



Basic Auditing

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Abstract: Auditors should continue to improve their understanding of audit philosophy to be able to carry out their duties more objectively, professionally, and independently, in order to create more accurate and trustworthy audit results. The audit cycle must be carried out carefully and structured. Auditors are expected to focus more on every stage of the audit cycle, from planning to reporting, to ensure that the audit process runs effectively and efficiently. In carrying out their duties, auditors need to pay more attention to auditing norms and codes of ethics in order to maintain their professional standards and maintain public trust in the audit process carried out. Therefore, auditors need to always prioritize their integrity and independence. A more in-depth and detailed audit plan will reduce the risk of non-conformities or omissions in the implementation of the audit. Therefore, each auditor must be more thorough in preparing a mature audit plan in accordance with the complexity and objectives of the audit faced. Auditors should pay attention to the importance of audit working papers as evidence that supports every step in the audit process. The working paper must be prepared carefully, clearly, and completely so that it can be used as a strong reference in compiling audit reports. Auditors should be more transparent and firm in formulating audit opinions, by always ensuring that the opinions provided are based on strong and sufficient evidence, and can be properly accounted for. The audit report must be prepared clearly, completely, and in accordance with applicable standards. Auditors need to ensure that the audit report is understandable to stakeholders and provides enough information for informed decision-making.

Keywords: Audit Philosophy, Audit Cycle, Auditing Norms and Code of Ethics, Audit, Planning, Working Paper, Auditor's Opinion, Audit Result Reporting

Introduction

Auditing has a very vital role in the field of accounting and finance. The main purpose of an audit is to provide certainty regarding the correctness of the financial statements prepared by an organization. As a process that involves an in-depth examination of financial data and transactions, audits must be conducted carefully and based on high professional principles. During the audit process, auditors not only need to follow standard audit procedures, but must also adhere to philosophical foundations, follow a well-organized audit cycle, and comply with professional norms and codes of ethics that govern auditing activities. Discuss and understand the basic philosophy of auditing that underpins auditing practices, and identify how these basic principles ensure objectivity, independence, and integrity in the audit process (Cooke, 2019).

Outlining a structured audit cycle and the importance of each stage in that cycle for the smoothness and effectiveness of the audit, as well as how the audit cycle can affect the results obtained by the auditor. Explain the norms and codes of ethics of the auditing profession that must be followed by auditors to maintain standards of professionalism and ethics in every task performed, as well as how the code of ethics helps prevent conflicts of interest and ensure public trust in audit results. Analyze the audit planning process which includes the steps that the auditor must take before starting the audit, including understanding the client's needs, identifying risks, and developing an appropriate audit strategy (Garland, 2022). Exploring the importance of working papers in auditing, as well as how working papers serve as documentation that links clients' financial statements to auditors' conclusions and opinions, and provides evidence to support the audit process. Explain how the auditor formulates an audit opinion or opinion regarding the fairness of the audited financial statements, as well as understand the various types of audit opinions that can be provided by the auditor based on the results of the audit conducted. Discuss the structure and components of an audit report, as well as how an audit report is structured to ensure transparency, accountability, and clear understanding for all parties interested in the audit results (Nguyen, 2023).

Methodology

The research methodology in *basic auditing* or basic auditing is designed to provide a systematic and structured framework for auditors in carrying out their duties. Basic audits aim to provide reasonable confidence that an entity's financial statements are presented fairly, in all material respects, in accordance with Applicable Accounting Standards. The stages in the basic audit research methodology include audit planning, audit implementation, and audit reporting. In the audit planning stage, auditors need to understand the entity and its environment, determine audit objectives, develop an audit strategy, and draw up a detailed audit plan. At the audit implementation stage, the auditor conducts control tests and substantive tests, as well as collects sufficient and appropriate audit evidence (Johri, 2024). Finally, at the audit reporting stage, the auditor evaluates the audit evidence, prepares an audit opinion, and publishes an audit report. The data collection methods used in basic audits include inspection of records and documents, inspection of physical assets, confirmation, interviews, observations, and data analysis. All stages of the audit and the audit evidence collected must be well documented in the audit working paper. The implementation of basic audits must be guided by applicable audit standards (Ferry, 2023).

