

EFFORTS TO IMPROVE INTERNAL AUDIT UNDERSTANDING IN SERVICE COMPANIES

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ABSTRACT

The audit process is a very important process for a company. The internal audit process is one way to ensure conformity between SOPs and conditions in the field. In particular, internal audit brings benefits in the form of objectivity, showing itself as a law-abiding company, protection of company assets, increasing company efficiency and productivity, and identifying the level of success of the existing control system. More value from audits can be seen by the company if the internal audit process focuses on improving processes and not just maintaining compliance. Process improvement is one of the key elements of a management system and should be one of the main motivators of companies wanting to implement and maintain a good system. Process improvement not only helps with efficiency, but saves time. To get all these benefits, the internal audit process needs to be carried out regularly. Generally, an internal audit is conducted once a year. However, in certain conditions, for example after a major change in the structure and workings of the company or after the implementation of a new management system, the frequency of audits can be increased to see the effectiveness of the changes. The passive attitude of the community also affects the public's understanding of the importance of internal auditing in the company. Therefore, training and counseling activities are carried out to change public perceptions, especially companies engaged in services regarding the importance of the role of internal audit in companies. The implementation of this service provides additional understanding which is positively welcomed by the community.

Keywords: audit, internal audit, service companies, management system

1. INTRODUCTION

The audit process is a very important process for a company (Xiao et al., 2020). The internal audit process is one way to ensure conformity between SOPs and conditions in the field (Mentheri & Tariq, 2020). This process will also prove whether the existing SOP is the right procedure in dealing with the risks faced by the company. In addition, this process is one way to ensure that all company assets are in a safe position and free from threats from outside or within the company itself.

The definition of internal audit according to Islamiyah & Agoes, (2019) is as follows:

"Internal Audit (internal audit) is an examination carried out by the company's internal audit section, on the company's financial statements and accounting records as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of the applicable professional ties".

Meanwhile, according to the Institute of Internal Auditors quoted by Arens et al., (2017) defines that:

"Internal audit is an objective and independent consulting and assurance activity designed to add value and improve an organization's operations. It helps the organization to achieve its objectives by taking a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

Meanwhile, according to Mulyadi, (2014) defines that internal audit is as follows:

"Internal audit is an auditor who works in a company (state company or private company) whose main task is to determine the policies and procedures set by top management to be complied with, safeguarding the assets of the organization, the efficiency and effectiveness of procedures for organizational activities, as well as the reliability of the information produced by various organizations. organizational part".

Based on the theories and statements mentioned above, the writer concludes that internal audit is an inspection or evaluation activity carried out by the internal division of an organization or company on financial statements and accounting records which is carried out independently and objectively with the aim of providing assurance / reliability. useful information for decision making within the company.

The purpose of internal audit according to Rönkkö et al., (2018)says that:

"The purpose of internal audit is to assist members of the organization in carrying out their responsibilities effectively. Internal audit conducts analysis, assessment and makes suggestions. The purpose of the audit includes the development of effective controls at a reasonable cost.

According to Islamiyah & Agoes, (2019) said that the purpose of the examination carried out by the internal auditor is to assist all company leaders (management) in carrying out their responsibilities by providing analysis, assessment, suggestions, and comments regarding the activities they examine.

Meanwhile, according to Halim, (2015) the purpose of a general audit is to express an opinion on fairness in all material respects, financial position, results of operations and cash flows in accordance with generally accepted accounting principles (GAAP).

In particular, internal audit brings benefits in the form of (SPAP, 2016) :

Objectivity

Implementing internal audit or auditors are required to provide an objective opinion regarding the aspects being observed. Therefore, the implementer of the internal audit must come from outside the department concerned and must not have any obligations or work responsibilities in that place. That way, the internal audit executive will be able to be independent and unbiased in conducting the audit process for the good of the company itself.

Show yourself as a law-abiding company

The internal audit process is one of the regulations that must be carried out by every company. The continuity of this process will be one way to ensure that every aspect of the company complies with existing regulations. Internal audit is also a form of company preparation before an external audit is conducted. A company that has passed the internal and external audit process will have more value in the eyes of clients and consumers.

Protection of company assets

One way to protect existing company assets is to recognize the risks that can be harmful, especially risks that come from within the company's environment. Internal audit will help management to find existing problems and take further preventive and corrective actions. In addition to identifying problems and risks, the internal audit process will also document all steps taken to mitigate the level of risk faced, as a record of future evaluations.

