

## **The Effect of Internal Audit of Cash Disbursements on Internal Control of Cash Disbursements (Study At One of The Companies in The Field of Broiler Farming in Bandung)**

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**Salma Muna Fauziah<sup>1</sup>, Siti Mialasmaya<sup>2</sup>, Adam Ramdani<sup>3</sup>, Indah Damayanti<sup>4</sup>, R. Deni Purana<sup>5</sup>**  
Sekolah Tinggi Ilmu Ekonomi Pasundan Bandung, Indonesia<sup>1,2,3,4,5</sup>  
Email: [salmamuna@gmail.com](mailto:salmamuna@gmail.com)<sup>1</sup>, [mia@stiepas.ac.id](mailto:mia@stiepas.ac.id)<sup>2</sup>, [adam@stiepas.ac.id](mailto:adam@stiepas.ac.id)<sup>3</sup>, [indah@stiepas.ac.id](mailto:indah@stiepas.ac.id)<sup>4</sup>, [deni@syiepas.ac.id](mailto:deni@syiepas.ac.id)<sup>5</sup>

### **ABSTRACT**

*The present research investigates the impact of Internal Cash Audit on the Internal Control of Cash Expenditure within a poultry farming enterprise in Bandung. This study aims to examine and assess the impact of Internal Cash Audit on the Internal Control of Cash Expenditure within the broiler chicken farming industry.*

*The research methodology employed in this study is quantitative, involving gathering data through the distribution of questionnaires and subsequent statistical analysis. The study population comprises personnel engaged in the organization's financial operations and internal control procedures.*

*The study's results suggest that Internal Cash Audit remarkably affects the Internal Control of Cash Expenditure. By conducting a comprehensive analysis of cash expenditure transactions and associated documentation, internal auditors can detect any discrepancies or irregularities that could potentially jeopardize the organization. Furthermore, the research emphasizes the significance of deploying efficient internal control mechanisms to guarantee precise and regulated cash outflows.*

*The findings of this study enhance comprehension of the correlation between Internal Cash Audit and the Internal Control of Cash Expenditure within the distinct setting of the poultry farming sector. The study's results may guide the organization's leadership in enhancing its internal control mechanisms and maximizing the efficiency of its Internal Cash Audit procedures.*

*Keywords: Internal Audit of Cash Disbursements, Internal Control of Cash Disbursements*

## INTRODUCTION

Like other industries, businesses in Bandung's chicken meat farming sector need help managing their cash success outlays. Unchecked cash can cause financial losses, fund abuse, and asset losses. Therefore, businesses need to establish a robust internal control system to mitigate these risks. (Erick et al., 2022; Muhamad et al., 2021) Internal audit is a crucial component of the internal control system. A company's internal controls must be monitored and evaluated for efficacy by internal audit. (Septiani et al., 2020; Yassin et al., 2021) Internal auditing of cash transactions, policy and procedure adherence, and detecting potential fraud or irregularities are all aspects of cash expenditures. (Yusup & Juhara, 2020)

The function of internal audit is paramount in aiding management in carrying out organizational processes with efficacy and efficiency, thereby accomplishing pre-established goals. (Carcello et al., 2018; Erasmus & Coetzee, 2018) Furthermore, it serves as a regulatory mechanism that can oversee organizational functions tasked with appraising and analyzing all corporate undertakings, particularly cash outflows. In certain instances, corporations may experience growth and advancement while neglecting the control mechanism, despite its criticality in attaining goals and concurrently maintaining alignment with objectives. (Chang et al., 2019; Roussy & Perron, 2018)

Internal auditing is crucial in supporting the management team in efficiently and effectively implementing business processes to achieve predetermined objectives. In addition, it serves as a governing body that supervises organizational functions and assumes accountability for scrutinizing and appraising all corporate endeavors, including financial disbursements. Sometimes, a corporation may experience growth and advancement while disregarding the control mechanism, even though control is imperative for attaining objectives and maintaining their trajectory.

Based on the available data, it is evident that the projected operational expenditures for the fiscal year 2016 totaled Rp207,315,000. The bank's cash expenditure report documented operational expenses totaling Rp186,552,570, whereas the cash expenditure report documented operational expenses amounting to Rp55,748,181. Disparities of a similar nature were noted in subsequent years, wherein variations were present between the overall projected operational expenditures and the expenditures documented in the bank and cash expenditure reports.

