to make improvements of prone points to improve the company's operational performance [4].

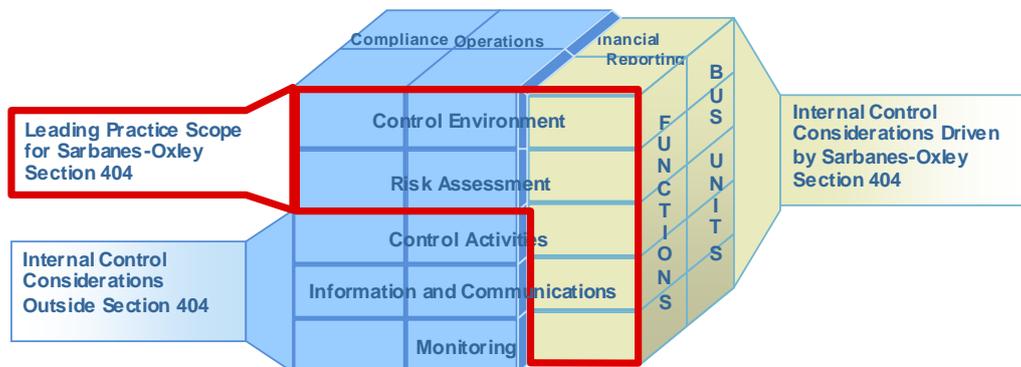


Fig. 3. Internal Controls in Sarbanes-Oxley

The internal control referred to in SOX is a process designed to increase assurance of acceptable beliefs about financial statements and the process of preparing them for outgoing purposes is in conformity with general accounting principles. Includes data on transaction records, historical data and acquisitions and the use and placement of assets to be reported. Included in other internal controls are special controls that directly affect the activity as well as the control known as pervasive control, which is about IT security. IT security is actually a common function and control not directly related to financial statements, but is still controlled to provide data integrity assurance [17].

Section 404 requires two related basic elements:

1. Internal control reports, signed by management and tested by external auditors.
2. The existence of internal control authority. Section 404 states that the framework of the internal control shall be appropriate and agreed upon by all parties.

2.3. Provision

Sarbanes-Oxley Pro uses ProVision EnterprisePro to be a one-stop modeling of financial operational processes, standard financial controls, internal and external audit procedures and modeling of financial reporting processes [4].

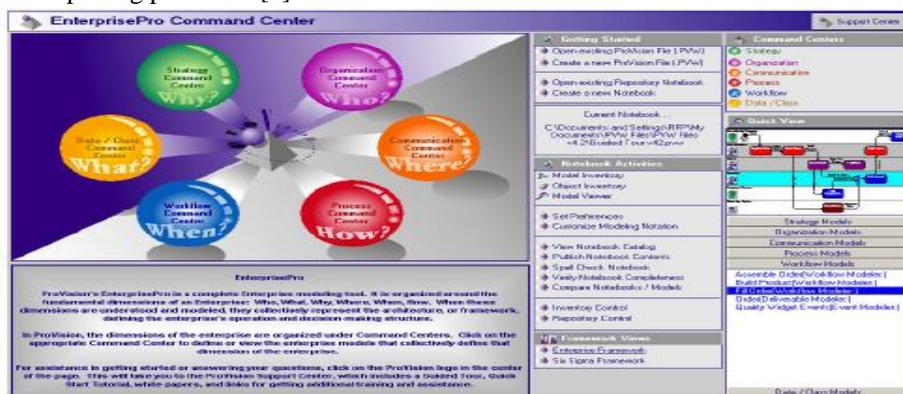


Fig.4. Business Process Modeling in ProVision

Information collected by Sarbanes-Oxley Pro in ProVision refers to the Committee of Sponsoring Organizations (COSO) Integrated Framework, which regulates aspects of internal control in operational, financial compliance and reporting.

3. Proposed Work

In general, research activities undertaken adopt Burton's business process management methodology. Some of the activities of each phase are not done because of the availability of data from the company's internal research. The stages of the research are done starting with Data Collection, Identification of Current Business Process, Modeling, simulation and analysis of current business processes, Modeling, simulation and analysis of process improvement, Modeling, simulation and analysis of the ideal process and preparation of reports. Current investment styles and processes refer to the following fig.5 :

