EFFECTIVITY OF INTERNAL AUDIT ON MANAGEMENT COMPLIANCE

(A Case Study in "AJ Corporation")

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Abstract

Growing business nowadays needs to own well established internal control system so that they will enhance their performance to comply within the standard operational procedure. Emphasis on the asset security and the efficiency of the management compliance Internal Audit become one of the most exciting role to pursue in nowadays business circumstances. AJ Corporation are together of the mercantilism corporations whose viable marketed nationally in Indonesia. This study has the aim to grasp the implementation of the internal control management of financial cycle audit result divided into three parts of audit Petty Cash cycle Audit Result, Cash Cycle Audit Result and Physical Stock Cycle Audit Result in AJ corporation included the recommendations on weaknesses found within the control of management. Methodology the tactic the strategy employed in this analysis is qualitative descriptive method with case study approach. Data derived in this analysis obtained through observation and interview based on the Audit result that had been done for 12 months period. Fortunately, the result of the evaluation in AJ Corporation was done quite well with some minor problem indicated. However, The further Audit method and analysis in future are needed to cover the wider area of the business in order to enhance the management compliance of the whole business entity so the business internal control system could be more effective and internal audit program could also be more efficient.

Keywords: Internal Control System, Internal Audit, Management Compliance
INTRODUCTION

The role of the Internal Audit was changing over the years. From the Management operational point of view Internal Audit could thoroughly evaluate the management implementation of business plan. A broader range of the Internal Audit could resulting in the availability of high quantitative and also qualitative information into the Business Management and one of the key importance of the evaluation are the management compliance/ Governance (Rickard P, 1994). Reason behind the need of the effective corporate governance are driven by the unfortunate scandals at the beginning of the 21 century. Enron, world Com and the others sparked the serious doubts about the effectiveness of corporate governance. Corporate governance mechanism that was presented by the company seems was flawed. Moreover, in response in this matter July 2002 the public company accounting reform and investor protection act was passed (Tusek B & Ivana B, 2016).

Incidents including the collapse of Enron and WorldCom, caused traders, in an try and lessen the threat of losing finances, to be greater wary of which markets they invested in. Scandals which include these are due to a weak internal control system. It is argued that having a strong inner control machine is one of the good approaches to discourage fraud. Boards of administrators have duty over internal control and must specific speak to stakeholders which includes traders any breakdowns in internal control that could impact traders’. The board appoints the audit committee to oversee, among different matters, inner financial manage. For audit committees to execute their duty successfully, they have to have a good operating dating with the internal auditors and for that reason rely on their paintings (Houdini F & Christo A 2013). Line control must put in force controls and it is these controls that must be examined by way of the inner audit pastime. As a result of the elevated responsibilities encouraged with the aid of the King III report and different pronouncements on company governance directed at businesses, it's miles important that the controls implemented via management assist in making sure that the objectives of ‘dependable financial reporting’, ‘performance and effectiveness of operations’, ‘compliance with legal guidelines and guidelines’ and ‘safeguarding of assets’ are met (Houdini F & Christo A 2013). The definition of internal auditing
states that internal auditors play a key position in an agency’s chance management, inner control and governance methods, which are key features of forums of directors; hence inner auditors are in the great role to assist the audit committee and the board within the execution in their corporate governance duty, performing because the “eyes and ears” of the audit committee (Houdini F & Christo A 2013).

Sarbanes-Oxley act in 2002 followed by the CLERP 9 Act in 2004 in Australia was tremendous memorial corner stone to reminiscing the failure of accounting standard in America through The scandalous Enron Corporation in 2001 (Leung et al 2011). The rise of accounting act after Enron incident created a needs for the stricter policy and regulation through the act of the professionalism Accountant.

Leung et al (2011) stated by having an independent Internal Auditor that could assessed objective assurance and consulting activity is the primary key to maintained the professionalism within the management of the corporation. To designed to add value and improve a management operations are one of the main role of the independent Internal Auditor. The changing of the basic role of the Auditors from compliance work was moving forward into many internal audit functions refocused on the financial controls and management control consulting style of auditing. In nowadays Internal Audit activity must evaluate and contribute to the improvement in management compliance/Governance, control processes and risk management. It is believed by Tusek B & Ivana B (2016) that the assurance services that been provided by the internal auditor becoming the "Key cornerstone in the underlying the effective management". It seems not a possible to be able to understanding the importance of the Internal Audit without analysis the broader context of what Internal Audit brought into the nowadays corporation management compliance context. In addition, Leung et all (2011) opine the importance of the corporate governance objectively evaluated positively with its relation with the management performance and it compliance.

Khaled, A & Mustafa, M (2016) stated the relevancy of the issue still remains a continuously relevant. Firstly, the important of the corporate governance and compliance field are always needed for the stake holders of all of the company.
Especially in the developing country the share market price movement are relatively sensitive to the assurance report of the auditor.

