Internal Auditor's Responsibilities for Quality Control of Financial Reporting at PT Asabri (Persero): A Qualitative Analysis

Internal Audit, Financial Report

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ABSTRACT

This article focuses on the quality of financial reporting that needs to be considered because it is an important factor in decision making of a company or agency, including PT Asabri (Persero). Internal auditors control an important role in terms of improving accounting standards, so it will also be discussed about the function and role of internal auditors in minimizing data manipulation in financial reporting. This research uses the literature review method which refers to the process of identifying and evaluating several previous research articles to obtain deeper information about the responsibilities of internal auditors including responsibilities for quality control of financial reporting. The results show that internal auditors have an important role in controlling the quality of financial reporting from manipulation at PT Asabri (Persero).

Keywords*: Internal auditor, Quality of financial statements, Accounting standards*

ABSTRAK

Artikel ini berfokus pada mutu dari financial reporting yang perlu diperhatikan karena merupakan faktor penting dalam pengambilan keputusan sebuah perusahaan atau instansi, tidak terkecuali pada PT Asabri (Persero). Auditor internal mengendalikan peran penting dalam hal peningkatan standar akuntansi, sehingga akan dibahas pula mengenai fungsi dan peran auditor internal dalam meminimalisir adanya manipulasi data pada financial reporting. Penelitian ini menggunakan metode literature review yang mengacu pada proses pengidentifikasian dan evaluasi dari beberapa artikel penelitian terdahulu untuk memperoleh informasi lebih dalam mengenai tanggung jawab yang dimiliki auditor internal termasuk tanggung jawab pada pengendalian mutu financial reporting. Hasilnya menunjukkan bahwa auditor internal memiliki peran penting dalam pengendalian mutu financial reporting dari tindakan manipulasi pada PT Asabri (Persero).

Kata kunci*: Auditor internal, Mutu laporan keuangan, Standar akuntansi*

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INTRODUCTION

The Indonesian economy is expected to be a crucial driver for financial industry development, as the economic sector plays a pivotal role in shaping the country's economic progress. Intense competition prompts many to invest in financial sector stocks. Financial reporting offers investors and company stakeholders insights into a company's financial health. Effective management systems are crucial to enhance a company's probability of success. In this context, internal auditors play a vital role in supporting management efforts to maximize effectiveness and minimize errors in financial reports that could lead to internal losses or fraudulent practices.

The quality of an auditor is achieved by adhering to established ethical codes, including integrity, competence, objectivity, accountability, professionalism, and confidentiality. These ethical standards apply to all auditors, including independent, internal, government, tax, and forensic auditors. This article elaborates on the specific role of internal auditors in ensuring the quality of financial reporting. While initially the responsibility of quality control in financial reporting rested solely with managers, over time, internal auditors have also taken on the responsibility of participating in financial reporting quality control.

Today, nearly every company or institution requires the services of internal auditors to conduct testing, evaluate implementation, internal controls, and risk management systems in line with company policies. For example, quality control in financial reporting can be performed more selectively and effectively without diminishing responsibilities, especially in routine company oversight. Internal auditors are also required to possess various skills, particularly in finance and accounting, to withstand practices that may harm the company.

Pressure and opportunities within a company inevitably increase the potential for fraud cases. Weaknesses in the internal controls implemented by a company's management system also contribute to fraudulent activities. In Indonesia, there have been numerous reports indicating the prevalence of fraud cases. This is evident in the case of PT Asabri (Persero), which engaged in fraudulent activities, such as financial mismanagement and manipulation of financial statement data, resulting in an estimated loss of IDR 22.78 trillion for Indonesia. Financial statements, a critical aspect of a company's evaluation of its performance, must be properly monitored to prevent fraud cases, such as data manipulation, as witnessed in PT Asabri (Persero). In this context, the responsibility of internal auditors as overseers is crucial in controlling the quality of financial reporting to ensure that financial statements accurately reflect the company's financial performance.

Based on the above, this research aims to demonstrate the extent of the responsibility of internal auditors in controlling the quality of financial reporting, with the hope of reducing potential fraud and improving the quality of financial reporting, as seen in preventing fraud, such as data manipulation, as observed in PT Asabri (Persero). From the aspects discussed above, it can be concluded that internal auditors play a significant role or responsibility in a company's financial reporting, especially in preventing fraud.

