



Review of External Audit Practices at PT Indofood Sukses Makmur Tbk

Fachri Aditya¹, Amri Amrulloh², Eka Noviana³

¹Politeknik Negeri Jakarta, Indonesia

^{2,3}Politeknik Negeri Madiun, Indonesia

Author's correspondenc e: amri@pnm.ac.id

Abstract This study explores external audit practices in manufacturing companies. This article aims to examine external audit practices at PT Indofood, one of the largest food and beverage companies in Indonesia. The primary focus is on the audit procedures used and compliance with applicable audit standards. By using literature analysis and secondary data from various journals and PT Indofood's annual financial reports, this research provides in-depth insight into the effectiveness of external audits in increasing company transparency and accountability. The existing findings show that PT Indofood has carried out an external audit of their consolidated reports in accordance with applicable regulations. This finding underlines that no problems have occurred with external audit practices within PT Indofood so far.

Keywords: External audit, PT Indofood, financial reports

1. INTRODUCTION

According to Agoes (2012) explains that auditing is a systematic process consisting of sequential steps including evaluation of internal accounting controls, tests of the substance of transactions and balances. The accounting system includes the necessary internal controls and produces the data included in the financial reports. Auditors are independent certified public accountants who examine financial reports that have been prepared by company management.

Public companies that mobilize their shares on the stock exchange are required to carry out external audits and must be fulfilled at the end of each financial year. External audits are carried out by independent auditors. The results of the audit will produce verified certification of a company's financial reports. This certified report can be requested by shareholders, investors and lenders if there are suspected discrepancies in the report.

External audits are very important because certified audit results eliminate doubts and questions about the company's financial status, thus assuring third parties that the company's finances are correct and safe. In general, independent accountants must have the title of Certified Public Accountant (CPA). Public accounting is a profession that supports the activities of an entity, both profit-oriented and non-profit-oriented, and a profession that provides audit services for financial reports.

In this context, it is very important to carry out external audits. PT Indofood is one of the companies listed on the Indonesia Stock Exchange (BEI), so it is mandatory for PT Indofood to carry out an external audit and report it. External audits are carried out at least once a year.

2. LITERATURE REVIEW

2.1. Responsibilities of Independent Auditors

External audits or what are generally called independent auditors have the responsibility to plan and carry out audits to obtain adequate assurance about whether the financial statements are free from material misstatement, whether caused by error or fraud. External audits aim to provide assurance about the quality and credibility of a company's financial information. This is because the auditor provides independent verification of the company's financial reports, and the quality of the audit results will contribute to the credibility of the financial reports.

The auditor's assessment of the information presented in the financial statements must be carried out freely and impartially. However, the fact is that there are still many companies that present financial reports that do not correspond to the actual situation (Mardeliani et al., 2022). This is due to the auditor's incompetence in detecting misstatements of the financial statements presented by the company

2.2. External Audit Mechanism

Independent external auditors examine the company's financial reports. After conducting an audit, the auditor provides a written report containing whether the financial statements presented are in a reasonable condition. The audit committee has a close relationship with external audit. The audit committee is tasked with providing recommendations to the board of directors in determining the use of auditor services. The audit committee should meet with the external auditor before the engagement begins to discuss the auditor's responsibilities and significant accounting policies and provide limited input on approval of the auditor's plan of action, program of activities, and scope of work. The audit committee is the first recipient of the audit report and the audit committee must be a partner to the external auditor in the company. The audit report that has been received by the audit committee is then compared with the company's internal report.

2.3. Financial Audit

Financial audits are the most commonly performed audits. Financial audits by independent auditors aim to examine and evaluate the company's financial reports to ensure that these financial reports follow applicable accounting standards. The financial reports that have been prepared by the company show the company's performance during a certain period. Users of financial reports such as investors and creditors in making decisions often consider business prospects which are measured based on financial performance over one or more periods (Sitompul, 2019).

In this case, PT Indofood as one of the manufacturing companies listed on the Indonesia Stock Exchange (BEI) has carried out an external audit. Annual financial reports, both unaudited and audited, have been reported and published on the Indonesian Stock Exchange website. The most recent audited financial report is the 2022 financial report.

