

THE IMPORTANCE OF COORDINATION BETWEEN INTERNAL AND EXTERNAL AUDIT IN THE ADMINISTRATIVE PROCESS

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Abstract

The coordination between internal and external auditors is crucial in carrying out their professional duties and responsibilities. This coordination process involves exchanging information, sharing audit opinions, as well as discussing audit planning and reporting. The study is focused on assessing the significance of internal audit alignment and the interaction between internal and external audit. The research method employed is an empirical study with a quantitative approach through surveys and in-depth interviews with internal and external auditors in various industrial sectors. The findings indicate that effective coordination between internal and external auditors can prevent job duplication, enhance the accuracy and reliability of financial reports, and improve operational efficiency of the company. The research discussion emphasizes the importance of support from management as auditee in the audit process and the need to maintain the independence of internal auditors for audit effectiveness. The research gap lies in the lack of in-depth empirical exploration on how this coordination is implemented in practice and its impact in various organizational contexts. Therefore, this study provides a significant contribution to the understanding and practice of coordination between internal and external auditors, and offers recommendations for further research in the future.

Keywords: Coordination, Internal Audit, External Audit, Auditing, Effectiveness

1. INTRODUCTION

In the business and organizational world, audits are important to ensure compliance and efficiency in company operations. Audits can be conducted internally by an internal audit team working within the organization or business by an external audit team working independently from outside the organization or business. Although the two have different roles, coordination of internal and external audit links is very important in the audit process. Securing and Improving the Reliability of Financial Information: Internal and external audits have an important role in ensuring the correctness of an organization's financial information. Internal audits are conducted by internal teams responsible for establishing the organization's internal policies, procedures, and practices, while external audits are conducted by independent parties from outside the organization. Coordination between these two types of audits ensures that errors or irregularities found by either audit can be identified, communicated, and corrected appropriately and effective internal control.

One of the targets of economic development in Indonesia, namely from the financial sector, is desired to be able to advance the economy and make the welfare of the Indonesian people increase, especially in banking. In addition to improving the economy, banking provides opportunities for the public with work by collecting that crosses activities carried

out by financial institutions, such as deposits, investments, balances, as well as loans (Erfiansyah & Kurnia, 2018).

In carrying out activities to provide assurance and provide free and objective advice, internal audit provides affairs to be designed to improve the organization's operations and increase value. (Institute of Internal Auditors (IIA) in Sawyer et. al., 2011)". Internal audit has a function in regulating the control system. Transactions within the company create material weaknesses that create inefficiencies and make the company's controls fail, and the task of internal audit must disclose. In following rapid and precise developments, especially in the economic sector, disclosure of weaknesses in business development in Indonesia is needed. The role of internal audit is important in improving for companies in the presence of material weaknesses.

The task of the external auditor is to audit the financial statements of companies, governments, individuals, or other entities. Accounting professionals who provide services to clients are called external auditors. Services provided by the public accounting profession to the public are divided into three categories: services other than guarantees, such as endorsements, and guarantee services (Mulyadi, 2002). Both internal auditors and external auditors are professions that play a significant role in the management of organizations or companies / institutions and have relevance in the efficiency of internal control of financial statements. The business, financial, industrial, and strategic risk aspects facing businesses are well understood by both professions. In terms of professionalism, both require compliance with the code of ethics and professional standards of their respective professional institutions, as well as an objective mind attitude and independence from examination activities (Srihadi, 2018).

Internal auditors play a positive and significant role in the quality of financial reporting, according to (Erfiansyah & Kurnia, 2018) research in Bandung, with a result of 62.4%. The figure of 62.4 percent indicates that it is quite strong. The quality of financial reporting will improve if internal

auditors are more involved in ensuring that financial reporting is reliable. Coordination is the process of several activities to set goals and work plans that have been agreed upon by all components, functional areas, and departments so as to produce an action that is coordinated effectively and efficiently. Superiors in an organization or business will ensure that tasks are completed in a coordinated manner so that the information is clear and the work is distributed according to his authority. As a result, internal and external audits are essential to ensure that the audit process is conducted in a coordinated manner.

This research, which is a reference related to the importance of Coordination between Internal and External Auditors towards auditing. It is important to note that the working relationship between external and internal auditors is very close. For example, when management inquires about the quality of internal auditors' work or vice versa, external auditors inquire about the results of internal auditors' reports for evaluation. With this research, it is expected to increase and increase understanding and awareness to pay attention to coordination in the audit process and make good use of it. Thus the results of the audit can be more accurate and reliable in the company's financial reporting.

The novelty of this study lies in emphasizing the importance of coordination between internal and external auditors in the audit process to improve the quality of corporate financial reporting. This study also underscores that a close working relationship between

the two auditors can improve the accuracy and reliability of financial statements, which has not been explored much in depth in previous studies. In addition, this study offers the view that good coordination between internal and external auditors can prevent duplication of work and improve the efficiency of company operations.