LITERATURE REVIEW

The function of internal auditors is a crucial element that influences the enhancement of financial reporting quality (ALbawwat et al., 2021; Alqudah et al., 2019; Bimo et al., 2019). The quality of information used to compile financial reporting is determined by the role of internal auditors. Internal auditors engage in objective and independent consulting and assurance activities (Čular et al., 2020; Jokipii & Di Meo, 2019; White et al., 2020). This is intended to maximize the value and operational activities of businesses through a systematic approach with the application of evaluation methods. It aims to improve risk management, company management processes, and management controls.

The Institute of Internal Auditors (IIA) states that internal audit is an independent and objective assurance and consulting activity that maximizes value through a systematic approach to assessing and maximizing risks to transform corporate operational performance. The goal is to enhance business operations, management control, and corporate governance process control. According to Sarmento Giam (2021), the purpose of financial reporting is to distribute information used in decision-making in the social, political, and economic fields and to provide evidence of accountability and details about the assessed performance of management and the organization. Financial reporting aims to provide information about the financial position of an entity, its financial performance, and the condition of members of the entity or related organizations (Roszkowska, 2021). The output of financial reporting also helps users or financial report makers in the decision-making process.

Internal auditors have several key functions within the scope of a company. They monitor activities beyond the control of top management, contribute to risk improvement and reduction, and present audit results to senior management (Eulerich & Eulerich, 2020; Kabuye et al., 2019). Additionally, internal auditors provide technical support to management, facilitate decision-making, and assist in future process analysis (Christ et al., 2021; Kaawaase et al., 2021; Nerantzidis et al., 2022; Pizzi et al., 2021). Through these functions, they play a role in supporting effective company management. The audit scope includes both internal and external examinations used for assessment, the process of evaluating the efficiency and completeness of internal and external controls in the organization, and performing all assigned tasks (Khoirunisa et al., 2022).

According to the Association of Certified Fraud Examiners (ACFE, 2016), fraud is an intentional act committed by an individual that is contrary to the law for personal gain and can harm others. Fraud consists of three types: corruption, use of assets, and manipulation of data in financial reports. Fraud is defined as practices of embezzlement, fraud, and deception (Wulandari, Putri, & Marlina, 2021).

METHODS

The method used in the preparation of this article is a literature review, a systematic, clear, and reproducible method involving the comparison of research findings from several previous articles to identify, evaluate, and synthesize information. Descriptive analysis is a data analysis technique used to gather various data and information related to the topic under discussion. The author then analyzes and processes the obtained data to elaborate on the topic of discussion, which is the relationship between the responsibilities or roles of internal auditors in quality and actions of manipulating financial reporting.

RESULTS AND DISCUSSION

The fraud case at PT ASABRI (Persero) indicates the company's involvement in corruption and manipulation of financial reports. The defendants engaged in this fraudulent act due to pressure, opportunity, and rationalization, which are elements in the fraud triangle. Pressure stems from lifestyle needs and economic pressure. The opportunity arose because the suspects saw an opportunity to engage in corruption and manipulate financial reports without being detected by the public. Rationalization was used as justification for their actions. The corruption suspects at ASABRI are suspected of using investment funds to misuse authority for personal gain. To conceal rule violations in investment fund management, they altered financial report data to cover losses and gain illegal profits. This case demonstrates that education and high positions do not always guarantee integrity and responsibility in work. The attitudes and principles of the perpetrators are jeopardized in carrying out their duties. This fraud case has a significant impact on Indonesia, causing a loss of IDR 22.78 trillion. The loss resulted from illegal investment activities involving the misappropriation of funds from contributions by army members, police members, the Ministry of Defense, and civil servants. As a consequence of the case, the involved parties lost their rights.

The role of internal auditors is to add value and enhance the independent operations of the organization. With a comprehensive approach, internal auditors play a role in systematically helping organizations improve risk management, controls, and business operations based on the internal auditor's objectives of enhancing the effectiveness and efficiency of PT Asabri (Persero). Internal auditors, in general, are intended to assist management in carrying out performance smoothly because controlling the quality of financial reporting can provide recommendations or unbiased feedback supporting analytical findings, actions, or evaluations related to what is audited (Erfiansyah & Kurnia, 2018). Activities in internal audit are divided into two categories: financial auditors and operational auditors. Operational auditors focus more on operational examinations such as setting working hours, while financial auditors examine the accuracy and validity of data issues, prevent errors and fraud, and protect company assets. Another focus is also on determining the accuracy and reliability of accounting records; the function of internal auditors should cover all company activities (Erfiansyah & Kurnia, 2018).

