

The Role of External Auditing in Identifying and Addressing Issues in Financial Statement Presentation: A Case Study in the Livestock Industry

M. Nur Maftuh Ihsan^{1*}

Department of Accounting
Universitas Pembangunan Nasional
Veteran Jawa Timur,
Surabaya, Indonesia
22013010037@student.upnjatim.ac.id

Dyah Ratnawati²

Department of Accounting
Universitas Pembangunan Nasional
Veteran Jawa Timur,
Surabaya, Indonesia
dyahar.ak@upnjatim.ac.id

ABSTRACT

This study aims to describe the role of external audit in identifying and resolving problems in the presentation of financial statements in non-public entities, with a case study in the livestock industry. The background of this research is based on the importance of financial statements as a basis for decision making by stakeholders, but in practice, many entities still experience obstacles in preparing financial statements that comply with standards. One of these livestock industries is a company that faces similar challenges, such as manual recording that is not orderly, data discrepancies with current accounts, and a lack of human resources who understand accounting adequately. This research uses a qualitative method with a case study approach, involving direct interviews and documentation studies as data collection techniques. The results show that external audit not only plays a role in providing an opinion on the fairness of financial statements, but also provides strategic recommendations in the form of digitizing records, training human resources, and preparing standard operating procedures. Thus, external audit plays an important role as a strategic partner in improving the quality of financial reporting and overall corporate governance.

Keywords: External Audit; Financial Statements; Reporting Quality



Received: 13 October 2025
Accepted: 08 December 2025
Available online: 26 December 2025

DOI: 10.61242/ijabo.25.586

JEL Classifications: M42



License

This work is licensed under a [Creative Commons Attribution-ShareAlike 4.0 International License](https://creativecommons.org/licenses/by-sa/4.0/).

INTRODUCTION

Financial statements should be a primary focus of analysis, as they serve as fundamental indicators of a company's financial position and performance, thereby constituting an essential component of the business environment. According to (Navis *et al.*, 2024), financial statements describe a company's operational activities over a specific accounting period, typically one fiscal year. Beyond merely explaining operational outcomes and depicting the company's economic condition, financial statements also provide comprehensive information regarding the composition of assets, liabilities, and equity, as well as the company's capacity to allocate its resources efficiently.

The strategic allocation of assets, as presented in financial statements, constitutes a fundamental factor in promoting operational efficiency, maintaining financial resilience, and optimizing profitability. Moreover, financial statements function as a critical instrument for a wide range of stakeholders including management, investors, creditors, and regulatory authorities in evaluating corporate performance, identifying potential financial exposures, and formulating data-driven strategic decisions. Through comprehensive and transparent financial reporting, stakeholders are enabled to assess a company's liquidity, solvency, and profitability, which collectively serve as key indicators of its long-term financial sustainability.

In this regard, financial statements transcend the mere presentation of quantitative data, functioning as a comprehensive tool for assessing the efficacy with which a company deploys its resources to generate revenue. The information encapsulated within these reports is indicative of the organization's proficiency in managing its operational processes, as demonstrated by the reported profit or loss for the period under review. Thus, financial statements are indispensable for the thorough analysis, evaluation, and forecasting of a company's financial robustness and long-term viability.

Financial statements constitute formal records that encapsulate an organization's overall financial condition and operational outcomes within a defined reporting period. Serving as an essential analytical instrument, these statements enable various stakeholders including investors, management, creditors, and regulatory authorities to evaluate corporate performance, financial stability, and potential for sustainable growth. Moreover, financial statements provide critical insights into the effectiveness of an entity's resource management, encompassing its assets, liabilities, equity, revenues, and expenditures, which collectively portray the organization's comprehensive financial position and operational efficiency.

In general, financial statements contain information related to the business activities undertaken by the company during the reporting period, such as sales achievements, cost management, and investment results. The main components of financial statements, namely the statement of financial position, income statement, statement of changes in equity, statement of cash flows, and notes to the financial statements, serve distinct yet interrelated functions in presenting a company's financial information comprehensively.

Financial statements also function as a communication medium that conveys essential information to various interested parties involved in the economic decision making process (Karunia, 2021). Transparent and reliable financial reporting strengthens stakeholder confidence, supports accountability, and promotes corporate sustainability. Consequently, financial statements are not merely a form of compliance with accounting standards but also a strategic tool for enhancing organizational credibility and long-term value creation.

The credibility of information disclosed in financial statements is largely influenced by its degree of relevance and reliability. According to the Indonesian Institute of Accountants (IAI, 2019), information attains relevance when it possesses the capacity to

affect users' economic judgments whether through the evaluation of past performance, comprehension of present conditions, forecasting of future results, or revision of previous assessments. Beyond relevance, additional qualitative attributes such as faithful representation, comparability, verifiability, timeliness, and understandability are fundamental in maintaining the overall usefulness and integrity of financial reporting.