2. RESEARCH METHOD

This study uses quantitative methods. The technique used in conducting this research is to use primary data, the data is collected through a questionnaire that has been tested, then the questionnaire is distributed to respondents using Google Forms with questions related to each indicator in the questionnaire. The population that will be used is all students of... By using proportional random sampling method, 205 students were obtained.

3. RESULTS AND DISCUSSION

Coordination is a coordinated and scheduled effort to ensure the availability of appropriate amounts and times, and direct implementation to achieve actions that are in line and compatible with predetermined objectives (Terry & Smith, 1990). According to E.F.L. Brech, coordination is the activity of maintaining and balancing a team by ensuring the appropriate allocation of tasks for each member and ensuring that those tasks can be carried out harmoniously. In addition, David H. McFarland states that coordination or cohesiveness is a form of process in which leaders develop regular work patterns between subordinates and ensure that every action can be achieved in accordance with the goals set. Thus, coordination involves planned arrangements and proper direction to achieve harmony and balance in the implementation of the tasks set.

Auditing in the business and organizational world, auditing is an important part of ensuring compliance, transparency, and efficiency in company operations. Audits can be conducted internally by an internal audit team working within the organization or by an external audit team working independently from outside the organization. Although they have different roles, coordination between internal and external audits is very important in the audit process. In this study, the importance of such coordination.

1) Effective Communication

Coordination between internal and external audits allows for the sharing of important information. Internal auditors have a deep understanding of organizational processes, policies, and systems, while external auditors bring an outside perspective of goals. By sharing information regularly, both teams can gain a more complete understanding of the relevant risks and ensure that the focus of the audit is placed on the most critical areas.

2) Efficiency

Organizations and external stakeholders have long recognized the importance of internal and external auditors. Synergy and interaction with the exchange of information, opinions, and reports used to expedite the audit process that has better and higher quality standards and avoid unnecessary duplication of work are examples of such coordination and cooperation. In the Government Internal Audit standard, in the audit implementation standards section, coordination must combine communication sharing and synchronization of activities is crucial in building professional relationships between parties involved in

auditing. This will support the achievement of internal auditor objectives and provide superior service to the business. From an outside examiner's point of view, providing a higher quality audit opinion makes the information provided by the internal auditor helpful. Studies show when helping management provide high- quality public services at the best of cooperation it improves the economy, efficiency, and effectiveness of audits. The discrepancy in cooperation between internal and external auditors can result in something that disrupts the quantity of internal and external audits in the public sector in developing countries (Al-Twaijry et al., 2003; Al-Twaijry et al., 2004).

The term "internal audit" refers to procedures or methods for mitigating potential risks caused by the lightning-fast pace of change in the business world. AU strategy to address the risks posed by the rapid development of the business world. According to the Institute of Internal Auditing (IIA) (Kurniawan, 2015) explained that internal audit is a consulting service designed to add value and improve the operational performance of the organization as well as independent and objective guarantors. Through a methodical and scheduled approach to the organization, internal audit helps the organization achieve its objectives by estimating and improving the efficiency and economicalization of the company's activities, adequacy of control, and control management. To achieve company goals, internal audit plays an important role. The expanded scope of the company requires the concept of internal audit. The basic principles and theories of auditing argue that auditing is simply a tool to improve projects, information services, business processes, or other system performance. If the audit results in an improvement in the performance of the company, this indicates that the presence of the audit supports a comprehensive improvement.

External audit plays a crucial role in ensuring the transparency and accuracy of financial information provided by companies to their stakeholders. By conducting a thorough examination of financial statements, external auditors help to instill confidence in investors, creditors, and other interested parties regarding the financial health and performance of the company. The independent nature of external auditors also helps to prevent potential conflicts of interest and ensures that the audit process is conducted in an unbiased and objective manner.

In addition to providing assurance on the accuracy of financial statements, external auditors also play a key role in identifying areas for improvement in a company's financial reporting and internal controls. By highlighting potential weaknesses or deficiencies, external auditors can help companies to strengthen their financial management practices and enhance their overall governance and risk management processes. Overall, external audit serves as a critical tool for promoting accountability, transparency, and trust in the financial reporting process. By providing an independent and objective assessment of a company's financial statements, external auditors help to safeguard the interests of stakeholders and contribute to the overall integrity of the financial markets.

The differences between Internal Auditors and External Auditors include several important aspects. Internal Auditors produce recommendations as an output of their audits, whereas External Auditors produce audit opinions. Another difference is in terms of independence; External Auditors emphasize the importance of independence more than Internal Auditors. The reports produced by the two types of auditors are also different:

External Auditors report their audit results to stakeholders or assignors, while Internal Auditors report their results to the Audit Committee or Commissioners or Supervisors.

