

# PROCEDURES FOR IMPLEMENTING INTERNAL AUDIT IN THE MANAGEMENT SYSTEM DEPARTMENT OF PT PUPUK ISKANDAR MUDA ACEH UTARA

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## Abstract

This practical work report contains internal audit implementation procedures at the Management System Department of PT. Pupuk Iskandar Muda. Meanwhile, the procedure for carrying out internal audits conducted by PT Pupuk Iskandar Muda consists of several starting from 1) Coordinating with the VP of the relevant work unit, 2) Making official audit team memos, 3) Appointing the head of the internal auditor team, 4) Making audit plans and schedules, 5) Opening of the audit, 6) Execution of the audit, 7) Closing of the audit, 8) Repair of discrepancies, 9) Monitoring of repairs, 10) Closing of the LKS, 11) Input of management review. There are several obstacles in the procedure for carrying out internal audits such as, Lack of Response from Internal Audit Management, just a waste of time, internal auditors are responsible for their main work, audit implementation is not effective.

**Keywords:** *Internal Audit Implementation Procedures*

## 1. INTRODUCTION

Along with the development of this company, more and more problems must be faced by a company in an increasingly competitive and complex business competition. The more people who work in a company, the more complex the company is, and the higher the difficulty in carrying out supervision and inspection to ensure that each unit or division is working according to their respective functions. To oversee all that has been carried out by the company, a special unit of work is needed to carry out the control function, namely internal audit. Internal audit helps an organization to achieve its goals, through a systematic and regular approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of internal audit will be increasingly reliable in developing and maintaining the effectiveness of internal control systems, risk management and good corporate governance in order to support the realization of a healthy company. Management requires internal control to assist the implementation of their duties in controlling company activities. Internal control is a process aimed at providing assurance to management that goals and objectives are important to the company.

The objectives to be achieved by this internal control consist of reliability of financial reports, effectiveness and efficiency of operations as well as compliance with applicable laws and regulations. This internal control is needed in all areas within the company, especially internal control over company assets, the most vulnerable of company assets is cash because it is always ready to use and can be easily converted into other assets. There is a necessity to be managed properly so that it becomes productive. In order to obtain information about cash quickly, completely and correctly, it is necessary to apply adequate internal control over cash. In an effort to support the effectiveness of an internal control, wrong One important element is the existence of a part within the company whose job is to assess the effectiveness of existing internal controls and to assess the quality of activities that have been carried out by the company. This section is often called the internal audit section, this section functions as an independent appraiser within the company to examine and evaluate activities that occur within the company.

One of the state-owned companies in Indonesia that has carried out proper internal audit procedures, namely PT Pupuk Iskandar Muda, which has conducted an audit based on ISO 19011: 2018 Management Audit. At PT Pupuk Iskandar Muda internal audit is a management tool to support the effectiveness of the company's internal control. So that the role of internal audit is needed to provide analysis, assessment, recommendations, suggestions, guidance and information related to the activities examined. In on the other hand, internally at PT Pupuk Iskandar Muda, employees who work together to run the company together with superiors are aware of a position whose job is to evaluate each policy and procedure, how do employees view this position and what are the functions of the auditor's work in the company.

## **2. RESEARCH METHODS**

### **2.1 Definition of Structure**

According to Hoed (2011) Structure is a fundamental and sometimes intangible description, which includes recognition, observation, nature, and stability of patterns and relationships between the many smallest units in them. Structure is the formal organizational framework within which work tasks are divided, grouped, and coordinated. (Robbins 2014). Based on some of the opinions of experts regarding the structure above, it can be concluded that a structure is an arrangement of buildings arranged in a certain pattern, pattern provisions, arrangement of elements or parts of an intangible object, which includes recognition, observation, basic properties, and stability of the patterns and the relationship between the many smallest units in it

### **2.2 Definition of Organization**

Company is a modern organization that has certain activities to achieve goals. In the economic sector, increasingly advanced technology affects the development of every company, both private companies and government companies. Modern organization is a group of people who have the same goal and is a system that changes along with changes in the environment, both internally and externally (Robbins 2014). In an agency must have a clear organizational structure in carrying out its business activities, so that the composition of work and the person in charge of an organization can be clearly identified in carrying out their duties in a more directed manner. Organization according to Silalahi (2011), is an order of social relations, where each individual who collaborates carries out the process of interaction with other individuals.