In the context of providing a broad and definite analysis about internal auditor and at what capacity it could lead to improvement for the management compliance also what kind of financial assurance it could brings into the company this paper was created to gave the broader sense of understanding. Focusing into one of the case in the Personal Office of one of the Tax Consultant in Malang named "KKP Kevin Yustian". One of the Client of this Local Business office that been regularly audited since the beginning of 2018 until march of 2019. The Audited that been done in this particular client AJ Corporation are consisted of petty cash, general cash and also physical stock audit. AJ Corporation was established in 2008 and they are the main distributor of Dulux Catylac Paint for the whole Malang Coverage Area. This Study also intended to examining the direct relationship between the management effectiveness and internal audit effectiveness based on the real case scenario.

LITERATURE REVIEW

Internal Audit

Syafdinal et al said a Important role that internal audit has plays a big impact into the achieving company target and goals. The wider and the bigger the coverage of the company in the business size and target also decided how big the control should be carried by the company management. Internal Audit presence and program reflected how far the company moving towards an idealist good governance corporate. The main objective of audit to be able to control the whole business coverage and also to create an effective audit program considering cost and benefit must be fulfill by a good internal auditor(Bolt et al 2019). While the main focus of Internal Audit are to maintain the control within the firm meanwhile an internal audit also need to be objective with the independent position in the company. Additionally, Need to be able to created a fair program that synchronize with the work ethic within the management that uphold the ethical standards of openness, responsibility, fairness and trustworthiness. Moreover, the ability to judging the violation committed by the
management also need to be assess as a good internal auditor based on the company policy and ethical work circumstance. Furthermore, A good effort of a management also needed in order to guiding a business towards a good management compliance.

**Internal Audit and Management Compliance**

Understanding the importance of Internal audit was not viable without know how the wider context within which it operates the idea of company governance. Therefore, the evaluation of the want for inner audit should be preceded by evaluation of primary suggestions of the company governance concept. According to Cadbury Committee, company governance can be defined as “the gadget by means of which businesses are directed and controlled” (Tusek B & Ivana B 2016). Boards of administrators are answerable for the governance in their agencies The obligations of the board encompass putting the organization’s strategic goals, imparting the management to position them into effect, supervising the control of the business and reporting to shareholders on their stewardship” (Tusek B & Ivana B 2016). Tusek B & Ivana B see company governance as a system by means of which "providers of finance to corporation assure themselves of getting a return on their funding." (Tusek B & Ivana B 2016). outline corporate governance as "relationship amongst various contributors in determining the course and overall performance of companies." According to Tusek B & Ivana B corporate governance is a system of guidelines, legal guidelines and mechanisms that control the tactics and operations of the company. According to the Organisation for Economic Cooperation and Development (OECD) Principles of Corporate Governance (2004), company governance " involves a hard and fast of relationships between a corporation’s control, its board, its shareholders and different stakeholders.

Within the intricate of daily basis operation in the company it need to understood that there was a good amount of risks that the company faces in everyday operation. Thus this created a good opportunity role for internal audit to filled the gap in between agency problem that arose from the core of stakeholder mind to the
management of the corporation. Tusek B & Ivana B (2016) paper considered the contribution of internal audit could created an effective governance in various way:

- Assisting in the identification process of risk factor into the management
- Assisting Management and stakeholder to prioritize the control and risk management
- Adding an assurance value into the stakeholder peace of mind
- Acted as a consultant in regards with various technical function under the management process itself.

As the broader image in the context of providing value added to the company itself many institute considering created an accounting standard that revolves around the internal audit proven that internal audit could provide a good quality governance throughout the whole stakeholder in various corporation (Tusek B & Ivana B 2016). Khairul et al said in his theory paper a significant role consanguinity in between operational efficiency from the management process and Internal Audit activity had been proven linked together. Ernst and Young found that 62% of Internal Auditors in Australia and new zealand that had been surveyed agreed that Internal Auditors factored in quality assurance and management compliance of an organization. Same supported argument could traced in Beasley opinion cited in Khairul et al said that internal audit are found responsible for successful implemented a risk management into the structure and this would lead the safer environment for the whole stakeholder. A similar studies had been done in Malaysia Local Goverment and had shown a tremendously progress and had concluded in the implementation of risk based auditing in management government linked companies (Khairul et al 2017).

**Fraud Management**

Fraud Management definition based on the Kabuye et al (2017) are the process of undertaking a regular activity of fraud assessment to identified and to evaluated the risk of fraud that faced by the organization stakeholder. Internal Audit as part of the governance structure had various function within business operation structure. Internal Audit as one of the key to assess the effectiveness of an
organization internal control and fraud management would heavily relied on the services provided by the Internal audit (Kabuye et al 2017). Fraud denotes a false representation of a cloth truth made by way of one celebration to any other celebration with the motive to mislead and induce the opposite birthday party to justified rely on the fact to his or her unmerited. According to not unusual regulation, a fraudulent act should meet the following 5 situations:

1. False illustration. There should be a false declaration or a nondisclosure.

2. Material fact. A truth have to be a tremendous factor in inducing someone to behave.

3. Intent. There need to be the intent to deceive or the knowledge that one’s announcement is false.

4. Justifiable reliance. The misrepresentation need to were a full-size aspect on which the injured birthday party relied.