Financial statements occupy a crucial position within the corporate environment as they serve as the primary medium for communicating financial information that is useful to a wide range of interested parties. The existence of high-quality financial statements is a fundamental requirement for every business entity, as such reports are expected to meet user needs while adhering to applicable accounting standards and principles. In essence, financial statements represent the culmination of an accounting process that systematically records, classifies, and summarizes financial data into information reflecting the entity's financial performance and position over a specific period. This information subsequently becomes an essential reference for external users in the process of economic decision making (Pagan *et al.*, 2024).

In accordance with the Financial Accounting Standards (SAK), financial statements operate as an official channel of communication between an entity and its stakeholders. The preparation and presentation of these statements are required to conform to generally accepted accounting principles to ensure the delivery of information that is relevant, reliable, and comparable across reporting periods. Beyond their communicative function, financial statements also fulfill a critical role in promoting accountability and transparency, serving as evidence of management's responsibility in safeguarding and utilizing the resources entrusted by investors, creditors, and other stakeholders. Furthermore, these reports provide an analytical foundation for evaluating managerial performance, measuring operational efficiency, and forecasting the organization's prospective cash flow capacity.

The credibility of financial statements is highly dependent on the consistency of accounting policies applied, the integrity of internal control systems, and the implementation of sound corporate governance practices. Adherence to the qualitative characteristics of financial information such as faithful representation, neutrality, and verifiability enhances the reliability and usefulness of financial statements for decision making purposes. Therefore, the quality of financial statements reflects the company's commitment to transparency, accountability, and compliance with applicable standards. High quality reporting not only strengthens stakeholder confidence but also contributes to the company's reputation, investment attractiveness, and long term business sustainability (Sartika Pratiwi, 2023).

The primary objective of preparing financial statements is to provide relevant and reliable information regarding the financial position of an entity, particularly concerning its economic resources and the claims upon those resources (IAI, 2019). Financial statements serve as a crucial medium of communication between the entity and its stakeholders, both internal and external, necessitating that the information presented adheres to the qualitative characteristics of accounting information, including relevance, faithful representation, comparability, verifiability, timeliness, and understandability (Karunia, 2021). Compliance with these characteristics ensures that the financial information communicated can be accurately interpreted and effectively utilized by its users.

Moreover, financial statements are designed to present a comprehensive depiction of an entity's performance and financial condition to various interested parties, such as investors, creditors, management, regulators, and the general public, who rely on this information as a foundation for rational and informed economic decision making (Navis

et al., 2024). In addition to fulfilling their informational function, financial statements also play an essential role in promoting transparency, accountability, and good corporate governance. They provide management with valuable insights for evaluating operational efficiency, assessing financial stability, and ensuring compliance with applicable financial reporting standards and legal frameworks.

Furthermore, financial statements serve as a historical record that facilitates the analysis of financial trends and the projection of future cash flows. They enable stakeholders to assess an entity's profitability, liquidity, and solvency, thereby supporting the allocation of resources and investment decisions within the broader economic environment. Consequently, well prepared financial statements not only fulfill regulatory and stewardship responsibilities but also enhance stakeholder confidence and reinforce the credibility and sustainability of the organization in the long term.

Good and systematic financial record-keeping is a fundamental aspect of sound corporate management. Accurate and well-organized financial records serve as the primary source of information in the preparation of financial statements, which in turn form the basis for various managerial and strategic decisions. Reliable financial data not only facilitate effective internal decision-making processes but also provide essential information for external stakeholders, including investors, creditors, regulatory authorities, and the government. Moreover, well-maintained financial records enhance transparency, accountability, and corporate governance, all of which are critical to sustaining stakeholders' trust and ensuring the company's long-term financial stability.

Nevertheless, empirical evidence indicates that many enterprises, particularly small and medium-sized enterprises (SMEs) still encounter significant difficulties in implementing proper financial recording systems. These entities often rely on manual or non-standardized recording practices, resulting in incomplete documentation and inconsistencies between recorded data and actual financial conditions. Such deficiencies frequently hinder the preparation of accurate financial statements and complicate both internal control and external audit processes. The absence of an updated fixed asset register, the lack of adequate documentation for inventory transactions, and limited human resources proficient in accounting principles further exacerbate the problem.

