SINOMICS JOURNAL
International Journal of Social Science, Education, Communication and Economics
ISSN (e): 2829-7350 | ISSN(p): 2963-9441

The Advantage of Adopting Risk-Based Internal Auditing in Manufacturing Company

Jeslyn Fedelia[1], Jennifer Te[2], Anderson[3]
Universitas Internasional Batam, Indonesia
E-mail: 2042125.jeslyn@uib.edu[1], 2042126.jennifer@uib.edu[2], 2042127.anderson@uib.edu[3]

Abstract

The activities of a company will continue to change following the changes that occur in the internal environment and the community environment. It will pose a risk and can even be an opportunity for the company to increase its profitability. So from that, all companies including manufacturing companies implement Risk Based Audit (RBA). The purpose of this study is the author will describe what are the advantages of a manufacturing company implementing a risk-based internal audit. The research method used in this study is a qualitative method and secondary data. Risk-based audit is a way or method used in carrying out audit tasks by internal auditors to ensure that existing risks are properly and effectively controlled and managed by company management. In the results of this study, the authors will explain risk-based internal audit in general and the advantages of applying a risk-based audit approach to manufacturing companies.

Keywords: Risk Based Audit, Manufacturing Company, Internal Audit

INTRODUCTION

Increasing competitiveness and economic demands have driven many companies to adopt various management tools. There are various benefits of adopting management tools including improving product quality, streamlining processes, and reducing environmental damage (Hassan et al., 2020). The activities of a company will continue to change following the changes that occur in the internal environment and the community environment. If there is a change in the activities or business processes of the company, it will pose a risk and can even be an opportunity for the company to increase its profitability. So companies that change their business processes are required to carry out risk management. The COSO (Committee of Sponsoring Organizations of the Treadway Commission) Framework thinks that every unit in an entity needs to know and understand the risks that can arise and even become an obstacle for the company in achieving company goals. So it is necessary to place attention and take action in preventing and minimizing risks that can cause negative effects for the company. This is inseparable from the role of an internal auditor (Widodo, 2018).

Manufacturing companies are companies whose activities produce raw materials into finished goods which are then traded on the market. There are many companies engaged in manufacturing in country, so manufacturing companies that have been established for a long time need to make changes to their business processes in line with economic developments and changes in this globalization era. Manufacturing companies are companies that produce new goods, by producing goods, manufacturing companies are required to pay attention to the profits that will be generated in producing these goods. Company management must determine the selling price correctly so that the company can achieve the desired profit. In addition to determining the costs to be incurred, the company also needs to maximize the company's internal control, and evaluate the implementation of corporate governance, and regulations that apply to each company employee. In manufacturing companies, the highest risk is in the inventory cycle and production process. Companies find it difficult to control incoming and outgoing inventory. In addition, the production process in manufacturing companies is very influential on the company's sales cycle, if employees make mistakes in the production process, it will slow down the company's sales and affect the company's income.

Over time, the role of internal auditors has also changed according to the times, with the emergence of a paradigm shift where the internal audit is responsible for supervising every operational activity of the company, at this time internal audit is also responsible as a consultant and even a partner for management. So from that, all companies including manufacturing companies implement Risk Based Audit (RBA), which is a risk- based audit. This risk-based audit is an audit that is prioritized and focused on business risks and their processes and even control of risks that can occur. Where the higher the risk of an area, the higher the attention required in that audit area. With a risk-based audit, companies can take action and anticipate preventing errors, and confusion. In carrying out a risk-based audit, cooperation between the organization and internal audit is needed so that the risk can be directed, monitored and managed proactively before the risk occurs and is detrimental and hinders the achievement of organizational or corporate goals.

METHOD

The research method used in this study is qualitative method. Qualitative research is an approach to conducting research that is oriented toward natural phenomena and symptoms. Qualitative research is a research procedure that produces descriptive data that comes from written or spoken words from people or observable behavior (Abdussamad & , S.I.K., 2021). The data in this study are secondary data that can be obtained indirectly through intermediary media obtained by other parties.

RESULTS AND DISCUSSION

Audit

An audit is a systematic and structured, detailed, and thorough procedure for obtaining, evaluating, and assessing the correctness and fairness of financial reports based on established regulations (Z, Angelina, Suprianto, 2022). Where auditing is also a process of collecting and evaluating evidence on information in reporting and assessing the degree of conformity and fairness by established regulations (Prajanto, 2020).

Internal Audit

One of the things that play an important role in preventing corruption and profit manipulation is the efficiency and effectiveness of the internal control unit better known as the internal audit. If you have a deep understanding of business processes and activities and the steps in implementing a company's audit process, it will have a positive impact on the company, especially if you can minimize the risks the company may face. A method that links internal audit with risk management can enable the internal audit process to ensure that

ISSN (e): 2829-7350 | ISSN(p): 2963-9441

the company's risk management has been managed adequately concerning risks that are acceptable to both the auditor and the company (Rozmita Dewi Yuniarti Rozali, 2015; Widodo, 2018).