While there are fundamental differences between External Auditors and Internal Auditors, they do have some similarities. Both types of auditors must remain objective in performing their duties. They also use the same methodology in auditing, which is through planning and performing control testing and substantive testing. In addition, they consider risk and materiality in determining the extent of testing to be performed as well as in evaluating the audit results.

The existence of the Internal Auditor function in the company greatly assists the External Auditor in carrying out and completing external audit procedures. Internal auditors can provide information needed by external auditors. However, in practice, sometimes there are obstacles such as less intense communication between internal and external auditors, or a lack of understanding of each other's functions. To overcome these obstacles, several steps can be taken to improve communication and understanding between Internal Auditors and External Auditors, including increasing understanding of each other's functions and duties and understanding and conditioning the level of scope of activities of External Auditors and Internal Auditors.

Internal audit plays a critical role in fraud risk management and compliance with operational rules (Kaya, 2020; Tamay et al., 2020), while external audit enhances transparency and accountability to external stakeholders, promotes corporate governance and corporate sustainability (Kartal & Depren, 2020). Effective coordination between internal and external audit functions can assist in identifying deficiencies, ensuring regulatory compliance, and providing independent assurance on the effectiveness of operations (Shukhratovna, 2023). This coordination is critical to prevent fraud, maintain integrity in financial reporting, and build public trust in the organization's financial statements and reports (Ugoani & Ibeenwo, 2022). By aligning internal and external audit efforts, organizations can strengthen their control environment, reduce risk, and improve overall governance practices.

The important role of the internal auditor function is carried out with the help of external auditors in improving the quality of financial reporting. In increasing its efficiency and effectiveness, external auditors are responsible for using the work of internal auditors in auditing financial reporting (Krishnamoorthy, 2001). In addition, internal audit plays an important role in the organization by ensuring compliance with standards, evaluating risks, and improving operations (Cauş, 2022). They provide independent assessments that contribute to the effectiveness of the internal control system and assist in achieving organizational objectives (Obolentsev, n.d.). The relationship between internal and external audit is critical to corporate governance, with both auditors needing to collaborate to enhance governance excellence through transparency and independence (Sridhar, 2022) Internal audit, following international professional practices, acts as a third line of defense, offering reasonable assurance on the quality of processes, internal controls, and risk management, thus significantly impacting the overall performance and success of the organization.

Coordination between internal and external auditors is essential in carrying out their professional duties and responsibilities. This coordination process includes information exchange, sharing of audit opinions, and discussion of audit plans and reports. The main purpose of this coordination is to avoid duplication of work and ensure that the resulting

audit results are of high quality, which in turn will improve the overall efficiency of the audit function. Previous research shows that effective coordination between internal and external auditors can improve audit economy, efficiency, and effectiveness.

Good cooperation between the two parties not only benefits the audit side, but also helps management in improving organizational performance. According to research (Alzeban & Gwilliam, 2012; Sawan, 2013), the lack of coordination between inspectorates and external auditors in the government sector can make it difficult to implement the audit function by both parties. Inspectorates are likely to have difficulty accepting and approving recommendations made by external government auditors without proper coordination.

Furthermore, research by Alzeban & Gwilliam (2014) revealed that a good relationship between internal and external auditors helps internal auditors achieve their objectives more effectively and provide better services to the audited organization. Thus, it can be concluded that good coordination between internal and external auditors not only supports more efficient and effective audits, but also contributes to improving the overall performance of the organization.

Good internal audit is one of the main pillars in creating good governance. The success of this audit process depends not only on internal auditors, but also on management as auditees who play an important role in supporting the achievement of audit objectives. Active participation from auditees is needed to ensure the smooth running of the internal audit process. One significant form of support is to provide full access to internal auditors to obtain all necessary resources and information.

The International Standards for the Professional Practice of Internal Auditing (SIPPAI) emphasize the importance of a harmonious and collaborative relationship between the internal audit department and management as the auditee. In the context of the public sector, management consists of government employees who, although not internal auditors, play a critical role in the success of the audit. They are expected to actively review and consider the recommendations provided by internal auditors. Positive and constructive responses from auditees not only motivate internal auditors to perform their duties better, but also expedite the entire audit process.

The effectiveness of the auditor's work will increase if employees provide accurate and complete information. This is critical to ensure that auditors can make objective and comprehensive assessments. Government employees must realize that internal audits are an integral part of improving the credibility and accountability of their agencies. This awareness will reduce apprehension about audits and turn them into opportunities for improvement. By responding positively and fully supporting the audit process, government employees directly contribute to improving the effectiveness and credibility of the internal audit function, which in turn will strengthen overall governance.