5. Injury or loss. The deception ought to have brought about injury or loss to the sufferer of the fraud. Fraud within the business environment has a extra specialised that means.

It is an intentional deception, misappropriation of a employer’s assets, or manipulation of its economic records to the advantage of the perpetrator. In accounting literature, fraud is also commonly called white-collar crime, defalcation, embezzlement, and irregularities. Auditors stumble upon fraud at two levels: employee fraud and control fraud. Because every shape of fraud has distinctive implications for auditors, we want to differentiate among the two (Hall, J 2009).

A crucial role depicted in the agency theory was applied in logic on the contribution of Internal Audit. Fraud Management method including Document Validating suggested by Khaled, A & Mustafa, M (2016). International Standards for Professional Practice of Internal Auditing (ISPIA) adopts these audit characteristic as attributes to manage a fraud in the general practices of corporation. Khaled, A & Mustafa, M (2016) opine a strong influence of justice established by the good governance that supported with a good risk management through the Fraud Management process method. Conventionally, the important thing internal audit
activities are to assess the effectiveness of an employer’s inner controls and reporting to control wherein and the way internal controls can be strengthened. Imply that internal audit plays a vital role within the prevention and detection of fraud within an organization via ensuring that, the audit is well planned and that a proper internal control audit Financial services program exists. Correspondingly, Kabuye et al (2017) display that inner auditors can without problems come across factors that may lead to fraud; for that reason, once they come upon such factors, internal auditors are probably to layout tests to investigate fraud, which, in turn, can increase the probability of detection. Besides auditing monetary transactions, inner audit activities might also cover non-monetary objects together with organisational unit approaches and compliance with laws and rules which help in managing fraud Kabuye et al (2017). Kabuye et al implies that internal auditors who serve in a self-evaluation position and or a due-diligence position are sensitive to variations in control overall performance incentives; this makes inner auditors beautify fraud risk checks activities thru converting their audit plans as a consequence. However, Kabuye et al stated that, the various Egyptian listed firms inner audit function is still targeted on economic audit and internal controls compliance and has not but moved closer to the extended new function defined in Institute of Internal Auditor’s new definition. Therefore, this compels internal audit to transport firmly into the corporate governance space to audit corporate governance extra efficiently and to offer extra dependable assurance to forums about the effectiveness of risk control and controls to improve the internal auditor’s role in managing fraud.

RESEARCH METHOD

Type of Research

This Research adopted the Qualitative Descriptive Observation design. Data was collected each of the type compiled with petty cash, cash and physical stock data false entry by the management and each of these type of data was graphed for each of type to test the accuracy depicted by the management compliance. Descriptive analysis is conducted to search out out and may describe the characteristics of the
variables studied in a very scenario. the aim of descriptive analysis is to produce an summary of the relevant aspects from the purpose of read of people, organizations, business orientations, or others (Sekaran & Bougie 2016). Moreover, consistent with, Qualitative descriptive analysis appearance for answers to the question of population agency, what, when, wherever and the way a couple of development or population. The scientist chooses a qualitative descriptive methodology on the grounds that this analysis is sometimes supported a previous understanding of the causes of the matter formulation within the study and also the scientist desires to explain the findings throughout the analysis with an outline that may be understood by the reader.

Object of Study

The Sample comprises of input data of each of the type starting from Petty Cash Input data, Cash and Physical Stock Data derived from the business activity of AJ Corporation collected start from 1 March 2018 until 1 March 2019. Data collected therefore Audited by the KKP Kevin Yustian As the Private Consultant of AJ Corporation and based on the audit result therefore decided whether the data derived from the input business process was valid. In addition, The data derived from an Internal audit was assessed by the professional judgment as the result of the validity of the document and then confirmed by the management staff of AJ Corporation based on the AJ Corporation Management standard operational procedure and system.

Data Collection Method

Referring to obtained original information collected in the AJ Corporation as researcher. It is the data had not been published and derived from an original research study and collected at the source. The primary data collected from interview and observation in KKP Kevin Yustian as an Auditor and AJ Corporation. The writer are also working as the main consultant in KKP Kevin Yustian As the owner and Also as the Auditor the writer has full control of the data collected from the AJ Corporation and the data was compiled of:
**Interview:**

Interview is an activity to gather information and data by asking questions to relevant parties. In this study, interviews were conducted with employees of the accounting division, operational storage division and sales division to find out the procedures contained in the income Procedure. Interviews with the accounting division are carried out in a structured manner through questions that have been prepared whereas the operational and sales divisions are not structured.

**Observation of Audit result:**

Observation is an activity to obtain data by directly observing the activities and conditions of the object. Observations are made in a directed, systematic and selective manner by seeing and listening to each individual's interaction or how phenomena occur. Observation can be done in two ways, first by being a participant observer or as a non-participant observer. If a non-participant observer, the researcher collects the necessary data without becoming an integral part of the organizational system while the participant observer enters the organization or research settings by becoming part of the work team. In this study, researchers as participant observers by becoming part of the Audit division. The thing observed in this research is the process of receiving orders, selling on credit, billing to customers, operational activities, and overall internal control of the company.