Risk-Based Audit

Risk-based audit is a way or method used in carrying out audit tasks by internal auditors to ensure that existing risks are properly and effectively controlled and managed by company management. Where the company's management also plays a role in ensuring that internal control and the risk management process have been carried out properly and effectively, so from the management's responsibilities it can be seen that a risk-based audit is very important and needs to be carried out.

According to Widodo (2018) this risk-based audit is an audit that is prioritized and focused on business risks and their processes and even control of risks that can occur. Where the higher the risk of an area, the higher the attention required for that audit area. In addition, companies do not only have to understand the risks at a glance but also need to control and control their management and ensure that the controls made are implemented properly and effectively.

The 3 steps in an International Standard Auditing (ISA) risk-based audit are as follows:

1. Risk Assessment
   At this step, the auditor carries out risk assessment procedures by identifying company risks, namely looking for any events that occur and have the potential for errors to occur, for example, material misstatements in the financial statements.
2. Risk Response
   At this step, the auditor designs and performs subsequent audit procedures that address the risks (of material misstatement) that have been identified and assessed, at the financial statement and assertion levels.
3. Reporting
   At this step, the auditor provides opinions and responses from the evidence that has been obtained and obtained and then makes an appropriate report from the conclusions obtained, to facilitate decision-making for users of financial statements.

Internal Control

According to the COSO (Committee of Sponsoring Organizations), internal control is a process that is influenced by all internal parties of the company, namely the directors, management, and employees of the company which is formed to guarantee that the company can achieve predetermined goals through the effectiveness and efficiency of the production process; presentation of company financial statements that can be accounted for; compliance with applicable laws and regulations. Meanwhile, according to IFAC (International Federation of Accountants), internal control is defined as a system owned by a company in managing risks that are organized, studied, and supervised by the management and employees of the company to gain profits and reject losses to achieve company goals. From these two definitions, it can be concluded that the company's internal control is a system formed by the company to regulate all activities that occur in the company. Those who are responsible for implementing internal control are not only company management and company owners, but all members of the company (Sudarmanto et al., 2021).

The Advantage of Adopting Risk-Based Internal Auditing

Risk-based internal audit planning is an iterative decision and evaluation, although it may take some time to follow the proposed framework the first time, once the structure and template are built, it will be easier to update data in subsequent years and internally. audit management can develop an optimal audit plan in a shorter timeframe according to their preferences and objectives (Wang et al., 2021).

There are several advantages to using a risk-based internal audit compared to using a traditional approach:

1. Implementation of a more adaptive audit

   Using a consistent approach to risk management allows companies to be more adaptive to changing conditions. Adjustment of the audit implementation schedule with risk management also allows for quick changes in audit strategy when there are changes in business objectives in the organization. In manufacturing companies, many business risks may arise, especially in the inventory cycle. If a manufacturing company implements a risk-based internal audit, then when the internal auditor finds a risk that arises, the internal auditor can make changes to his audit strategy according to the existing risks.

2. Audit implementation as a risk management tool

   The risk-based internal audit approach allows internal audit to correctly identify risks and allows management to define appropriate internal controls and determine the effectiveness of these controls. In manufacturing companies, many business processes occur in this field. The author takes an example of a business cycle in a manufacturing company that has a high business risk, namely the inventory cycle. When the internal auditors conduct an audit using a risk-based internal audit approach, the company's internal auditors will be able to correctly identify the risks that occur in the inventory cycle and also enable the company's management to apply internal controls to the risks that occur in the inventory cycle.

3. Audit implementation is more efficient and on target

   A risk-based internal audit approach that refers to the prioritization of risks faced by the organization allows for a more effective, and efficient allocation of resources because it prioritizes risk areas with high priority. When a manufacturing company implements a risk-based internal audit, management and internal auditors prioritize areas with high risk so that business processes, especially production processes from the company, will not be hampered due to the audit process because the internal auditors will plan.

4. Improving the ability to identify and measure risks in various areas ranging from strategic, policy, financial, operational, and other work areas

When a manufacturing company implements a risk-based audit in its audit implementation, the company will get more benefits compared to implementing an audit with traditional implementation. The application of a risk-based audit not only audits the finance department but also conducts audits and measures risks in work areas such as production areas, company operations, related company business processes, and company finances.