A notable variance was observed in 2018 between the aggregate projected operational expenditures amounting to Rp121,950,000 and the cumulative expenses documented in the bank's cash expenditure report, which amounted to Rp169,593,245. As mentioned earlier, the

observation suggests a discrepancy between the budgeted operational expenditures and the factual expenses documented in the bank's cash expenditure report. Conversely, a notable disparity was noted in 2019 between the aggregate projected operational expenditures amounting to Rp164,632,500 and the cumulative expenses documented in the cash disbursement report, which amounted to Rp117,071,179. This condition highlights a disparity between the budgeted operational expenditures and the substantial expenditures documented in the cash outflow report.

When examining the data comprehensively, it is imperative to acknowledge and assess the disparities between the aggregate projected operational costs (budgeting) and the costs documented in both the bank and cash expenditure reports. The assessment has the potential to aid the organization in pinpointing the underlying reasons for these inconsistencies and enhancing the planning and financial allocation procedures to achieve greater congruity with the predetermined objectives.

Internal auditing effectively and efficiently facilitates the implementation of company procedures to attain predetermined objectives, which serves as a pivotal component in aiding management. (Betti et al., 2021; Turetken et al., 2019) Additionally, it serves as a regulatory mechanism that can oversee organizational functions, with the responsibility of assessing and

analyzing all corporate undertakings, including financial disbursements. Specific organizations may experience growth and development while disregarding the control process, despite control being an essential mechanism for attaining objectives and maintaining their alignment. (Yusup & Juhara, 2020)

Drawing upon extant phenomena and empirical research, the present investigation aims to ascertain how Internal Cash audits impact the Internal Control of Cash expenditures within a selected poultry farming enterprise in Bandung. This study aims to examine and assess the extent of the influence of Internal Cash audits on the Internal Control of Cash expenditures in the poultry farming company in Bandung mentioned earlier.

## METHOD

The present investigation utilized a quantitative approach to examine the constituents, occurrences, and interconnections systematically. The investigator employed a saturated sampling methodology, which included all individuals from the population as the sample.

The validity and reliability of the data in this study were assessed through testing. Validity testing was performed to ascertain the validity of every questionnaire indicator for each variable. The validity of a questionnaire was determined based on its ability to assess the intended

constructs through its statements accurately. The Pearson product-moment correlation formula uses to find bivariate correlations between the indicators' scores and the construct's overall score. This condition is done to check the validity.

After administering validity tests on the questions or statements in this research, the subsequent phase assessed their reliability, denoting their coherence and trustworthiness.

The study conducted reliability testing to evaluate the consistency and dependability of the research tool for gathering data. An instrument's reliability was deemed present if it consistently produced consistent outcomes. The instrument's reliability in this investigation is assessed through the utilization of the alpha and Cronbach's alpha equations.

The present investigation utilized descriptive and confirmatory analyses as the primary data analysis techniques. The methodology of descriptive analysis was employed to present factual information systematically. The methodology employed entailed the systematic arrangement of variables into a series of inquiries through questionnaires or surveys. There were five distinct response options for each question in the questionnaire, each carrying a different weight.

Confirmatory analysis was employed to authenticate and substantiate hypotheses and research findings. This investigation aimed to employ confirmatory analysis to ascertain the

associations between accounting information systems and internal control systems. This study employed confirmatory analysis techniques such as Pearson product-moment correlation, simple linear regression, and coefficient of determination.

## **RESULTS and DISCUSSION**

The internal audit function is a crucial component in facilitating effective and efficient management of organizational processes toward attaining predetermined goals. The controlling function of management serves to oversee and regulate organizational operations, with a specific focus on evaluating and appraising all company activities, particularly those related to cash outflows. At times, corporations may experience growth and expansion without consideration for the control process, despite its indispensable role in realizing goals and preserving their intended trajectory. (Prawiranegara, 2023)

The internal audit function plays a vital role in supporting management in the efficient and effective execution of business processes to achieve predetermined objectives. In addition, it functions as a regulatory body responsible for supervising and scrutinizing organizational endeavors and is tasked with assessing and evaluating all corporate activities, including financial disbursements. A company may sometimes experience growth and

transformation, inadvertently overlooking the control process despite its crucial role in attaining objectives. (Taufik & Dianita, 2020)

The product-moment correlation formula is the technique used to assess the validity. The questionnaire responses were then used to compute each item's correlation, compared to the necessary  $r$  of 0.3. As a result, the items in the instrument can be declared legitimate if  $r$  counts > critical  $r$ , and they can be declared invalid if  $r$  counts critical  $r$ .