**Data Analysis**

**Petty Cash**

For Every once a month Petty Cash was counted by the Auditor. Data then Inputted by the Management of AJ Corporation then validated with vouching method by an Internal Auditor. Based on the Audited method, trouble or false entry data then confirmed into the management for further confirmation. Report was made after data had been confirmed and validated.

**Cash**

Similar procedure was happened Every once a month for a cash. In AJ Corporation cash was divided into 2 account a petty cash was created to fulfill daily
basis usage of cash for daily basis operation. Furthermore, Cash was created to fulfill any cash in or out into the account. First, this cash account counted by the Auditor. After counted data was Inputted by the Management of AJ Corporation then validated with vouching method by an Auditor. Based on the Audited method, trouble or false entry data then confirmed into the management for further confirmation and question. Last but not least, Report was made after data had been confirmed and validated.

**Physical Stock Storage**

Every once in a 3 months physical stock was counted by the team of Auditor consist of combination Auditor staff and AJ Corporation staff. Data afterward Inputted by the Management of AJ Corporation then validated with tracing method by an Auditor. A Trouble or false entry data or discrepancies then confirmed into the management for further investigation. The decision to adjust the stock differential decided after Report was made after data had been confirmed and validated.

**FINDINGS AND DISCUSSION**

**General Operation**

Acceptance of sales orders at AJ corporation is finished in 2 ways that specifically by phone line or through a promoting sales person.

1. Sales can settle for orders from customers via phone or Sales person. The client can mention the order consisting of the merchandise name, color, quantity, sort of product, and alternative data for the asking.

2. Orders are consummated by the Operations Department when a sales invoice is created by the sales force.

3. The merchandise is delivered to the client through variety of strategies, that are delivered directly by the Delivery Section to the client's place or taken at the AJ corporation's workplace by the customer.

4. Payments AR created in step with the in agreement day of the month, is through money payments, transfers to company accounts, or checks
Operational Petty Cash Procedure

Petty Cash or KAS KECIL account in AJ Corporation was created as a small type fund intended. That was available to pay small expenses whenever necessary in Daily Basis Operation such as office supplies, food etc. Under the KAS KECIL account name or in English word PETTY CASH this account was named. The flow chart for the petty cash payment is something revealed by this chart:

Petty Cash Inflow (Petty Cash Deposit)

In Petty Cash account when the cash was running out low one of the accountant job are to fill this petty cash box. To be able to fill this petty cash box there is a standard procedure involving a Document form that was filled in by the accountant of AJ Corporation called Cash Receipt Doc. Then this form then signed by the accountant and branch manager to validate the transaction.

Petty Cash Outflow

Payment happened when there was a transaction Proof of payment was collected and the data entry was created. The proof of payment then collected into a file document to be later validate by an auditor.

In summary, In the Procedure of the Petty cash as an Internal Audit the document that was needed to be checked by an Auditor was:
Petty Cash Audit Procedure

START

PETTY CASH COUNTING

PETTY CASH VOUCHING

PETTY CASH RECEIPT DOC  PETTY CASH PAYMENT DOC

AUDIT RESULT

END
In this Chart the Audit program for Petty Cash Account start at the petty cash counting. Then Petty cash vouching was done to validate cash receipt document and cash payment document. Moreover, Audit result was derived from the process of these vouching process that later would confirmed by the AJ Corporation management.

The simple nature of petty cash account that easy to figured and to analyze created a simple need to be able to control and to validate the transaction that was happened in AJ Corporation. As an Internal Audit there are only to cover and to control the document of inflow and outflow and this would sufficient to be able to cover the whole petty cash transaction.

**Operational Cash Procedure**

The Big difference in between Petty Cash and Cash was at the core purpose of these account while Petty Cash focusing at the daily basis transaction such as fuel reimbursement, food, utilities. This Cash Account or KAS BESAR was focusing at the Account receive-able that came from the collection plan that had been paid by the customer whether it through bank transaction or cash basis. Other than account receive-able Cash Account also was used to pay a full time employees through a bank transfer in every month.

Firstly, Before collection paid by the customer the collection plan was made into a document called collection plan document. This document then was followed as an instruction for the marketing and sales team division to collect the payment that was already in due. After Marketing and sales collected a payment from the customer the fund could be paid in cash or cheque the proof of payment then proceeding into the data entry by the AJ Corporation Cashier later then the documentation was made for each of these receipt processed. Cash receipt or TBP(Tanda Bukti Pembayaran) was made and signed by the customer when the marketing and sales division received these payment. Furthermore, for cheque and transfer other than TBP other proof of payment was required to be included such as bank clearing document or proof to bank transaction was included into the TBP.
Cash and Bank Inflow
Cash as an account that most of time used to receive a money from the collection. The Receipt or TBP(Tanda Bukti Pembayaran) then was input into the system and the document was collected into a one place that later would be validated by the auditor.