Result and Discussion

Audit Philosophy

A theory is formed to explain phenomena obtained through real observation. The existence of this theory can cause problems due to its limitations. Theories can also provide definitive explanations, but remain open to debate and discussion. R. K. Mautz and H. A. Sharaf, in their book *The Philosophy of Auditing*, were the first figures to do this, with a book published in 1993. In 1978, C. W. Shandl developed ideas that originated in Mautz and

Sharaf. According to Mautz and Sharaf (1993), auditing theory consists of five basic concepts, which are explained as follows:

1. Evidence. The auditor must gather sufficient and relevant evidence to support the conclusions drawn in the audit. This evidence is the basis used to evaluate the accuracy and fairness of financial statements.
2. Due Audit Care. Auditors are required to carry out their duties carefully and carefully, ensuring that every step in the audit process is carried out carefully and thoughtfully, in order to avoid errors or omissions.
3. Fair Presentation. Auditors must ensure that audited financial statements are presented in a correct and transparent manner, as well as in accordance with applicable accounting standards, so as to reflect accurate and honest circumstances.
4. Independence. The auditor must maintain a neutral and objective attitude without being influenced by personal or external interests, to ensure that his or her assessment of the financial statements is unbiased and trustworthy.
5. Ethical Conduct. Auditors must act with integrity and follow high ethical guidelines, maintain good moral standards in their every action during the audit process, and be responsible to the profession and society (Murikah, 2024).

Audit Cycle

The audit cycle is a series of stages and procedures carried out by auditors to conduct an audit of financial statements. This cycle involves several steps designed to ensure efficient and effective audit execution, as well as to achieve the desired objectives of the audit. Agoes & Trisnawati (2019) explained several stages of audit activities aimed at improving the success of auditor performance, as follows:

Plan and Design an Audit Approach

Auditors need to understand the background of the company to be audited, study the operational processes that are running, and know the purpose of the financial report maker and the parties who use the report. Auditors must also understand the company's internal control structure. This process is known as *the initial procedure*, which aims to collect complete information about the audited company so that the auditor's credibility is maintained. Auditors should also measure the volume of documentary evidence to help plan the cost, time, and scope of the audit. It is important for the auditor team to plan by estimating costs based on audit activities, such as visiting specific sites or factories. The auditor then submits an audit proposal to the client, and for existing clients, the auditor needs to review significant changes, such as changes in recording methods or relationships with suppliers. If the client is new, the auditor can learn about the legal framework and code of ethics that applies in the company (Kateb, 2023). The auditor must also determine the level of materiality and acceptable risk to provide a basis before embarking on a series of audit activities, from data collection to the preparation of an audit opinion (Singh, 2023).

Test of Control

The auditor implements procedures to verify the effectiveness of the internal controls implemented by the company. This internal control functions to ensure that all operational processes are in accordance with the procedures and standards that have been set by the company's management. There are four methods that can be used in internal control testing, namely:

1. Inquiry. Ask questions to the client's management through interviews.
2. Inspection. Examine documents or physical evidence that support the implementation of the controls.
3. Observation. Observe the implementation of control by the client.
4. Re-performance. The auditor conducts independent backtesting to ensure the results are consistent with those reported by the client.

The results of these risk assessments and internal control tests will affect the procedures used in substantive testing. If the tests show that the control is effective and the materiality is low, then the substantive procedures carried out will be fewer (Peng, 2023).

Substantive Test

At this stage, the auditor implements procedures to test the accuracy of the recording in the financial statements. Some of the tests carried out in the substantive test include:

1. Test of Details of Balance
2. Test of Details of Transaction
3. Test of Details of Accounting Estimate
4. Test of Details of Disclosure

This test is carried out according to the needs of the auditor and the condition of the client being audited.

Analytical Procedures and Test of Details of Balances

Auditors can use *analytical procedures* by comparing data between periods, such as financial ratios for sales, accounts receivable, and others. *Analytical procedures* can be used at different stages of audits for different purposes, depending on the type of client. Not all testing needs to be done for every client.

1. Preliminary Analytical Procedures are used to understand companies and assess the risk of material misstatements.
2. Substantive Analytical Procedures are used to detect errors or material misstatements.
3. Final Analytical Procedures are used by auditors to draw conclusions regarding the suitability of the client's financial statements with the auditor's understanding of the client's business.

Audit Completion (Final Stage)

In the final stage, the auditor reviews the conditional obligations and events after the report date to ensure that all relevant events have been properly recorded in accordance with the applicable policy. Auditors must also fill out audit checklists, prepare management letters, and prepare audit reports. The audit results are then communicated to the audit

committee and management, by providing an independent and thorough audit report (Oulasvirta, 2023).

