

CHAPTER 1

INTRODUCTION

1.1 Research Background

Management audit nowadays reputed as phenomenom which comes from external financial auditing, internal operational audit, and management consultation. The needs over management audit, including for director, appear as the consequence of separation between the owner and company controller that identified the characteristic of modern company in this era. The increasing both from operational complexity inside a company and volume also managerial problems become a new pressure in the higher managerial level.

Management audit for the first time known as one of the audit type in United Kingdom year 1932, when T.G Rose, who write the book titled The Management Audit, propose this concept by a presented paper to Institute of Industrial Administration. Then this concepts get more attention from the USA (Batra, 1977).

In more recent years, it seems very likely that there will be increasing demand for information about corporate performance. The new developments can be viewed in the most general terms as due to new expectations of the total society pertaining to the quality of life. In the case of corporate management, there is the new emphasis on adhering to higher standards of conduct, better accounting policies, and for more comprehensive and more effective systems of internal

control (Burton, 1968). For board of directors there are pressures for greater involvement in corporate affairs, a deeper sense of both shareholder and social responsibility, and a greater use of audit committees (Brink, 1978). In the situation just described, internal auditors stand in a particularly strategic position. The result of all of the various new pressures is to some extent to further involve the internal auditor. Possessing, as they do, special technical competence in the basic areas of internal control, and having been further indoctrinated in the broader areas of effective managerial results, they are especially well equipped to make a major contribution (Brink, 1978). Those needs enforced the auditor to expand their scope not only in financial but also in overall management of organization which called management audit.

The importance of management audit linked with the appearance of management audit necessity. Modern auditing nowadays emphasizes more into internal examination that used to evaluate the overall effectiveness and efficiency of the company (Alzeban, 2014). Management audit is a complex task closely linked with the process of management (Chand, 2012). Management audit make sure on how good the management both in managing relationship with external parties or in the internal effectiveness and efficiency. The examination done by smoothness organization, starts from highest level of management until the lowest level of management. Then, almost all of the management aspects are examined and the given recommendation can increase effectiveness and efficiency of the company. This management audit should be done prudently so the critical areas

can be identified, report it to management, then give the recommendation to accelerate management development process.

Some studies for example, according to Munteanu (2013), find that the current trends of internal audit, as a profession, has been redefined over the years and it has constantly complied with the changing needs of entities. So, if at the beginning it was focused on accounting issues, presently, internal audit has oriented to the detection of the main risks of the entity as well as to the evaluation of its activities. In the other words, auditing not only limited for financial statement itself but more deeply into how the company manage their management then be able to produce appropriate output in financial functions. It goes beyond the conventional audit which involves a scrutiny of financial transactions and the books of accounts. It is a comprehensive and critical review of all aspects of management (Botez, 2012).

Another studies from Arter (2000), define that management audit now widely practiced to evaluate managements objectives, the extent to which they have been achieved and company policies and producers complied with, especially in large scale business organizations. Management audit is an emerging concept of auditing. Management audit focuses on results, evaluating the effectiveness, and suitability of controls by challenging underlying rules, procedures, and methods.

Management audit is an act of evaluation of all activities among all departments with a view to provide appropriate suggestions to the management to help their work (Vinten, 1991). In the other words, management audit is a future

oriented task which evaluates timely in all of the levels of management such as production management, sales management, financial management, etc.

One of the management function which have very important role is financial function especially in a big company where they have higher complexity on their operational activity. The information given from financial function become a significant input for top-level management as a consideration to making decision in increasing company's performance. Financial function enforced the financial management to design the planning as good as possible whether in short-term or long-term which will become a guideline for financial function (Bunderson, 2002).

Management audit used for analyze, evaluate, re-observe, and consider the performance of the company compared with every standard precisely or specific guideline from the company (Aksoy, 2012). The management audit itself aimed to evaluate company's activity related with the determination of efficiency, effectiveness, and policy of top management level without reducing the quality of the product or service (Arena, 2009). Management audit of financial function designed systematically to auditing the activity, programs that held by the company, and is it the purpose of activity and programs already achieved (Bhayangkara, 2008). Management audit of financial function is a form of examination where the intention tend to management process especially for planning procedure, organization, and controlled activity chosen for audit to determine how good the management so that the process goes effectively and efficiently (Tunggal, 2000). Management audit of financial function is the oldest

audit type implemented to measure the efficiency, effectiveness, and productivity in a company.

It is important to conduct a management audit of financial function because its used for examine to analyze, reobserve the result of company whether it is run effectively, efficiently, and economics also identified the weaknesses and then conduct the testing and research any unthriftiness, inefficiency, and ineffectiveness to proposing some recommendation solutions to improve the company (Munteanu 2013:3).

PT. Pelabuhan Indonesia III (Persero) for the next called by PT. Pelindo III (Persero), is State-Owned Enterprises (SOE) which engaged in the communications sector. PT Pelindo III (Persero) which running the core business as the provision facility of the harbor service, has a key role to continuity and to swift sea freight. With the availability marine transportation infrastructure, PT Pelindo III (Persero) is able to move and to excite activities of country and society economic. The complexity inside this company certainly high remaining that they are managing some Indonesian provinces including East Java, Central Java, South Kalimantan, Central Kalimantan, West Nusa Tenggara, and East Nusa Tenggara.