Quality as conformity, measuring conformity, and achieving conformity through inspection (Sarmento Giam, 2021). Financial reporting plays a crucial role as a stakeholder decision-making tool. The accuracy and arrangement of information in financial statements that align with accounting principles can be used to assess the quality of financial statements and the ease of information understanding by consumers. Initially, the quality control of financial reporting was a management role, but now this role has been expanded to include part of the responsibility of internal auditors. The function of internal auditors provides independent information about various organizational actions to assist in better decision-making, accountability, and professionalism. A good internal auditor will undoubtedly influence financial performance and the quality of economic decision-making.

The results of an auditor's work actually also produce financial reports containing information tested against established criteria, whether or not it aligns with the facts. Additionally, the report can be sent to anyone intended. The nature of the report itself must be impartial, not soliciting the auditor's opinion, and objective. In the execution of their responsibilities for the quality control of financial reporting, internal auditors must strive to prevent fraud or deviant behavior and apply cooperative behavior. If there is a deviation, then promptly identify the correct answer so that the problem can be effectively rectified without causing losses. The quality of financial reporting presented will also be better if deviations can be overcome, and those who use the information in the financial reports will also benefit from the preparation of these reports.

Fraudulent activities at PT. Asabri were uncovered after the Supreme Audit Agency (BPK) conducted an examination of investment fund management and the company's financial condition. The approach used to detect potential fraud at PT. Asabri also involved the role of external audit. BPK began an examination of the financial aspects and funds managed by PT. Asabri after suspicions of corruption and data manipulation arose. The results of the BPK examination showed that PT. Asabri was involved in violations in the management of investment funds that harmed the state's finances.

The presence of internal auditors is expected to reduce the incidence of financial reporting irregularities in an entity. However, in reality, this still often occurs and can be caused by three main factors: pressure, opportunity, and rationalization, as in the case of PT Asabri. To minimize inappropriate actions or fraud, internal auditors should strengthen cooperation with external auditors to detect and prevent deviations. Additionally, in handling fraud cases in a company, necessary actions include improvements in company management, involving organizational and investment management aspects. Operational optimization and cost reduction can be achieved through collaboration between state-owned insurance clusters, while undertaking efforts to recover problematic assets and restructuring investment portfolios as an efficient strategy.

External auditors in an entity perform the internal auditor's function regarding the accuracy of government financial reporting. If internal and external auditors can work together to prevent and address companies that make mistakes or commit fraud in financial reporting, the quality of financial reporting will be assured for both the present and the future. Moreover, the level of crime or fraud within the company's internal environment will also decrease. Then, if there is a deviation, it is advisable to promptly find the right solution so that the problem can be resolved properly without causing harm to any party. From the study and explanation of several literatures above, it can be concluded that auditors are crucial to ensure the accuracy of financial reporting.

CONCLUSION

The analysis outlined concludes that internal auditors play a crucial role in controlling the quality of financial reporting, particularly in preventing fraud cases involving data manipulation at PT Asabri (Persero). The competence and expertise of auditors significantly impact their awareness of authority and the functions they perform. The objective attitude of auditors is also crucial to ensure fair treatment of PT Asabri (Persero) as the audited institution and to prevent errors or fraud in financial reporting, as it can affect the quality of the company's financial reporting. Effective cooperation and communication among auditors conducting inspections at the same location are crucial to prevent overlap and potential conflicts that may arise due to inexperienced new auditors. Additionally, the independence and professionalism of auditors play a key role in preventing biases or preferences toward the company or institution being audited. Therefore, the role of internal auditors is highly significant in ensuring good quality and accountability in financial reports. This indicates that internal auditors have an important role in controlling the quality of financial reporting against manipulation at PT Asabri (Persero).

Based on the conclusion above, several recommendations can be proposed regarding the results of the analysis and discussion in this research. Internal auditors must be vigilant against possible fraud and must maintain objectivity in operational activities and investigations because internal auditors play a crucial role in ensuring the quality of financial reporting for businesses or organizations. The performance of organizations or businesses can be enhanced, particularly in the field of accounting and financial reporting, if internal auditors can meet the criteria and perform crucial management activities.

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