Auditing Norms and Code of Ethics

According to M. Safri Nugraha and Ummi Kalsum (2023) in their book *Auditing Professional Ethics*, ethical norms and codes in auditing serve as guidelines to ensure that auditors carry out their duties by adhering to high professional and ethical standards. Ethics, morals, ethos, and etiquette in everyday communication are often considered to have the same meaning, although in fact not all of them are identical. In a narrower sense, ethics is often understood as moral, which is a custom or habit that applies in society. However, ethics can also be seen as a branch of philosophy that studies these habits or customs (Bartens, 2001). In general, ethics can be defined as a set of moral principles or values that apply to a particular group of professions. Behavior based on ethics is needed so that people's lives can run in an orderly manner (Shidaganti, 2023). Thus, ethics is a type of behavior that can strengthen relationships in social life. According to the 2023 Guidelines of the Indonesian Accounting Association (IAI), the basic ethical principles that accountants must follow are as follows:

1. Integrity

Accountants must act honestly and fairly in each of their professional actions. They must maintain the reputation of the profession by always prioritizing the principles of honesty and transparency in their work.

2. Objectivity

Accountants must maintain objectivity in each of their decisions and judgments, free from conflicts of interest that could affect the independence or accuracy of their work.

3. Professionalism

Accountants must carry out their duties with full responsibility and prioritize quality in every work done. This includes a deep understanding of applicable standards as well as implementation with high ethics and competence.

4. Concealment

Accountants are obliged to maintain the confidentiality of information obtained during the course of their professional duties, unless required by law or permission from the authorities.

5. Professional Competence and Prudence

Accountants must have adequate competence in carrying out their professional duties and always be careful in every step taken. They must continue to improve their knowledge and skills to provide the best service.

Audit Planning

Initial audit planning can be divided into two main categories, namely audit organization planning and audit assignment planning. Before implementing these two types of planning, there are four steps that must be taken first in the audit process, namely:

1. The auditor must decide whether to accept new clients or continue working relationships with existing clients.

2. The auditor needs to identify the needs or desires of the audit client, which will then influence the next planning steps.
3. In order to avoid misunderstandings, auditors must clearly understand the terms or conditions set by the client regarding the audit assignment.
4. The auditor must then design an overall audit strategy, which includes the arrangement of the staff who will be involved in the assignment as well as determining the necessary audit specialists.

Audit planning involves several important steps that the auditor must follow, namely:

Initial Information Collection

1. Auditors collect data on the entities to be audited, as well as industry-related information and influencing external factors.
2. Determination of Audit Objectives and Scope
3. The auditor sets the objectives to be achieved in the audit and determines the limits of the audit to be carried out.
4. Risk Assessment
1. The auditor evaluates potential material risks that may affect the financial statements and designs measures to manage those risks.
2. Development of Audit Plan
3. The auditor draws up a plan that includes the allocation of resources, schedules, and audit procedures to be implemented.

Working Paper

Definition of Working Paper

According to Halim (2018), a working paper is a documentation made by an auditor that records all audit procedures carried out, including testing, information collection, and conclusions related to the implementation of the audit. The working paper serves as a link between the accounting records owned by the client and the audit report prepared by the auditor (Fei, 2024).

Benefits of Working Paper

Audit working papers have various benefits that are important to assist auditors in ensuring the feasibility and certainty of audit evidence, in accordance with applicable standards (Arens, 2008). Some of the uses of audit papers include:

- a. As evidence to provide suggestions and recommendations for improvement. The working paper is used as the basis for providing suggestions or recommendations for improvement in the audit report.
- b. Support the planning, implementation, and review of the audit process. The working paper assists the auditor in planning, implementing, and evaluating the audit process carried out.
- c. Allows the boss to assess the work that has been done. The paperwork allows the employer to evaluate the tasks that have been carried out by the auditor, ensuring that the work has been done well.

- d. Assist auditors in assessing work results as planned. The working paper helps the auditor to ensure that the work carried out is in accordance with the plan that has been set, as well as covering financial and operational aspects to support suggestions and opinions on improvement.
- e. As proof that audit procedures have been followed. The working paper serves as documentation that shows that the audit procedures have been implemented correctly, as well as reveals the problems and their causes, which supports the opinions and suggestions given.
- f. Allow other auditors to continue their work. Working papers allow other auditor staff to understand and continue with the tasks assigned under the audit staff replacement plan.
- g. As a tool to develop auditor professionalism. Paperwork can serve as a tool to improve the skills and professionalism of internal auditors.
- h. Demonstrate that the audit is conducted according to professional standards. The working paper shows that the audit work has been carried out in accordance with the standards of expertise by the audit staff and produces a final evaluation report in accordance with the applicable audit procedures.