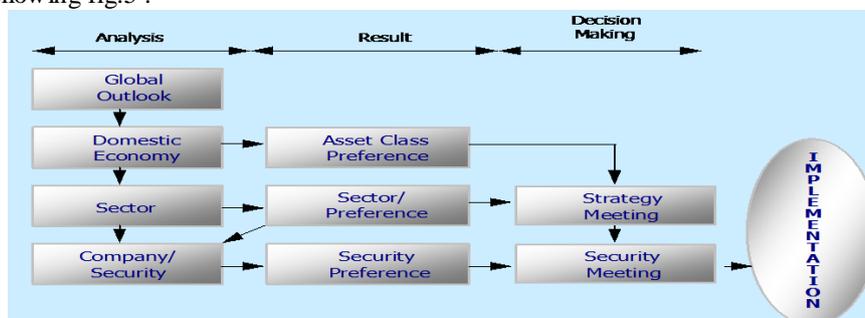


Fig.5. Style and Process of Investment

With the analysis model shown in Fig.6

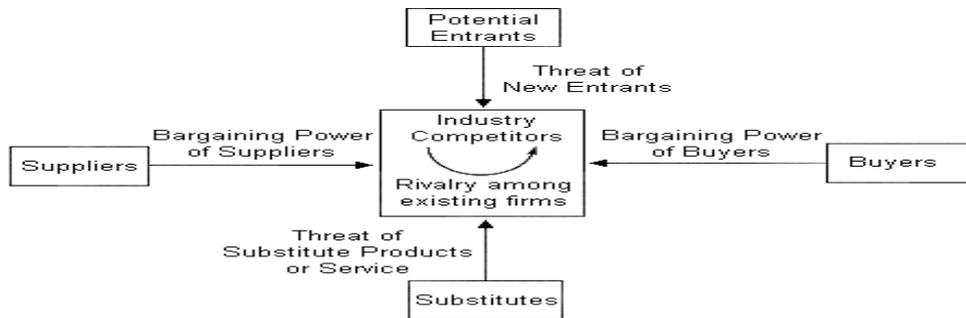


Fig.6 Mutual Fund Analysis Model

I. RESULTS

From the data of simulation analysis result of the business process of Mutual Fund company obtained efficiency calculated by the value of current process minus repair process value and result divided by current process value. The efficiency of each process can be seen in the table.1 below.

Table.1 Efficiency of process improvement

Process	Before	Improvement	Efficiency
Cost (Monthly)			
Subscription	Rp54.126.733	Rp22.554.883	58%
Redemption	Rp331.024	Rp124.134	63%
Switching	Rp47.149.905	Rp38.294.269	19%
Daily Transaction	Rp131.253.146	Rp94.275.911	28%
Averages	Rp58.215.202	Rp38.812.299	33%
Work Time			
Subscription	2,22	0,89	60%
Redemption	0,02	0,01	50%
Switching	3,25	1,13	65%
Daily Transaction	7,03	2,38	66%
Averages	3,13	11,025	65%
Time Delay			
Subscription	0,87	0,67	23%
Redemption	0,02	0,01	50%
Switching	0,8	0,72	13%
Daily Transaction	1,47	0,79	46%
Averages	0,7975	0,5475	31%
Total Process Time			
Subscription	4,2	2,2	48%
Redemption	0,15	0,05	67%
Switching	6,02	2,17	64%
Daily Transaction	10,77	4,42	59%
Averages	5,285	2,21	58%

Based on the comparative data of the current process and the improvement process can be made average value of each process because of the four processes performed analysis can run in parallel. Separation of the process is done to get more accurate time and cost calculation results.

1. Based on Cost Analysis, Redemption process is the process of improvement with the greatest efficiency of 68%. While the average efficiency of the overall cost is 33%.
2. Based on Work Time Analysis, Daily Transaction process is the process of improvement with the greatest efficiency of 66%. While the average efficiency of the overall cost is 65%.
3. Based on Time Delay Analysis, Redemption process is the process of improvement with the greatest efficiency of 50%. While the average efficiency of the overall cost is 31%.
4. Based on the Total Process Time Analysis, Redemption Process is the process of improvement with the greatest efficiency of 67%. While the average efficiency of the overall cost is 58%.

The calculation of the Cost and Time analysis as a whole is done by weighting method with the data in the table.2 The magnitude of the weighted value is equal to the number of processes performed today.

Table.2 Cost efficiency and total time Improvement process

Total cost		%	
	Currently	Improvements	Efficiency
Subscription	Rp 54.126.733	Rp 22.554.883	58,329 %
Switching	Rp 47.149.905	Rp 38.294.269	18,782 %
Redemption	Rp 331.024	Rp 124.134	62,554 %
Daily Transaction	Rp 131.253.146	Rp 94.275.911	28,172 %
Total Process Time			
	Currently	Improvements	
Subscription	4.20	2.20	47,619 %
Switching	6.02	2.34	61,130 %
Redemption	0.15	0.05	66,667 %
Daily Transaction	10.77	4.42	58,961 %

Then the process that experienced the greatest efficiency of the whole process of Cost and Time is the Redemption Process.

4. Conclusion

Based on the research that has been done before, it can be concluded several things as follows:

1. The business process of Mutual Fund management in the operational section has not been efficiently seen from the point of view of time and cost, this is because of the total cost incurred an average of 33% larger than it should be able to do.
2. Based on simulation result done to 4 (four) process in operational part that is Subscription, Switching, Redemption and daily transaction, after process improvement then at redemption will get the biggest efficiency value, that is equal to 64,61%.
3. From the simulation result of the business process of operational part of Mutual Fund management company that has been repaired, obtained data as follows:
 - cost efficiency 33%
 - work time efficiency 65%
 - time efficiency of delay 31%
 - the efficiency of total working time 58%
4. Improvement steps of the business process of the operational part by using IT can be done by eliminating inefficient activities such as doubling the work of two system entries and replacing existing manual activities with the system so that it can be done automatically. In addition, redefinition can be done several activities so that decision-making by other work units can be done more quickly, for example by integrating the database of all systems used can eliminate the process of naming data between systems.
5. From the whole process analyzed obtained the average human resource efficiency 2 (two) people, thus optimization of human resources can be done by utilizing the human resources in other work unit.
6. To understand better business processes, it can be done by modeling the process and simultaneously simulating the cost and time to see the efficiency of the process model.

7. The Sarbanes-Oxley approach in its application has not been fully implemented in Indonesia, due to the lack of legislation governing the management of information systems and electronic data exchange.

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