2.4. Fixed Asset Audit

Fixed assets are tangible assets held for use in the production or provision of goods or services for rental to other parties, or for administrative purposes, and are expected to be used for more than one period (PSAK, 2013). The importance of asset management audits as monitoring asset investment control which can increase company value. Corporate asset audits focus on assessing and verifying the existence, condition, and accuracy of records of an entity's physical and non-physical assets, such as inventory, property, equipment, and intellectual property rights. The aim of carrying out an asset audit is to provide an independent assessment that informs the success factors of asset investment, and through the fixed asset audit process it is hoped that it will be able to encourage sustainable asset management strategies with characteristics of optimal utilization of fixed assets in the company (Deng et al., 2019).

2.5. Audit Quality

Audit quality explains the opportunity for auditors to detect fraud in the accounting system and record it in the financial report which is disclosed to management. Auditors must be able to show fraud in audit financial reports in order to maintain their independence to increase. As well as the ability to be thorough and correct (Siahaan & Simanjuntak, 2019). Audit quality is the probability that an auditor finds and reports a violation of his client's accounting system, and how well the audit is carried out with auditing standards. An auditor who is able

to find errors made by his client shows that the auditor has good audit quality. The more auditors find irregularities in financial reports, the better the audit quality is considered. Audit quality is proxied according to the size of the Public Accounting Firm (KAP). The larger the size of the KAP, the better the audit quality.

According to (Agusti & Pertiwi, 2013), the existence of audit quality is an indication of the auditor finding irregularities and fraud which must be reported as a form of violation in the accounting financial transaction reporting system. When viewed from the perspective of users of financial statements, this quality can be achieved if the auditor can provide assurance that there is no misstatement or fraud in the audited financial statements. The urgency of audit quality will make an auditor professional, and become the standard for carrying out the audit process as it should be carried out.

The case that occurred at the Public Accounting Firm (KAP) was related to the results of an audit of PT Inovisi Infracom Tbk (INVS) which received a temporary suspension (suspension) of share trading by the Indonesian Stock Exchange (BEI). This sanction was given because many errors were found in the company's financial performance report for the third quarter of 2014 (<https://finance.detik.com>). IDX also temporarily stopped trading shares of PT Sekawan Intipratama Tbk (SIAP) because SIAP presented its 9-month financial report which was not the same as the presentation of the June 2015 financial report so that in the asset records the value was much different (<https://finance.detik.com>).

2.6. Public Accounting Firm Rotation

One effort to ensure that audit activities run well is that public accounting firms rotation rules are needed. Public accounting firms rotation is a rotation that is carried out both mandatory and voluntary. Mandatory rotation is a mandatory rotation carried out in accordance with Minister of Finance Regulation No.17/PMK.01/2008 which stipulates that public accounting firms rotation must be carried out after an engagement period of 6 years and AP rotation of 3 consecutive years. Meanwhile, voluntary rotation is a voluntary rotation carried out by the company based on the wishes of management where the rotation is carried out not based on applicable regulations.

A change of auditor is a change of public accounting firm carried out by a company. Changing auditors is intended to maintain auditor independence so that they remain objective in auditing clients' financial reports. Companies that want to improve the integrity of their reports generally change auditors from small public accounting firms to larger and more reputable public accounting firms, such as the big four public accounting firms. However, research conducted by Aisyah, Gunawan and Purna-masari (2014) shows that public accounting firms rotation has no effect on audit quality.

3. RESEARCH METHODOLOGY

3.1 Research Approach

This research uses a qualitative approach with a literature review method. Literature Review is a research method that aims to collect, assess and synthesize existing literature related to the topic under study. In the context of this research, a literature review is used to identify and analyze external audit practices in manufacturing companies. The focus of this assessment is one of the companies that has been registered on the Indonesian Stock Exchange, namely PT Indofood.

3.2. Data Source

The data sources in this research consist of relevant literature, including journal articles, research reports, and other academic publications that discuss topics related to external auditor practices. This secondary data was obtained from academic databases such as Google Scholar, Academia.edu, and ResearchGate, as well as from other sources whose validity is recognized.

3.3. Data Collection Procedures

The data collection procedure in this literature review was carried out through the following steps:

Identification of Topics and Keywords: The researchers first identified the research topic and developed relevant keywords, such as “external audit practices,” “types of external audits,” and “audit quality assessment.”

Literature Search: Literature searches were carried out in various academic databases and digital libraries using predetermined keywords. Search results were filtered to ensure relevance to the research topic.

Literature Selection: Literature obtained from search results is then selected based on criteria such as topic relevance, research quality, and publication reputation. Literature that is not relevant or does not meet the specified quality standards will not be included in the analysis.