In addition, inadequate knowledge of financial reporting standards and the minimal use of digital accounting tools contribute to a higher risk of errors, data manipulation, and misstatements in financial reports. These conditions not only compromise the reliability and fairness of the presented financial information but also pose substantial risks to managerial decision-making, investor confidence, and the company's overall financial credibility. From a regulatory perspective, such weaknesses may also result in non-compliance with accounting and taxation regulations, thereby exposing the company to legal and financial consequences.

Given these challenges, the role of auditing both internal and external is of paramount importance. Auditors play a critical role in assessing the adequacy of financial record-keeping practices, identifying weaknesses in internal control systems, and ensuring conformity with applicable accounting standards. Through an independent and objective examination, auditors provide assurance regarding the fairness and accuracy of financial statements while also offering constructive recommendations to improve accounting practices and enhance data integrity. In this context, external auditors hold a particularly vital position as independent evaluators who safeguard the interests of external stakeholders by ensuring that the financial statements reflect the true and fair view of the company's financial performance and position. Therefore, this discussion will primarily focus on the role of external auditors in evaluating the quality of financial records and promoting the reliability of corporate financial reporting.

An audit is an independent and objective assessment process conducted on an entity's financial statements, whether belonging to a company or an organization, with the primary objective of evaluating whether such statements have been prepared appropriately in all material respects. The purpose of this evaluation is to ensure that the information presented faithfully represents the entity's financial condition and operational performance in accordance with generally accepted accounting principles. Consequently, the audit serves as a mechanism through which management can provide assurance to stakeholders regarding the reliability and accuracy of financial disclosures.

Beyond its traditional financial scope, auditing also encompasses a comprehensive assessment of the entity's internal control systems, risk management practices, and compliance with prevailing laws and regulations. Through this process, auditors can determine the adequacy and effectiveness of governance mechanisms implemented within the organization. Moreover, an audit can be defined as an activity undertaken by auditors to assess the extent to which pre-established policies and procedures have been implemented correctly, to evaluate whether the management of organizational assets has been carried out optimally, and to measure the effectiveness and efficiency of operational activities (Pagan *et al.*, 2024).

Auditing further contributes to the identification of potential weaknesses and areas requiring improvement within the organization, thereby supporting the enhancement of operational performance and long-term sustainability. In this regard, the audit process does not merely function as a tool for detecting errors or irregularities but also as a preventive mechanism against fraud, misstatement, and mismanagement. In addition, audits play a pivotal role in reinforcing transparency and accountability, two fundamental pillars that underpin the decision-making processes of various stakeholders, including investors, creditors, regulators, and the public. By ensuring that financial and operational information is reliable and verifiable, audits enhance stakeholder confidence and contribute to the stability and integrity of the financial system.

Therefore, it is imperative that audits be conducted by auditors who possess professional competence, uphold ethical standards, and maintain the principle of independence. The credibility and validity of audit outcomes depend significantly on these factors. Furthermore, continuous professional development, adherence to international auditing standards, and the integration of technological advancements in auditing practices are essential to ensure audit quality, relevance, and reliability in an increasingly dynamic and complex business environment.

Based on the definition provided in the Indonesian Government Internal Audit Standards (SAIPI) issued by the Association of Government Internal Auditors (AAIPI) on December 30, 2013, an audit is defined as a systematic and structured process involving the identification, analysis, and evaluation of activities or information through an objective, independent, and professional approach. The primary objective of an audit is to assess the reliability, effectiveness, efficiency, and accuracy of information in the implementation of government functions (Afryan Iriando Sipayung & Morasa, 2021).

Within the scope of financial auditing, the process is designed to provide reasonable assurance that financial statements are free from material misstatements, whether these arise from unintentional errors or deliberate fraud. To achieve this, auditors are expected to exercise professional skepticism, maintain independence and objectivity, and comply with applicable auditing standards and ethical principles. The integrity of the audit process relies heavily on the auditor's ability to plan, execute, and evaluate audit procedures in accordance with professional norms and regulatory frameworks.

The role of auditors, particularly those affiliated with public accounting or consulting firms, extends beyond verifying compliance with financial reporting

standards. Auditors are also responsible for identifying potential risks, weaknesses in internal control systems, and accounting issues that may undermine the quality of financial information and managerial decision-making. Through such evaluations, auditors contribute significantly to strengthening organizational governance, improving financial accountability, and enhancing the transparency of public sector management.

In conducting an audit, auditors must obtain sufficient, appropriate, and relevant audit evidence derived from both quantitative data and qualitative information. This evidence must be verifiable and capable of substantiating audit conclusions and opinions. The credibility of the audit opinion is thus determined by the completeness, validity, and reliability of the evidence gathered during the audit engagement (Sumaryanto & Witanto, 2024).