Increasing company efficiency and productivity

There are times when the conditions that occur in the field are not in accordance with the procedures and policies that have been previously established. The internal audit process is one way to ensure conformity between SOPs and conditions in the field. This process will also prove whether the existing SOP is the right procedure in dealing with the risks faced by the company. The internal audit process will produce recommendations aimed at improving aspects that still have shortcomings.

Identify the level of success of the existing control system

Every company must have its own control system. The question is how big is the success rate of the control system? The internal audit process will identify the level of success of this control system. If deficiencies are found, the information from the audit results will later be used to develop new strategies that are more in line with the conditions on the ground.

2. AUDIT PROCESS AND OBSTACLES

To get all these benefits, the internal audit process needs to be carried out regularly. Generally, an internal audit is conducted once a year. However, in certain conditions, for example, after a major change in the structure and workings of the company or after the implementation of a new management system, the frequency of audits can be increased to see the effectiveness of the changes.

Audit procedures are carried out in order to obtain sufficient audit evidence to support the auditor's opinion on the fairness of the financial statements.

The problem faced by the auditor is in the form of risk in his work. There are 3 risks here, namely inherent risk, control risk, and detection risk (Handoko et al., 2020).

- a. **Inherent Risk** Inherent risk is the susceptibility of an assertion to material misstatement assuming there are no related internal control structure policies and procedures.
The inherent risk is always there and never reaches zero. Inherent risk cannot be changed by applying even the best audit procedures. The inherent risk varies for each assertion.
- b. **Control Risk** Control risk is the risk that a material misstatement, which may occur in an assertion, cannot be detected or prevented in a timely manner by various policies and procedures of the company's internal control structure.

Control risk never reaches full assurance that all material misstatements will be detected or prevented. Control risk is a function of the effectiveness of the internal control structure. When planning the audit, the auditor determines the planned level of control risk for each significant assertion and is determined based on assumptions about the effectiveness of the design and operation of the relevant internal control structure.

- c. Detection Risk Detection risk is the risk that the auditor will not detect a material misstatement contained in an assertion.

Detection risk depends on the auditor's application of audit risk, inherent risk and control risk. The greater the audit risk, the greater the detection risk. Conversely, the greater the inherent risk or control risk, the smaller the detection risk. At the audit planning stage, the Planned assessed level of detection risk for each significant assertion is determined by applying the audit risk model. Auditors with a high educational background in relation to having a high professional level and experience will be better at minimizing problems and risks in conducting audits in financial reports, as well as doing good planning in audits, so as to minimize the level of materiality in financial statements and also acts of fraud.

3. IMPLEMENTATION

This activity is carried out by inviting companies engaged in services and located at Jalan Kramat Raya No. 5 E Jakarta on 18 July 2022 to 20 July 2022.

The method is carried out by direct meetings with several companies engaged in services for 3 days with a duration of 3x8 hours starting from coaching how to conduct internal audits for their businesses. The implementation does not only provide learning materials related to accounting and analysis but is also equipped with practice in the steps of conducting an internal audit with examples of audit results so that all participants understand the aims and objectives of the training and assistance in understanding the internal audit process.







4. COMMUNITY UNDERSTANDING

The ability of a professional to be able to understand and be sensitive to ethical problems in his profession, is strongly influenced by the cultural environment or society in which the profession is located, the professional environment, the organizational environment, or where he works and his personal experiences (Novika, 2020). The passive attitude of the community, the weak supervision system of the professional organization of the auditor towards its members also affects the ethical behavior of the auditor. The world of accounting education has a great influence on the ethical behavior of auditors (Maulana, 2020). In addition to affecting the external auditor and internal auditor, this also affects the public's understanding of the importance of internal audit in the company. Therefore, training and counseling activities are carried out to change public perceptions, especially companies engaged in services regarding the importance of the role of internal audit in companies.

With the development of perceptions and understanding of the people involved in the company's operations regarding the importance of internal audit, it is hoped that the company's activities can run more smoothly so that the company can be more developed and profitable, especially companies engaged in services.

5. RESULT AND CONCLUSION

By using the Internal Audit process to focus on helping to improve processes, and not just to maintain compliance, companies can see more value from audits. Process improvement is one of the key elements of a management system and should be one of the main motivators of companies wanting to implement and maintain a good system. Process improvement not only helps with efficiency, but saves a time.

Steps that can be taken to improve audit quality are (1) Increasing professional education, (2) maintaining independence in mental attitude, (3) In carrying out audit work, using professional skills carefully and thoroughly, (4) Planning audit work properly, (5) understand the internal control structure well, (6) obtain sufficient and competent audit evidence, (7) make an audit report that is in accordance with the company's conditions or in accordance with the findings.

The implementation of this service provides additional understanding which is positively welcomed by the community.

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