CONCLUSION

The activities of a company will continue to change following the changes that occur in the internal environment and the community environment. If there is a change in the activities or business processes of the company, it will pose a risk and can even be an opportunity for the company to increase its profitability. Over time, the role of internal auditors has also changed according to the times, with the emergence of a paradigm shift where the internal audit is responsible for supervising every operational activity of the company, at this time internal audit is also responsible as a consultant and even a partner for management. The role of a risk-based audit within the company is as a way to assure to all parties, starting from the company's internal and external parties.

Risk-based audit is very important because it functions to provide assurance to the Board of Commissioners and the Board of Directors that the internal control and risk management processes have been carried out properly so that management can streamline its responsibilities by limiting these risks. Besides being important, the advantages of implementing risk-based internal audit can provide benefits for companies such as the implementation of a more adaptive audit, audit implementation as a risk management tool, audit implementation is more efficient and on target, and improving the ability to identify and measure risks in various areas ranging from strategic, policy, financial, operational and other work areas. Then, the risk-based audit places the Risk Universe as the center point of developing an audit strategy to address management risk according to its priority level. Throughout the audit cycle, risks will be handled appropriately and reported accurately to provide insight to top-level management so they can make more informed decisions as the next control step.

REFERENCES

Abdussamad, D. H. Z., & , S.I.K., M. S. (2021). Metode Penelitian Kualitatif. In P. Rapanna (Ed.), *E-book* (p. 30). CV. Syakir Media Press.

Ariyanti, L. ., & Setyo Iriani, S. . (2022). Pengaruh Promosi Penjualan Dan Electronic Word Of Mouth Terhadap Pembelian Impulsif Pada Saat Special Event Day (Studi Pada Konsumen Shopee Jawa Timur). Sibatik Journal: Jurnal Ilmiah Bidang Sosial, Ekonomi, Budaya, Teknologi, Dan Pendidikan, 1(5), 491–508. https://doi.org/10.54443/sibatik.v1i5.58

Bintang, N., & Narundana, V. T. (2022). Analisis Strategi Bisnis Kopi Tune Up Untuk Meningkatkan Penjualan. Sibatik Journal: Jurnal Ilmiah Bidang Sosial, Ekonomi, Budaya, Teknologi, dan Pendidikan, 1(10), 1967-1980.

Fitriani, F., Nih Farisni, T. ., Yarmaliza, Y., Reynaldi, F. ., & Zakiyuddin, Z. (2022). The Relationship Between Health Belief Model on Covid-19 Preventive Behavior in The Elderly. International Journal of Social Science, Education, Communication and Economics (SINOMICS JOURNAL), 1(3), 319–326. https://doi.org/10.54443/sj.v1i3.31

Hassan, N. A., Mohamad Zailani, S. H., & Hasan, H. A. (2020). Integrated internal audit in management system: A comparative study of manufacturing firms in Malaysia. *TQM Journal*, *32*(1), 110–126. https://doi.org/10.1108/TQM-03-2019-0077

Prajanto, A. (2020). Project Based Learning Sebagai Model Pembelajaran Risk Based Audit Dengan Media Aplikasi Audit Tool Linked Archive System (Atlas). *JAKA (Jurnal Akuntansi, Keuangan, Dan Auditing)*, *1*(1), 19–29. https://doi.org/10.56696/jaka.v1i1.3860

Rozmita Dewi Yuniarti Rozali, J. M. (2015). Pengaruh Pelaksanaan Risk Based Internal Auditing Terhadap Pencegahan Fraud. *Jurnal Riset Akuntansi Dan Keuangan Program Studi Akuntansi Fakultas Pendidikan Ekonomi Dan Bisnis Universitas Pendidikan Indonesia*.

Sudarmanto, E., Krisnawati, A., Purba, S., Revida, E., Kadar, M. G., Yasmi, Y., Harizahayu, H., Yudha, A. Z., Teri, T., Aulia, T. Z., Rahmawati, I., Fajrillah, F., Simanjuntak, M., Simarmata, J., Widijanto, H., Purba, B., Hasyadi, K., Samulano, A., & Yendrianof, D. (2021). Sistem Pengendalian Internal. In R. Watrianthos (Ed.), *E-book* (pp. 6–8). Yayasan Kita Menulis.

Wang, X., Zhao, T., & Chang, C. Ter. (2021). An integrated FAHP-MCGP approach to project selection and resource allocation in risk-based internal audit planning: A case study. *Computers and Industrial Engineering*, *152*(May 2020), 107012. https://doi.org/10.1016/j.cie.2020.107012

Widodo, M. (2018). Audit Berbasis Risiko pada PT. SP. *Jurnal Ekonomi Dan Kewirausahaan Kreatif*, *3*(2), 63–74. http://journal.stienugresik.ac.id/index.php/jek/article/view/12

Z, Z., Angelina, F. N., & Suprianto, Y. S. (2022). Analisa Laporan Audit (Studi Kasus Bank Bumn). *Edunomika*, *06*(02), 1–4.