Cash and Bank Outflow
Payment that was used this cash account in most of time was only to pay wages of full time employees via bank transfer. Whenever Accountant of AJ Corporation making a transaction this transaction then the proof of documentation would be documented and later would be validated by the internal auditor.
Cash Audit Procedure

START

CASH COUNTING

CASH VOUCHING

CASH AND BANK RECEIPT DOC

CASH AND BANK PAYMENT

AUDIT RESULT

END
In Auditing procedure in Cash Account audit firstly, the cash count was happened and then the data was vouching into the system to be able to exactly know whether the data and the number match each other. When there was a data that was not match with each other data and system this would be a irregular data entry that later would need a further confirmation with AJ Corporation management and after the result confirmed by AJ Corporation staff and management then the audit result document was created.

**Operational Physical Stock storage**

In AJ Corporation Inventory Management Warehouse the transaction was based on the receipt that has a name good receipt based on this receipt the warehouse the adding or take out their stock based on the data entries.

**Stock Inflow**

In AJ Corporation warehouse stock inflow was happened in a three way a purchase order, rejection or sales return. Division of warehouse in AJ Corporation in daily basis whenever they were receiving goods from the container carriage expedition (purchase order) . A Good receipt was issued by the accountant therefore a good receipt that was issued was delivered into the warehouse Division office and then the warehouse validating the good receipt and the container stock list and if everything right adding a distribution stock as an entry into a system. A similar procedure was also happened for rejection and sales return.

**Stock Outflow**

Stock outflow for AJ Corporation was also based on the document called Good Issue document. This Good Issue document delivered whenever there was a sales order, purchase return and waste. Sales order was happened when there is a sale happened while purchase return happened when there is a Miss match item from the item that AJ Corporation purchase. Last but not least, Waste in AJ Corporation waste was defined as a product or item that was become an obsolete. Most of time Principal or PT.ICI Indonesia as a Dulux Manufacturer has a lenient replace policy in regarding
with obsolete item when there was an obsolete item from the main distributor. In time when a document Good Issue was created then warehouse division of AJ Corporation was validating the document and input it into the system that would resulting in a Lessening the distributor stock.

**Physical Stock Audit Procedure**
In Physical stock taking in AJ Corporation the audit start with the manual labor of stock taking for all of the item. After the data were derived from the stock taking the data then input and proceeding into the tracing process by reconcile it with the inventory data that AJ Corporation system has. When the discrepancies was happening the confirmation and re-finding the inventory becomes another hard work of the day. This method costing a lot of time and energy Because it only can strictly happened at the same day in order to make the data validated properly.

**Discussion Case Findings Analysis**

This study and analysis was designated to appraises, measures and criticizes whether the practice of the current Internal Audit program was effective and determine the size of impact an internal audit presence into the AJ Corporation management compliance. Additionally, from this analysis evaluation in relation with the vulnerability of the audit method could also be derived throughout the table and data provided. Likewise, the analysis also could be use as the base of clarification from the AJ Corporation management of the irregularities that was happened throughout March 2018 until March 2019.

**Petty Cash Procedure Audit Case Findings Analysis**

**Risk Exposure and General Control**

Method of funding that was used in this corporation system adapted from the fluctuating method that could lead the control of the fund management become slightly underwhelm in theory with the changing in the fund in each of the month. Petty Cash counting were done in order to exactly measure the fund accuracy in order to sync the cash in between the data and the real money counting in each month to make sure the amount of money are accurate.
These data derived from the audit result that had been done in monthly basis this data starting from March 2018 until March 2019 total data that was proceeded into the audit activities for the petty cash was around 2008 total transaction. Moreover, for each of these transaction the auditor had to validate every hard copy document and synchronize it with the data inputted into the system. Data for petty cash was mainly use for the daily basis operation transaction the average amount of these transaction was conducive to be a small amount of money.

Furthermore, among 2008 total transaction in a year in each month in average AJ Corporation had 167 transactions. Likewise, in each months the transaction that was happened was consisted of transaction such as:

- Office Utilities Bills
- Office supplies
- Wages for a temporary employees
- Cleaner supplies
- Food and beverage for overtime employees
- Fuel, Gas and car/motor services fee
- etc.

Cash deposit for a petty cash account defined as a deposit as a cash money was put into a petty cash system. In simple terms when petty cash hard cash money was run out or not enough for the daily basis then the accountant of AJ Corporation was injecting a money into the petty cash box deposit the money taken from the Cash account safe deposit box the hard documentation was made as a proof of relocating a money from a Cash safe deposit box into a petty cash deposit box. In average depositing a money from a hard cash into a petty cash account was happened 7 times roughly in each month or 2 times in a week at most. From the perspective of auditor this cash deposit depicted streams of money getting into the account while the total transaction was reflected how much money being expense in each month by the AJ Corporation.