### **2.3 Definition of Organizational Structure**

The organizational structure has a good role in an organization. With the existence of an organizational structure, it makes it easier for leaders to carry out part of the tasks for their subordinates. Likewise, it will be easier for subordinates to provide accountability to their superiors. The organizational structure consists of the word "Structure and Organization". According to Hoed (2011) Structure is a building consisting of elements that are related to each other in a single unit. While the Organization is a group of people (two or more) who work together to achieve a goal. The preparation of the organizational structure is the first step in starting the implementation of the company's activities in other words the preparation of the organizational structure is a planned step in a company to carry out the functions of planning, organizing, directing and controlling. The organizational structure describes how work tasks will be formally divided, grouped and coordinated.

### 3. RESULTS AND DISCUSSION

#### 3.1 Internal Audit Implementation Procedures in the Management System Department of PT Pupuk Iskandar Muda

Internal audit provides managers with the information they need to carry out their responsibilities effectively. The acting manager provides systems and procedures for evaluation by internal audit. Internal audit also acts as an independent appraiser that examines the company's operations by measuring and evaluating the adequacy of controls as well as the effectiveness and efficiency of the company's performance. The results of the internal audit evaluation are in the form of audit reports that are routinely given to managers in the form of suggestions regarding transaction systems, systems and procedures and physical examinations. As a large company, the implementation of internal audits in the Management System Department of the company's PT Pupuk Iskandar Muda needs to be carried out regularly, both before a problem is felt and after a problem has already occurred. Internal audits that are carried out regularly can prevent a problem from occurring, management will be able to quickly find out and address problems and their causes before the problem becomes sustainable, or precisely identify the actual problem, the source of the cause and take effective steps to get over it. The effective role of internal audit in the Management System Department of PT Pupuk Iskandar Muda can improve company performance.

##### 3.1.1 Description of the Internal Audit Process Diagram

Procedures for carrying out audits in the Management System Department of PT Pupuk Iskandar Muda provide analysis, assessment, recommendations, consultation and information regarding the activities being audited/evaluated, which are carried out in accordance with auditing standards, and the internal auditor's code of ethics. This responsibility also includes coordinating the implementation of audits carried out by other auditors, so that the company's objectives and the audit objectives of all parties are achieved, so that the procedures for carrying out audits in the Management System Department of PT Pupuk Iskandar Muda.

Description:

1. Management representatives with the SMPIM Secretariat coordinate with work units to determine representatives from work units as members of the Internal Audit Team.
2. The Management Representative together with the SMPIM Secretariat prepared an Audit Team Service Memo which was submitted to the Remuneration and Industrial Relations Department to be ratified by the Directors.
3. The Management Representative appoints the Head of the Internal Auditor Team.
4. The Internal Audit Team prepares audit plans and schedules and distributes them to the Work Units to be audited.
5. The Internal Audit Team through the SMPIM Secretariat informs the work unit about the audit plan and schedule and requests the names of the auditees from the Work Unit.
6. The Management Representative opens, gives directions to the Auditor regarding audit procedures at the opening of the Internal Audit.
7. The Internal Audit Team presented the opening meeting participants as follows:
  - a) Internal Audit Plan and Schedule
  - b) Introducing the Internal Audit Team Members
  - c) Ensure all planned audit activities can be carried out.
  - d) An audit method for managing risks to the organization that may arise from the presence of an audit team member.
8. The Internal Audit Team carries out internal audits according to a predetermined plan and schedule.
9. If discrepancies are found, the Auditor fills in the findings on the Discrepancy Sheet (LKS) or observations on the Observation Results Sheet (LHO) agreed upon by the Auditor and Work Unit Auditee.
  - a) If the discrepancy has been followed up, the result of the follow-up is declared closed.

- b) The non-compliance sheet is declared closed if the auditor, auditee, head of the related work unit and management representative have signed the non-conformity sheet (LKS).
  - c) Discrepancies that can be followed up but require a certain period of time, will be monitored according to the agreed date between the Auditor and the auditee.
  - d) If the discrepancy cannot be followed up, then the decision on the follow-up will be input into the Management Review Meeting.
10. SMPIM Secretariat / Auditor monitors corrective actions that have not been completed by the Auditee.
11. SMPIM Management Representative / Secretariat makes a notification letter regarding corrective actions that are not completed by the Auditee to the Head of Work Unit.
12. The audit is considered complete based on the completion of corrective actions documented in the non-conformity report and has been verified by the Auditor and approved by the Management Representative.