Literature Analysis: The selected literature was analyzed in depth to identify key themes, key findings and existing research gaps. This analysis includes a discussion of matters regarding external audit practices, types of external audits in manufacturing companies, and assessments of audit quality by independent auditors

3.4. Data Analysis Techniques

Data collected from the literature was analyzed using thematic analysis techniques. This technique allows researchers to identify the main themes that emerge from the literature analyzed, as well as explore how these themes are related to each other. This analysis is carried out by :

Coding: The coding process is carried out by identifying the main concepts that emerge from the literature. Each article or publication analyzed is coded based on certain themes or topics relevant to the research.

Theme Grouping: After the coding process, similar themes were grouped to create broader categories. For example, the theme “external audit practices” may include sub-themes such as “external audit steps”, “types of external audit” and “external audit quality assessment”.

Synthesis: The results of the grouping of themes are then combined to develop a coherent narrative regarding the research findings. This synthesis process also took into account research differences identified in the literature

3.5. Validity and Reliability

To ensure the validity and reliability of research results, several steps were taken:

Source Triangulation: Researchers use a variety of different data sources to compare findings. This helps ensure that research results are trustworthy and supported by strong evidence.

Peer Review: Before completing the analysis, the interim results of the study are reviewed by peers in the same field to obtain input and identify potential biases or deficiencies, as well as errors in the analysis.

Process Documentation: Each step in the data collection and analysis process is documented in detail to ensure transparency and allow replication of the study by other researchers.

3.6. Research Limitations

The literature review method has several limitations that need to be acknowledged, including:

Data Access Limitations: This research relies on available literature. Limited access to certain sources or a lack of relevant literature can influence research results

Dependence on Secondary Data: Since this research does not involve the collection of primary data, the results are highly dependent on the interpretation and quality of research that has been conducted by previous researchers.

4. RESULTS AND DISCUSSION

4.1. Responsibilities of Independent Auditors

Findings:

PT Indofood's independent auditor has carried out responsibility for the audit of the consolidated financial statements. Their responsibility is to obtain assurance whether the consolidated financial statements are free from misstatement, whether from error or fraud. PT Indofood's independent auditors from the Purwanto, Sungkoro & Surja public accounting firm have carried out audits that include their opinions, but they cannot guarantee that the audits they carry out based on audit standards set by the Indonesian Institute of Public Accountants (IAPI) will always detect errors. material presentation if any.

Discussion:

4.2. External Audit Mechanism

Findings:

Independent auditors read financial reports prepared by company management. Management is responsible for the preparation and fair presentation in accordance with the Financial Accounting Standards (SAK) applicable in Indonesia. In preparing financial reports, management is responsible for assessing and disclosing the company's condition according to actual conditions. The company's independent external auditor then audits the financial reports. They communicate to responsible parties the scope and findings of the audit. When they find misstatements in the financial statements, they will communicate this to the responsible parties and take action based on applicable laws. After completing the audit, the auditor will provide a report to interested parties. This report contains a written report from the auditor which is attached to the company's financial statements. Auditors express opinions about a company's compliance with applicable accounting standards.

Discussion:

4.3. Financial Audit

Findings:

Independent auditors have audited the financial reports of PT Indofood Sukses Makmur Tbk and its subsidiaries. The audited report consists of the consolidated statement of financial position as of 31 December 2022, as well as the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year ended that year, notes to the consolidated financial statements, includes an overview of accounting policies

The original consolidated financial statements included herein are in Indonesian language.

PT INDOFOOD SUKSES MAKMUR TBK DAN ENTITAS ANAKNYA LAPORAN KEUANGAN KONSOLIDASIAN TANGGAL 31 DESEMBER 2022 DAN UNTUK TAHUN YANG BERAKHIR PADA TANGGAL TERSEBUT BESERTA LAPORAN AUDITOR INDEPENDEN	PT INDOFOOD SUKSES MAKMUR TBK AND ITS SUBSIDIARIES CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2022 AND FOR THE YEAR THEN ENDED WITH INDEPENDENT AUDITOR'S REPORT
Daftar Isi	Table of Contents
Halaman/ Page	
Surat Pernyataan Direksi	<i>Directors' Statement Letter</i>
Laporan Auditor Independen	<i>Independent Auditor's Report</i>
Laporan Posisi Keuangan Konsolidasian..... 1 - 3	<i>Consolidated Statement of Financial Position</i>
Laporan Laba Rugi dan Penghasilan Komprehensif Lain Konsolidasian..... 4 - 5	<i>Consolidated Statement of Profit or Loss and Other Comprehensive Income</i>
Laporan Perubahan Ekuitas Konsolidasian..... 6	<i>Consolidated Statement of Changes in Equity</i>
Laporan Arus Kas Konsolidasian..... 7 - 8	<i>Consolidated Statement of Cash Flows</i>
Catatan atas Laporan Keuangan Konsolidasian 9 - 182	<i>Notes to the Consolidated Financial Statements</i>