Auditor independence is a critical element in maintaining the integrity and effectiveness of the audit function, both for internal and external auditors. Independent auditors are able to perform their duties with high objectivity, regardless of external influences and pressures that may interfere with their professional judgment. This independence is realized through a number of mechanisms, such as avoiding conflicts of interest, having unrestricted access to the organization's financial records, and not engaging in non-audit tasks that could affect their neutrality. For internal auditors, independence also means reporting audit findings

directly to top management, who are responsible for ensuring corrective actions are fully implemented.

Research has shown that low levels of internal auditor independence can hinder the effectiveness of the internal audit function. For example, Cohen & Sayag (2010) found that in Israel, internal auditor independence has a significant positive effect on internal audit effectiveness. This finding is reinforced by research Alzeban & Gwilliam (2014) in Saudi Arabia, which also showed that more independent internal auditors were able to perform the audit function more effectively. Both studies underscore the importance of maintaining auditor independence to achieve objective and reliable audits. Without independence, auditors may not be able to honestly report findings or take necessary steps for improvement, which ultimately harms the overall quality of the audit and trust in the audit process.

The results of the literature review show that the coordination of internal auditors and external auditors in doing the work done by working together in improving the quality of financial reporting from that coordination plays an important role for quality improvement and good and efficient utilization. In the discussion, the involvement of the results of this research on auditing, companies, organizations and internal and external auditors was discussed. The discussion also discussed the statements submitted by the researcher as related to the review conducted.

Coordination between internal and external audit is essential in the administrative process because it increases the efficiency and effectiveness of the overall audit function. Collaboration between these two types of audits can result in several benefits, including that effective coordination can result in cost savings for the organization. External auditors can rely on the work performed by internal auditors, thereby reducing the external audit workload and lowering audit costs. Second, coordinated efforts ensure comprehensive audit coverage. Both internal and external auditors can plan their work to avoid duplication and cover more areas of the organization's operations. Third, audit quality improves when internal and external auditors share information such as audit plans, working documents, and reports. This sharing enables a deeper understanding of the organization's processes and controls. In addition, collaboration in risk assessment and management can result in stronger risk identification and mitigation, as both auditors bring different perspectives and expertise. Finally, coordination enhances the relationship of trust and credibility between auditors and organizational management, which can strengthen the overall governance and control environment. Thus, coordination between internal and external audit is essential to achieving cost efficiency, comprehensive audit coverage, high audit quality, effective risk management, and increased organizational trust and credibility.

This research has significant practical implications for companies and audit professionals. From a practical perspective, the research findings show that good coordination between internal and external auditors can avoid duplication of work, improve the accuracy and reliability of financial statements, and increase the efficiency of company operations. This indicates that companies need to strengthen coordination and communication mechanisms between the two types of auditors to achieve more effective and efficient audit results. In addition, active support from management as the auditee is essential in ensuring the smooth running of the audit process and the implementation of audit recommendations.

From a theoretical perspective, this study enriches the literature on the importance of the working relationship between internal and external auditors. The study confirms that internal auditor independence is a key factor in audit effectiveness and that a harmonious relationship with external auditors can improve overall audit quality. It also paves the way for further research to explore how various contextual factors, such as organizational culture and local regulations, may affect the coordination dynamics between internal and external auditors. Thus, this research not only makes a practical contribution to the business world, but also expands the theoretical understanding of coordination in the audit function.

4. CONCLUSION

Audit is important to ensure compliance and efficiency in company operations. Audits can be conducted internally by an internal audit team working within the organization or business by an external audit team working independently from outside the organization or business. Although both have different roles, coordination between internal and external audits is very good in the audit process. Internal audit conducts autonomous and objective confirmation and counseling exercises, intended to increase rewards and work on the activities of the association. The task of the external auditor is to examine the financial statements of companies, governments, individuals, or other organizations. Members of public accounting firms that provide client services are known as external auditors.

Coordination of internal auditors and external auditors who often have the same goals in the work. The important role of the internal auditor function is carried out by doing work together with external auditors in improving the quality of financial reporting. Coordination between these two types of audits ensures that errors or irregularities found by either audit can be identified, communicated, and corrected appropriately and effective internal control.

This research gap lies in the lack of in-depth empirical exploration of how coordination between internal and external auditors is implemented in practice and its impact on audit quality. Most previous studies have focused on specific sectors or countries, so the generalizability of the findings may be limited. In addition, although the importance of support from management as auditees has been identified, this research has not explored much in depth how this interaction takes place and affects audit outcomes. Lastly, the aspect of internal auditor independence that is critical to audit effectiveness has not been fully explained in various practical situations and the challenges faced in maintaining it.

They suggest that with the increasing number of internal auditors, the audit process can be expedited due to the extensive scope needing examination. Given the complexity of the organizational structure, it is essential for each auditor to be assisted by a staff member and to improve collaboration between internal and external audits to prevent work duplication.

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