### 3.1.2 General Provisions Description of Procedures

1. The audit carried out must adhere to 7 (seven) audit principles consisting of:
  - a) Foundation of Professionalism (Integrity).
  - b) Obligation to report honestly and accurately (fair achievements).
  - c) Exercising due diligence and judgment in auditing (Being professional) .
  - d) Information security (Confidentiality).
  - e) The basis for the impartiality of the audit and the objectivity of audit conclusions (Independence).
  - f) Rational methods for reaching reliable and repeatable audit conclusions in a systematic audit process (Evidence-based approach).
  - g) The audit approach considers risks and opportunities (Risk-based approach).
2. Internal audit is conducted at least once a year.
3. Audit methods
4. On-site activities are carried out at the auditee's location. The remote activity is performed somewhere other than the location being audited, regardless of distance.
5. Interactive audit activities involve interaction between auditee personnel and the audit team. Non-interactive audit activities do not involve humans with individuals who represent the auditee but involve interaction with equipment, facilities and documentation.
6. Auditor/Lead Auditor must have the ability and be certified.
7. Auditor/Lead Auditor cannot audit his work unit.
8. During the audit, the Auditor is accompanied by the work unit Auditee.
9. Responsibilities and duties of the SMPIM Management Representative / Secretariat for AuditInternals The Iskandar Muda Fertilizer Management System is:
  - a) Responsible in general for the auditInternals.
  - b) Make a Service Memo of the Internal Audit Team by seeking approval from management representatives before being approved by the Board of Directors.
  - c) Responsible for the use of resources on the AuditInternals.
  - d) Periodically evaluate the Auditor.
  - e) Request an audit outside the predetermined schedule if deemed necessary.
10. Internal Audit Team Responsibilities:
  - 1) Head of the Internal Auditor Team
  - 2) Conduct coordination meetings with all auditors before the audit is carried out.
    - a) Responsible for conducting audits in the field and coordinating Auditor activities in general.

- b) Reviewing discrepancies found in the work unit.
- c) Recap all non-conformance reports
- d) Making audit implementation reports at the closing ceremony of the Internal Audit and written reports to Management Representatives and Work Units.
- e) Monitoring corrective steps for non-conformances in the work unit.
- 3) Auditors Responsibilities:
  - a) Conducting audits to work units according to the audit plan and schedule.
  - b) The group leader makes a report to the Audit Team Leader on discrepancies found in the work unit.
  - c) The Group Leader makes a resume report on the Inspection Results Sheet (LHP) to the Audit Team Leader.
  - d) If there are suggestions for improvement, the Auditor makes an Observation Report (LHO) for suggestions for improvements deemed necessary.
  - e) Request an audit outside the predetermined schedule if deemed necessary.
  - f) Responsible for the follow-up of findings of non-conformities until the findings are closed.

### **3.2 Constraints in the Implementation of Internal Audit in the Management System Department of PT Pupuk Iskandar Muda**

In the implementation of internal audit, of course, it does not always run smoothly, but there are obstacles that occur, both from the auditor and the auditee. In the Management System Department of PT Pupuk Iskandar Muda there are also obstacles in the implementation of internal audits, namely:

1. The delay in making the memo by the audit team service made the auditor team's approval process slow.
2. Preparation of audit plans and schedules that require a long time.
3. Process planning and introduction of methods to ensure all planned activities are non-conformances.
4. Delay in corrective action by the auditee to the work unit.
5. The appointed internal auditor does not have competence as an auditor and does not even know how to manage an internal audit.
6. Internal auditors do not have power so that auditees often do not follow up on audit findings
7. Internal auditors feel that there has never been a reward from the company
8. Internal auditors have responsibility for their main work, as a result, it is difficult for the auditor to adhere to the audit schedule, which causes the audit to be delayed from schedule.
9. The lack of management support related to internal audit activities has left the Auditees confused.

## **4. CONCLUSION**

In accordance with the discussion that has been described by the author, the authors can draw the following conclusions:

1. The internal audit procedures at PT. Pupuk Iskandar Muda, namely following all references to the manufacturing process starting from coordinating with the VP of the relevant work unit, making official audit team memos, appointing the internal auditor team leader, making audit plans and schedules, opening audits, conducting audits, then closing audits, correcting discrepancies, monitoring improvements, closing the LKS, and finally including management review.

2. As for the constraints faced at PT. Pupuk Iskandar Muda namely lack of response from Management (superiors) the main priority remains production must go on as an Internal audit, just a waste of time, difficulty scheduling audits and audits are not effective because they still have individual tasks, no additional rewards as an auditor, auditees are lacking respond well when audited by the internal auditor, some people even feel that the audit interferes with the main job, the internal audit findings are usually not followed up properly, because there are no sanctions if not followed up. Some of the examples are the response of management who do not like it when there are findings that come from the part they lead,

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