The reason for taking PT. Pelindo III (Persero) as the object of management audit in this research is because the business sector of PT. Pelindo III (Persero) is kind of business which will rapidly growth and has a low risk for any liquidation. The harbor as an entrance gate for trading (international and national) needs a good maintenance and good service. When the harbor service maintenance as

good as it should be, the trading on that area will growth and more safety for the customers and also provide the convenience for customer in using harbor entrance. If the trading growth, then the probability for increase in society wealth also increased. It makes a differentiation between PT. Pelindo III (Persero) and other companies. The other companies might be growth rapidly but if the PT. Pelindo III (Persero) does not exist or does not have a good management then there will be unconvenience of harbor service which will affects the smoothness flow of trading. When the flow is not fluency and decreased the convenience, then the intention for trading in Indonesia (especially East Indonesia which is the areas of PT. Pelindo III) will going down. When the intention is decreased, the economics growth that comes from trading will be decreased and it surely affecting the wealth of society.

According to how big the scale of PT. Pelindo III (Persero) and to control the process and procedures of trading using harbor entrance which involve both international and national trading, this company needs continuously improvement and reliable information through their function of business and it becomes very important in influencing economics growth. With this very important role, PT. Pelindo III (Persero) definitely needs excellent management control by implementing appropriate examination. This examination should ensure that the management of each function works appropriately. This examination is management audit which will identified any risks and weaknesses of each function and analyze the management performance. The terminology used in PT.

Pelindo III (Persero) for management audit is Internal Audit but it has the same meaning with management audit that meant by this research.

1.2 Problem Statement

The majority of company nowadays is that they have separation between owner and management. That separation cause the different interest between owner and management either. To connecting their interest becomes one vision of the company, the company needs a very effective and efficient management and to ensure that the result is reliable, the company needs a management audit. Moreover, the increasing of complexity in a company was demand an effective and efficient management also. Effective and efficient financial management directs the company to get more profit which give benefit for the owner and also less time disbursement which give benefit for management. So, the company will get both of benefits with two different interest. It shows that will be important if this study can determine the following questions:

How the implementation of management audit in financial function at PT. Pelindo III (Persero)?

1.3 Research Objectives

Based on the problems statement defined above, the purposes of the research are:

1. Obtain the way to auditing the management of financial function at PT. Pelindo III (Persero)
2. Determine the implementation of management audit in financial function at PT. Pelindo III (Persero)

1.4 Research Contribution

Some contributions that can be attained from this research are:

1. For company

The results of this study can help the companies in knowing how far the role and implication of management audit in financial function optimally, get recommendation for improvement if necessary, and contributing a suggestion as input and remedial measures if needed.

2. For researcher

Deepen and broaden the knowledge regarding the management auditing in financial function as well as determine how the implication of management auditing in the company related.

3. For others or society

The benefit for society is that this research can be used as a useful reference for science and technology development especially which related with management auditing in financial function.

1.5 Research Systematic

In order to determine and explain the effectiveness of management audit in financial function PT. Pelabuhan Indonesia III (Persero), it is a must to have an organize structure analysis. This study is developed in five chapters:

CHAPTER 1 : INTRODUCTION

This chapter will explore the importance of conducting management audit and the improvement of management audit implementation. Also give some information about PT. Pelindo III (Persero) and its role in business.

CHAPTER 2 : THEORITICAL REVIEW

This chapter explains about theory and some information which have the correlation to the management audit in financial function that used as the guidance to solve the problems. The first thing to be explored is about management audit itself. Management audit define as regulating and valuable process for economicality, efficiency, and effectiveness assessment of organization's operations and in addition to provide assessment outcome add practical suggestions to associated people for improving these functions. It is also explain about the role of financial function and established the result from The Instituted of Chartered Accountants in England and Wales' survey (ICAEW) which define the 'high-

performance' and responsibility rate of financial function. Also explain about the effectiveness and efficiency following by definition of effectiveness in management audit based on 'Standards for The Professional Practice of Internal Auditing' (The Institute of Internal Auditor, 2007) number 2200, 2300, 2400, and 2500, ISO 19011, and Standard Nasional Indonesia or NSI 19-9000 and NSI 19-1400.

CHAPTER 3 : RESEARCH METHODOLOGY

This research uses matching-concept analysis to analyze the internal audit reports in finance department of PT Pelindo III (Persero). Matching concept analysis is the chain of evidence results in the comparison of predicted (theoretical) patterns with observed (empirical) patterns (Yin, 2009). Yin (2009) emphasizes the value of matching concept, especially when the theoretical propositions and observational data coincide as predicted and do not coincide as predicted. Data used in this research are both secondary and primarily data from PT. Pelindo III (Persero) from preliminary survey until linked the real situation with theory. This study wants to evaluate the management audit in financial function of PT. Pelindo III (Persero).

CHAPTER 4 : RESULT AND DISCUSSION

This chapter represents the analysis of management audit implementation in financial function of PT. Pelindo III (Persero). This evaluation done by comparing the actualization of management audit of financial function in PT. Pelindo III (Persero) with 'Standards for The Professional Practice of Internal Auditing' (The Institute of Internal Auditor, 2007) number 2200, 2300, 2400, and 2500, ISO 19011, and Standard Nasional Indonesia or NSI 19-9000 and NSI 19-1400. In this chapter, it is proved that management audit of financial function PT. Pelindo III (Persero) already effective but still needs an improvement in some aspects.

CHAPTER 5 : CONCLUSION AND SUGGESTION

This chapter is a closing section, which provides conclusion based on the problem discussed and proposes suggestion of the research limitations. As the answer, this research evaluates the management audit of financial function in PT. Pelindo III (Persero) already effective but still needs some improvements at some aspects. Some limitations of this study are: the access to some data and observations. Further studies involving different companies are needed to get more access through the data and observation