As Good employees avoidance to making a mistake is a mental that has to shown in every single daily activities. In Every decision and aspect of a working environment that accuracy also its something really important to have to be able to
work as a professional in a corporate ladder world. However, as a human being it's normal to have a mistake a same thing was happened in AJ Corporation as well. Alas, Reversing Entries was made when mistake was happened in the data entry process. Although this entries not always a sign of irregularities as an internal audit the amount of these reversing entries was portraying a weakness in a system that factoring a human error mistake this also shows how good and how diligent human resource in AJ Corporation and having too many of these reversing entries also could indicated a bad signal that the need a better human resource was required. Fortunately, in AJ Corporation comparing the total data and the reversing entries in average mistake was happening around 3.4 entries in each month roughly 1 wrong entry in each week in each month and according to the Auditor and accountant AJ Corporation this is not a material in detail reversing entries that was happening in Petty cash was illustrate in graph percentage over the total data input:

Evaluating in adequate effect of Internal Audit in order to suppress mistake in data entries in petty cash account could shows by how much percentage decreases in each month starting from around 10% at the beginning of 2018 until it becomes stable at around between below 2% in each of the months throughout the year. This data proves that how much the effect of having an internal audit into the real business situation in terms of petty cash was quite effective.
Irregularities in auditing defined as something that is not normal depend on the root of the problem and how many data that was irregular this could indicated that our cash account was not valid from this point the valuation in regard with good management compliance could derived (Maroun, W 2015). In AJ Corporation these irregularities was happened couple times all over the years. This sensitive matter was confirmed to the management of AJ Corporation in order to give a clear explanation each times this un-validated data and document was not synchronized. Auspiciously, in AJ Corporation during the year of audit of a petty cash account all of the un-validated inputs and irregularities could be identified properly with a good explanation. Detailed regarding with how much percentage in the AJ Corporation displayed in this graph:

<table>
<thead>
<tr>
<th>MONTH</th>
<th>JUNE</th>
<th>JULY</th>
<th>AUGUST</th>
<th>SEPTEMBER</th>
<th>OCTOBER</th>
<th>NOVEMBER</th>
<th>DECEMBER</th>
<th>JANUARY</th>
<th>FEBRUARY</th>
<th>MARCH</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>2%</td>
<td>3%</td>
<td>4%</td>
<td>5%</td>
<td>5%</td>
</tr>
</tbody>
</table>

Downward trending in petty cash irregular entries could fairly displayed in this graph. This could parade the array of how effective internal audit in tackling the irregularities problem in the real business situation. Among 2008 total data inputs into the system the irregular entries was happened not more than 5 % in October and averagely 3 irregular entries in each month. Satisfyingly, for each of these irregular entries was already been confirmed by a good explaining and no sinister reason in behind the problem. Problem arise in most of time created by the irregular entries was a missing document or missing a signature, or false entries that is not yet been reverse
in reverse entries and purely happened because of human error and confirmed created zero lost over the company money.

In petty cash in each month an internal audit of AJ Corporation was counted in every month and the data counted in each month compared with the data input into the system.

In overall the different in petty cash count was stable at zero from March until November and peaked at March. Based on these graph in petty cash count the different in between system and cash count situation had an upward direction this mean that there is a surplus money in the system. As a good control indicator this petty cash count differential should be at the zero graph or close to it as possible. This indicating although there is no loss in terms of money but shows that there is a indication that the petty cash system there is a problem in the data entry processing if the system really work properly ideally there should be a zero different in between data and petty cash count. However, in AJ Corporation all the documentation was could be proven and validated therefore there is no indication of money loss and this different only shows an indication of bad data entry timing. Moreover, there was a changes in a system management in AJ Corporation in March 2019 and based on the analysis and the confirmation in regarding of the changing created a huge gap in the petty cash count differential because of the conflicting audit program timing in deciding the date of petty cash count.
Cash Procedure Audit Case Findings Analysis

Risk Exposure and General Control

These data derived from the audit result that had been done in monthly basis this data was summary of a Cash audit activity throughout the 12 months.

The differentiation in between cash account and petty cash account was lies in the function of account created. In Cash account there is no daily basis transaction happened and in most of the time the transaction was typical of inflow cash or bank cheque and Giro transfer from the account receiveable that got paid by the customer. Additionally, Cash account Procedure also was used as a account to pay the full-time employees wages. In detail Cash Procedure account was audit was covering:

- Account receiveable.
- Monthly Wages of full time employees.
- etc.

Total data input was 6885 for each of these transaction the auditor had to validate every hard copy document and synchronize it with the data inputted into the system. Data for Cash was mainly use for Account receiveable transaction the average amount of these transaction was appropriately to be considerable high amount of money. Among 6885 total transaction in a year in each month in average AJ Corporation had 573 transactions or 143 transaction per every week. For an Auditor to be able to validated all the document it takes usually 6 to 8 days in each months to be able to audited the whole cash Procedure account. Bank Deposit was reflecting the deposit made by the accountant of AJ Corporation from cash that collected from the customer into the Bank in each month regularly in each month in average AJ Corporation management done 7 deposit in each month therefore around once or twice a week depend on the situation. Additionally, the frequency of the Bank deposit could depicted the effort of the AJ Corporation management to comply with the standard operational procedure and this indicate a positivity in good sign of compliance. Reversing entries in this Cash Account Procedure has a similar definition as the one in petty cash audit Procedure. Reversing Entries was made when mistake was happened in the data entry process. This entries not always a sign of Irregularities. However, in point of view of an internal audit the amount of these
Percentage of reversing entries was calculated from the reversing entries divided by the total data input times by 100%. This percentage could reflected how many false entries was made into the system. From this entries peaked at April reversing entries at 9% revealed the effectiveness of internal audit in order to regulate the management shown by the stable figure at the graph all over the year starting from the peak at April downward slide into the November at 1% was stayed stable until March with around 1 or 2% difference. Reasoning behind this circumstance was appeared as in many cases an internal audit also has a control in functioning a good system management they could act as a bridge into the management and the principal as the agency theorizes it. Based on the agency theory in the real business situation in AJ Corporation this created a good example that agency theory was true as the it could minimize the mistake base on the reversing entries.
Irregularities in Cash account has a similar definition related with Petty cash account. Shortly, irregularities defined as the problematic entries that need a further confirmation from the management before categorized it into a fraud into the data.