Paperwork Preparation

According to Halim (2008), there are several basic techniques in making working papers that need to be considered, including:

- a. Making headings. Each working paper must include a title that includes the client's name, the contents of the working paper, the date of the balance sheet, and the period of the audit conducted.
- b. Index number. Each working paper is assigned an index number to facilitate identification and cross-reference between working papers. These numbers can be a sequence of accounts with letters (A, B, C, and so on), two letters (AA, BB, CC, and so on), or a sequence number (10, 20, 30, and so on) for income and expense accounts. For example, "C2" means the paperwork for the inventory in section C, second order.
- c. Cross-referencing. The data in a working paper taken from another working paper must be cross-referenced with the appropriate number to facilitate the tracking of information sources.
- d. Tick mark. The auditor uses the tick mark symbol to mark and provide a narrative explanation in the working paper as a reference or relevant additional evidence.
- e. Signature inclusion. The working paper must include the signature of the auditor who made it as well as the reviewer, to ensure that the work has been inspected and approved by the authorities (Berger, 2023).

Auditor's Opinion

In Audit Standard 700 (Revised 2021), there are guidelines on how auditors should formulate opinions related to audited financial statements, as well as regulating auditors' responsibilities in the process (IAPI, 2021). Auditors need to ensure that the opinions provided are based on sufficient confidence that the audited financial statements are free

from material misstatements, either caused by errors or fraud (IAPI, 2021). Here are five types of opinions or opinions that an auditor can provide in an audit report:

1. Unqualified. An opinion stating that the financial statements have been presented reasonably and in accordance with applicable accounting principles, without any significant problems.
2. Unqualified with explanatory paragraph or modified wording. This opinion also states that the financial statements are reasonable, but the auditor adds additional explanations in the form of paragraphs or changes in wording to provide further clarification on certain issues that do not affect the general conclusion.
3. Reasonable with Exceptions (Qualified). An opinion that states that financial statements are mostly reasonable, but there are exceptions related to certain matters that are inadequate or not in accordance with applicable accounting principles.
4. Unnatural Opinion (Adverse). An opinion that states that the financial statements are not presented fairly, because there are significant errors or problems that affect the reliability of the report.
5. No Disclaimer. This opinion is given when the auditor is unable to provide an opinion on the financial statements, usually due to a lack of sufficient evidence or other constraints that prevent the auditor from conducting an adequate audit (Thottoli, 2024).

Audit Results Reporting

The audit report consists of several important components, including:

1. Introduction. This section provides basic information about the audited entities as well as the period during which the audit was conducted.
2. Audit Proof. This component presents the findings found by the auditor during the audit process, as well as the auditor's opinion on the audited financial statements.
3. Fill out the audit report. This is the main section that includes the findings of the audit results and the auditor's opinion regarding the fairness of the audited financial statements. Audit reports generally include the following:
 - a) Purpose and scope of the audit
 - b) Background of the audited entity
 - c) Audit procedures conducted
 - d) Findings from the audit
 - e) Recommendations provided by the auditor
 - f) Response from the audited party to the audit findings
 - g) Summary or general conclusion
 - h) This structure can vary depending on each internal audit unit, so there is no standard format (Hanifah, 2023).
4. Opinion. The last part of the report contains the auditor's opinion regarding whether the audited financial statements have been reasonably presented in accordance with applicable accounting standards.

Conclusion

Based on the discussion of audit philosophy, audit cycle, auditing norms and code of ethics, audit planning, working papers, auditor opinions, and audit report results, it can be concluded that: Audit philosophy is a very important foundation for auditors to carry out their duties with objectivity, independence, and integrity. This philosophy requires auditors to maintain professionalism ethics and prioritize honesty in every decision taken during the audit. The audit cycle, which consists of several continuous stages such as planning, implementation, testing, and reporting, plays a very important role in ensuring that the entire audit process runs effectively and efficiently, as well as producing accurate and reliable reports. Auditing norms and codes of ethics regulate the behavior of auditors in carrying out their duties. These norms ensure that auditors act in accordance with applicable standards, as well as maintain public confidence in the audit results delivered. A strict code of ethics aims to avoid conflicts of interest and ensure the objectivity and independence of auditors. Audit planning is a very crucial first step in the implementation of an audit. Auditors must understand the background and objectives of the audit, as well as plan appropriate audit procedures so that the audit process runs smoothly and effectively. Careful planning will reduce the risk of errors and improve the quality of audit results. Audit paperwork serves as a very important documentation, which stores evidence and the audit process that has been carried out. This working paper also allows other auditors to evaluate and re-examine audit results more easily, as well as providing a solid basis for making audit opinions. The auditor's opinion in the form of an audit opinion is a very important part of the audit report. Based on the results of the audit and existing evidence, the auditor provides an opinion that describes the fairness of the audited financial statements. The opinion provides a clear picture for interested parties regarding the financial condition of the entity. Reporting audit results is the final stage in the audit process that conveys the auditor's findings and opinions in a clear and detailed manner. Audit reports must be prepared professionally and in accordance with applicable standards, in order to provide transparent and trustworthy information by stakeholders.

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