Image 1 : List of reports audited by independent auditors

According to the independent auditor who conducted the audit, PT Indofood's consolidated financial statements as of 2022 are presented fairly. The consolidated financial performance and cash flows for the year ended on that date are in accordance with Financial Accounting Standards (SAK) in Indonesia. They believe that the audit evidence obtained is sufficient and appropriate, based on the Audit Standards set by the Indonesian Institute of Public Accountants (IAPI).

4.4. Fixed Asset Audit

Findings:

The public accounting firm Purwantono, Sungkoro & Surja conducted an audit of fixed assets at PT Indofood regarding conformity to accounting standards, with the scope of the audit including measurement at recognition, measurement after recognition, depreciation, derecognition and general standards.

Fixed assets are initially recognized at cost. Part of the cost of acquisition of fixed assets is the initial estimate of the costs of dismantling and moving fixed assets, as well as restoration of the location of assets and costs to replace components of fixed assets upon replacement if the recognition criteria are met. After initial recognition, fixed assets other than land are stated at cost less accumulated depreciation and impairment losses.

	<u>Tahun/Years</u>	
Sarana dan prasarana tanah	5 - 25	<i>Land improvements</i>
Bangunan, struktur dan pengembangan bangunan	3 - 30	<i>Buildings, structures and improvements</i>
Mesin dan peralatan	3 - 25	<i>Machinery and equipment</i>
Alat-alat transportasi	3 - 30	<i>Transportation equipment</i>
Perabotan dan peralatan kantor	2 - 15	<i>Furniture, fixtures and office equipment</i>
Pengembangan gedung yang disewa	3 - 30	<i>Leasehold improvements</i>
Galon	2	<i>Gallon</i>

Image 2

Discussion:

4.5 Audit Quality

ased on the decision of the Company's Annual General Meeting of Shareholders (GMS), the appointment of a Public Accountant (AP) who is part of the public accounting firm Purwantono, Sungkoro & Surja (KAP PSS) has been approved for the company's consolidated financial statements. They trust the quality of KAP PSS as part of the Ernst & Young team which is the big four. Based on observations of audit implementation in previous years, KAP PSS understands audit methods, techniques and means in accordance with the Public Accountant Professional Standards (SPAP). Based on these considerations, the audit committee does not see any problems with carrying out the audit.

The absence of errors in the presentation of consolidated financial statements does not always mean that the auditor is not qualified. However, it could be because their internal auditors do things correctly, so that there are no errors in presenting the financial reports.

4.6 Public Accounting Firm Rotation

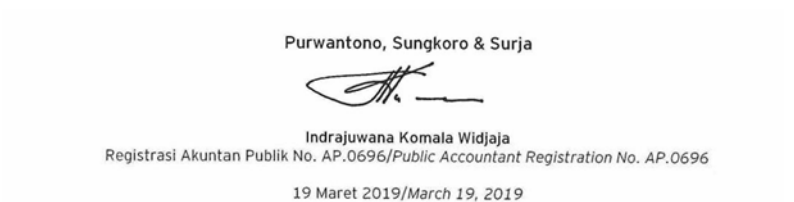


Image 3
PT Indofood Independent Auditor in 2018

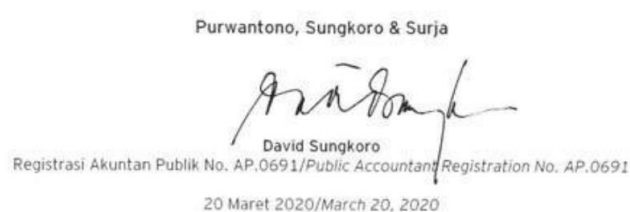


Image 4
PT Indofood Independent Auditor in 2019

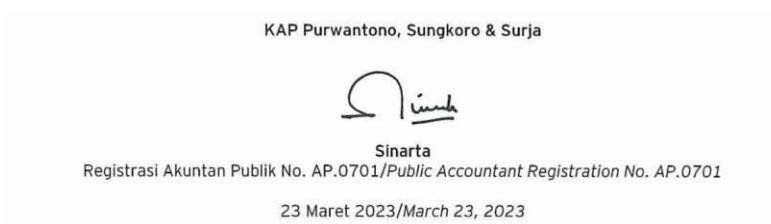


Image 5
PT Indofood Independent Auditor in 2022 Image: Comparison of PT Indofood's external auditors during 2018 – 2022

PT Indofood Sukses Makmur Tbk was audited by auditor Indrajuawana Komala Widjaja, who was the same auditor from 2016 – 2018. The following year, they switched auditors to David Sungkoro, who was still in the same public accounting firm as Indrajuwana, namely KAP PSS. So, it can be said that PT Indofood has used the same public accounting firm for many years, but has changed auditors.