In AJ Corporation as the peer interview with the staff of management most of time this irregular entries was appeared as a result of almost the same reason with petty cash and until this report was made there is no core fact that could proven otherwise.

In summary, irregular entries in cash Procedure account was appeared as a ordinance to human error such as missing documentation or missing a signature or sometimes the document could had been torn apart mistakenly in other times irregularities was happened because of false input of data. Fortunately , according to the audit result and the confirmation of management AJ Corporation irregularities entries could be explained and by the end to the day no loss was happening in the AJ Corporation.

Graph describing on how irregularities could have a downfall trend starting from 7% and then decreasing and stays in the stable form around 0% - 1% for the next 10 months. Moreover , this graph depicted on how a control in management works properly and management comply with the principal work regulation.

In AJ Corporation Cash Procedure audit cash counting was done properly although in many cases the money already been deposited into the bank in order to keeping cash in the safe deposit box zero. This accordingly to the AJ Corporation standard operational procedure that was meant to keeping it as low as possible the reason behind of this procedure is because with less money that was inside of the safe deposit box the less risk of forfeiting the money that was contained. The nature of cash Procedure that was lies into the considerable amount of money that get collected by the AJ Corporation collector naturally would created a lot of risk.
therefore a good standard procedure in keeping the money safe should indicated the highest standard possible. Analyzed this table as shown many zero number in the table could indicated that how comply the management with their own principle of working environment.

A high peaked differential could reflected really well by this figure. The differential starting from April was shown a good conviction of good management that was complying with the system and most of time stay as true as possible with the number zero different as standard of the good management. However, at February the data skyrocketing at the almost 28 million different. This could indicated a bad sign of the system or there was a change in a system that need a further confirmation. Expectedly as the confirmation of the management what was happening there was a changes in the system. Changing in the system was happened without any confirmation to the management investigation was started and what an internal audit found that in a normal usual way the bank deposit was input in the date of the deposit happened but in February it changed that the deposit was input into the system base on the day when the money collected although in reality the deposit happened not exactly on the day when the money collected. This created a problem in the matter of accounting book keeping that the data would not shown the real date transaction. As
per result that was analyzed Internal Audit shown this loophole in the management upper board and AJ Corporation comply to changes it back into the usual grip therefore on march the data was stable again due to the good coordination in between Internal Audit as a control agent of the management. The difference also was investigated properly and the money was not lost the problem was only because the timing in the data input was not exactly same as the money deposited into the bank. This showed the function of Internal Audit as the counselor and guardian of the system could revealed in this journey of audit in AJ Corporation.

**Physical Stock Storage Audit Case Findings Analysis**

**Risk Exposure and General Control**

AJ Corporation as a main supplier of renowned paint branding (Dulux) storage and physical stock problem lies naturally in within the daily basis of the Distribution business. Typically the miss matched of the data and the stock inventory real count was common result that always happened in business with a same kind of nature.CV. AJ was not a special case and the problem also appeared so many times in the management. The Internal Audit Function as a control was hoped to be able to minimize the problem. Problem that usually appeared such as:

- **Dead Stock**: When product become too old and obsolete before can be sold
  
  This could happened due to the rebranding of the paint itself changing in the packaging etc.

- **Over Stock**: This happened when stock was too many on the inventory more than the AJ Corporation could sell

- **Stock out**: Appeared in the point when there is no product to sell in inventory In AJ Corporation this could happened in the specific article.

In regarding with the problem an old phrase "Do not eat more than you can chew" was the principle that AJ Corporation uphold tightly. Stock order control was the key if a business in same field like AJ Corporation want to survive. Through a good audit program such as a Monthly Random Sampling was done so many times to keep up the system in a good condition. A Global stock taking also was done coordinately
with management to ensure the compliance and to ensure a good and accurate system data.

The problem lies in the stock taking audit was when system encountered a discrepancy. Discrepancy, that was happened then investigated thoroughly and confirmed by the staff of whole management. In general in AJ Corporation for Malang Area the reason of the problem itself usually was happened because of disorganize of the warehouse or the head staff that changing in a year AJ Corporation head of warehouse was changed for 3 times before it can developed a stable warehouse control. Moreover, this matter also arise because of the overcapacity of the warehouse. In AJ Corporation the Procedure of the distribution becomes faster in each month what was revealed with this fact is the AJ Corporation was growing quite rapidly therefore the warehouse condition become too crowded due to the too many inventory at the same time. Furthermore, other than these reason the human error in the data entries contributed further into this matter. Based on the audit result in the relation with stock audit in summary there was small indication that there is a sinister reason such as forfeiting an inventory because of criminal reason therefore a conclusion was made that the inventory miss match is not lost but due to the lack of control of human error.