The goal of the reliability test is to determine how much confidence may be placed in measurement results while the variable being tested has not changed. The Cronbach Alpha formula uses in this testing method, and if the Cronbach Alpha result is more than 0.70, a measurement instrument is considered dependable and can be processed further. A Cronbach Alpha value of less than 0.70 indicates that a measurement tool could be more reliable.

According to the results, all of the instruments in this study passed the validity and reliability tests. The cron bach alpha value is larger than 0.7, and the research instrument has a correlation value greater than 0.3. According to the descriptive findings, there was a considerable discrepancy between the operational costs budgeted and anticipated for 2016 and those reflected in reports on bank funds and cash disbursements. Budgeting has far higher operational costs than reported bank cash

disbursements and cash. Although the gap was not as great as the previous year, operational costs in reporting on bank cash and cash disbursements were also lower in 2017 than in budgeting.

In contrast to the previous year, operational costs in the bank's cash disbursement reports were significantly higher than budgeted in 2018. However, the operational costs are still less than the budget in the cash disbursement reports. The operating expenses in the reports of bank cash disbursements and cash in 2019 varied significantly. While operational costs in the bank's cash distribution report are lower than budgeted amounts, they are quite high compared to those in the budget.

Overall, these comparisons reveal a disparity between operational expenditures that are budgeted for and those that report on bank cash disbursements and cash. This result demonstrates that the actual realization of the company's operational expenses differs from the plan. More investigation is required to understand the reasons for this discrepancy and ensure that operational expenditures follow the predetermined plan. According to the  $x$  and  $y$  linear equation, is:

$$Y = 15,624 + 0,632X$$

$a = 15.624$  means that when  $X$  is zero, then  $Y$  is worth

$b = 0.632$  means that every increase in  $X$  by one unit will increase the amount of  $Y$  by 0.632

The internal control for cash disbursement is 15.624 units when PT. Aretha Nusantara Farm does not apply an internal audit for cash disbursement ( $X$  equals 0) and are 0.632 units if an internal audit for cash disbursement changes by one unit. This result can be understood from the regression equation above. The  $Y$  variable will therefore rise by 0.632 units if the  $X$  variable increases by one unit.

The study's data analysis found a correlation coefficient of 0.721. Because the result value of 0.721 is within the coefficient range of 0.600 - 0.799, the correlation between the variables Internal Audit Cash Disbursement ( $X$ ) and Internal Control Cash Disbursement ( $Y$ ) indicates a significant association. A positive correlation value means that the expected internal control of cash disbursement ( $Y$ ) in one of the Bandung enterprises involved in broiler farming tends to increase the higher the internal audit cash disbursement ( $X$ ).

Internal audits of cash expenditures can yield several advantages, including but not limited to enhancing the dependability of financial data, identifying possible instances of fraudulent or inappropriate use of funds, and offering suggestions for improving internal controls. Through comprehensive scrutiny of cash expenditure transactions and associated documents, internal auditors can detect discrepancies or irregularities that may pose a risk to the organization. (Khairunisa et al., 2023)

On the other hand, managing cash outflows through internal control means setting up procedures, rules, and measures within the organization to make sure cash outflows are accurate, regulated, and follow policy. Internal audits of cash expenditures can provide valuable insights to organizational leaders regarding the efficacy of existing internal controls and facilitate the identification of areas that necessitate enhancement.

## CONCLUSION

This study aims to assess the impact of an Internal Cash Audit on the Internal Control of Cash Expenditure within a poultry farming enterprise located in Bandung. The study's findings indicate that the Internal Cash Audit significantly impacts the Internal Control of Cash Expenditure in the poultry farming company under investigation, as evidenced by the data collected and the results of the simple linear regression model.

In order to augment the dependability of the control system, it is advisable to institute a distinct internal control organizational framework that is autonomous from other departments, particularly the internal control division. Moreover, it recommends conducting evaluations of cash expenditure reports by performing performance reviews, which involve scrutinizing the potential risks linked to fraudulent activities. The poultry

farming company in Bandung should maintain an internal audit function and provide regular training to internal auditors to ensure optimal internal control, given the significant impact of the internal cash audit on the internal control of cash expenditure.

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