With different external auditors, the company's financial reports can be more trusted. This convinces outside parties that the auditor has carried out his duties honestly. However, their financial reports will be more credible if they change public accounting firms.

5. CONCLUSION

This research focuses on independent audit practices at PT Indofood. From the background findings and discussion, several main points can be concluded as follows:

Responsibilities of Independent Auditors

The responsibility of an independent auditor is to detect and report fraud in company reports. In this case, PT Indofood has used the same public accounting firm for years. This shows that the auditor is responsible and trustworthy.

External Audit Mechanism

In this company, the external audit process has been carried out in a structured manner. The process carried out is in accordance with the procedure. This is proven by the auditor's submission of discrepancies in the independent audit report.

Financial Audit

Financial audits carried out by independent auditors are carried out at least once a year. Audited reports are statements of financial position, reports, profit and loss statements, reports of changes in equity, cash flow statements, and notes to financial statements

Fixed Asset Audit

The fixed asset audit has been carried out thoroughly. The asset audit still includes land, buildings, machinery and other furniture.

Audit Quality

There are no errors in the financial statements presented. This is stated in the independent auditor's opinion. Not finding errors does not mean that the audit is not of quality, p This is because the presentation of the financial statements is fair

Public Accounting Firm Rotation

Over the past few years, this company has always used the same public accounting firm, although with different auditors. This can affect the credibility of financial reports Overall, audit practices at PT Indofood are running well. The credibility of the financial reports is not in doubt.

REFERENCES

- Aisyah, F., Gunawan, H., & Purnamasari, P. (2021, December). The Effect of Audit Rotation and Audit Tenure on Audit Quality with Audit Fees as a Moderating Variable. In Bandung Conference Series: Accounting (Vol. 1, No. 1, pp. 1-8).
- Agoes, S. (2012). Auditing: practical instructions for auditing accountants by public accountants.
- Agusti, R., & Pertiwi, N. P. (2013). The Influence of Competence, Independence, Professionalism on Audit Quality (Empirical Study of Public Accounting Firms throughout Sumatra). *Journal of Economics*, 21(3), 1-13. <https://doi.org/10.22441/tekun.v8i1.5528>
- Deng, F., Jin, Y., Ye, M., & Zheng, S. (2019). New fixed assets investment project environmental performance and influencing factors—an empirical analysis in China's optics valley. *International Journal of Environmental Research and Public Health*, 16(24), 1–21.
- Mardeliani, S., Sudrajat, & Alvia, L. (2022). Analysis of Financial Report Fraud According to the Hexagon Fraud Model in State-Owned Companies 2016-2020. *Syntax Journal* <https://doi.org/10.46799/jsa.v3i7.458> *Admiration*, 3(7), 842–857.
- PSAK. (2013). Statement of Financial Accounting Standards 1 (revised 2009) (Statement of Financial Accounting Standards). Indonesian Accounting Association, 01(01), 1–79.
- PT Indofood Sukses Makmur Tbk. (2018). 2018 annual financial report. Accessed from <https://www.idx.co.id>
- PT Indofood Sukses Makmur Tbk. (2019). 2018 annual financial report. Accessed from <https://www.idx.co.id>
- PT Indofood Sukses Makmur Tbk. (2022). 2018 annual financial report. Accessed from <https://www.idx.co.id>
- Siahaan, S. B., & Simanjuntak, A. (2019). The Influence of Auditor Competence, Auditor Independence, Auditor Integrity and Auditor Professionalism on Audit Quality with Auditor Ethics as a Moderating Variable (Case Study at a Public Accounting Firm in Medan City). *Journal of Management*, 5(1), 81 – 92
- Sitompul, F. (2019). The Influence of Good Corporate Governance Mechanisms and Company Characteristics on External Audit Fees. *Ikraith-Ekonomika*, 2(1), 67–76.