A Detail data in regarding with Global Stock taking was provided in this table below
In a year there was a 4 times of stock taking globally and 8 times random sampling done by the internal audit to be able to control the stock inventory. The regulation was made into the stricter and better version each times stock taking was done as a result of evaluation in each 4 months. Internal audit also was succeeding creating a independent system of storage by the march 2019 that get done by the storage division instead of relying in the single database that accountant and financial division had. In average, around 1900 item list that had to be checked in every stock
taking over that amount could depicted perfectly by this figure:

The item list that was not matched with the data could be seen as down slopping from April into the march starting at 40 at the peak item list over the 1900 downward until around 20 in 2019 march.
This data derived from the stock taking when reflected by the price different with the system:

This also in sync with the different at the price while zero is the number that was looking for. Coherently that the data was steadily become stable at the almost zero different in the last two stock taking globally in AJ Corporation. Safely assume based on these data that in overall the presence of Internal Audit collaborate with the AJ Corporation good management compliance toward good governance corporate was executed successfully that improvement could seen greatly and principal of AJ Corporation was also happy the current situation improvement.
Petty Cash Procedure Audit Suggestion

Petty Cash Audit was already has a good comprehensive organizational coverage implemented in the AJ Corporation standard operational procedure. Management of AJ Corporation also shown a good coordination with an internal audit program this also could indicate a good compliance with company regulation. However, there is no such thing as a perfect system. In Petty Cash system as mistake could still happened and created an irregular entries into the system that need to confirm. In summary detail regarding with the common mistake was:

- Missing Document.
- Missing a signature.
- False entries.
- Un-coordinate system change.

In order to tackles all the common mistake that was happening there is a good suggestion that each of the staff that has job to entry the data to make a personal daily journal that could have a note for daily basis. Therefore, there will not be any entry that suspicious because there are a note that would remind the specific event that were happened that would make the confirmation becomes easier task. In regarding with the system change there should be a procedure that regulate the regular meeting with AJ Corporation staff management in fixed period of time. Moreover, There was also a need to not only to check the money but also to check the office supplies inventory and company asset and make it sure there would not be any miss match in paperwork and the reality. Random sampling in regard with Petty cash Procedure proof of transaction in order to check whether there is a collision in terms of fake price. A third party confirmation were also needed to proven and investigate the price mark up if there is any of that fraud were happening in the system in order to improve the effectiveness of the Internal Audit.

Cash Procedure Audit Suggestion
Cash as one of the account in AJ Corporation that created with most of the time was used as account to receive a receive-able from a customer collection method. In general detail regarding with the common mistake in cash Procedure was:
- Missing and torn Document.
- Missing a signature.
- False entries.
- Un-coordinate system change.

A good suggestion with the cash Procedure audit Journal also needed to enforce into the company in AJ Corporation to create the management towards a good governance corporate. In relation with audit itself it recommended that there is an further audit program that would also coverage an unpaid collection document. In AJ Corporation unpaid collection document was used as a proof documentation that used as a mean to collected the money from each customer and whenever there was payment happened then a new document called a payment proof document was created and the customer took an unpaid collection document as a proof that they already paid the invoice that they were had. Based on this logic this all the time the audit procedure was only meant to securing the money and validated the data inputted with the amount of money. Therefore, The need to put an extra program into the internal audit procedure was needed to be able to control system further. A random confirmation to the third party in this case customer were also needed to be included into the audit procedure to improve the audit control and effectiveness.

**Physical Stock Audit Suggestion**

Physical Stock Audit and was one of the Audit that takes a lot of efforts and staff to be able to managed and maintain. In one global stock taking usually takes around more than 10 people that were divided into 4 team and it takes more than 10 hours to complete. The effort to created a good distribution system and stock inventory system also takes a huge amount of time and effort because it had done manually without any barcode system and scanner. Therefore, For AJ Corporation there is a good suggestion to use a barcode scanner system to enhance the stock taking and warehouse system into a better system. The reason with using a barcode system it would also help and takes a less of time when global stock taking it place it
would therefore created an efficient and effective system because it easier and take 
less time and effort to check when there is a discrepancies in inventory system . 
Moreover, A dedicated software also were needed for the warehouse to keep the 
inventory Procedure becomes better than before. A regular meeting with an auditor 
were also needed to be able to control he system better . In Terms of Audit method a 
good commitment into a future in regard with global stock taking were needed in 
current situation global stock count in average happened 4 times in a year in every 4 
months this supported with a 8 times random sampling taking in each month when 
there is no global stock taking happened. AJ Corporation need to keep up this 
commitment to fullest not only in 2018 and 2019 but all the time in order to created 
an effective management compliance.

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