Furthermore, an effective audit process plays a critical role in promoting transparency, accountability, and good governance within public institutions. The quality of an audit outcome is influenced by several factors, including the competence and professionalism of auditors, the adequacy of audit planning, the soundness of applied audit methodologies, and the consistent implementation of audit procedures in line with established standards. In this context, the audit function not only serves as an evaluative mechanism but also as a strategic tool to support better decision-making, efficient resource utilization, and the enhancement of public trust in government financial management.

The demand for independent audit services is increasing in line with the growing need for transparency and accountability in financial reporting. This phenomenon was experienced by one of the clients of a consulting firm engaged in the livestock sector. The company had difficulty preparing reliable financial statements that complied with accounting standards due to a limited number of human resources with a deep understanding of accounting principles. In situations like this, external auditors play a crucial role in helping entities prepare financial statements that are valid and can be used as a basis for strategic business decisions. In addition to contributing to business continuity, financial statements that have been audited by independent auditors are also an important prerequisite for obtaining an audit opinion that reflects fairness in their presentation. Professional auditors are required to have technical expertise and experience relevant to the characteristics of the industry being audited. In carrying out their duties, auditors must use a systematic and objective approach through a process of careful collection and assessment of audit evidence. The purpose of this evaluation is to assess the extent to which the financial statements have been prepared in accordance with generally accepted accounting principles. The audit results are then submitted to the relevant parties as a form of accountability for the implementation of the audit (Fay, 2023).

This study provides benefits in promoting understanding of the importance of external audits as an evaluative and corrective tool for companies experiencing difficulties in presenting financial reports. Through a case study in the livestock industry, this study shows how auditors can help detect weaknesses in recording systems and provide practical recommendations that can be immediately implemented, such as improving procedures, enhancing human resources, and using digital accounting systems. This research also provides new insights for auditors and business actors on the importance of collaboration in the audit process, as well as serving as a practical reference for students and researchers in understanding the challenges of auditing nonpublic entities.

LITERATURE REVIEW

Audit

According to (Arista *et al.*, 2023), an audit is an activity used to collect evidence as information in a financial report by tracking and revealing information in a factual manner. The main purpose of this process is to conclude whether the financial statements have been presented fairly in accordance with generally accepted accounting principles. In a broader context, an audit can also include evaluating an organization, system, or specific process to assess its compliance and effectiveness.

Based on this view, an audit can be understood as an independent examination conducted systematically to evaluate the reliability of financial information and the activities of an organization as a whole. The purpose of an audit is to ensure that the information or processes examined meet established accounting standards and procedures, thereby providing confidence to interested parties such as owners, investors, creditors, and regulatory authorities. In addition, audits also play an important role in improving the transparency and accountability of organizations, both in terms of finance, operations, and compliance with applicable regulations.

External Audit

External audits are a form of independent oversight mechanism that provides financial statement examination services to external parties with an interest in the information of the entity being audited. External auditors are individuals or professional entities from outside the company who are independent in carrying out their functions. These auditors, who are generally public accountants, must have official permission from the relevant authorities in order to carry out professional auditing practices. External audits in Indonesia also play an important role in improving the quality of good corporate governance, internal control systems, and the quality of financial reports published by public companies and government agencies (Hidayat and Hudiwinarsih 2021). Independent auditors are professional practitioners, either individually or as part of a public accounting firm, who provide audit services to various types of clients, including for-profit companies, non-profit organizations, government agencies, and individuals.

In practice, independent auditors are often referred to as external auditors. Based on this definition, it can be understood that external auditors are authorized and certified parties tasked with conducting a comprehensive evaluation of an entity's financial statements objectively. Amidst the increasing need for transparency and accountability, especially in the era of globalization, the role of external auditors has become increasingly vital in ensuring the reliability of financial information disclosed by companies to the public.

Financial Report

According to (Hastiwi *et al.*, 2022), financial statements are formal reports prepared in accordance with the principle of comparability, wherein financial data from the current reporting period are evaluated against those from prior periods or comparable entities. This principle of comparability represents a fundamental cornerstone in the preparation and presentation of financial information. Generally, financial statements are issued periodically on a quarterly, semiannual, or annual basis to address the informational requirements of both internal management and external users such as investors, creditors, and other stakeholders. The preparation of these reports necessitates the expertise of accounting professionals, as their presentation must conform to established

accounting standards and generally accepted principles. Financial statements typically encompass several core components, including the income statement, statement of changes in equity, statement of financial position, cash flow statement, and accompanying notes. While each section provides distinct insights, together they construct a comprehensive representation of the entity's financial condition and serve as a critical medium of communication between the organization and its external stakeholders.

Previous Research

Previous studies have shown that external auditors play a significant role in assessing and addressing errors in financial reporting. External auditors have the capacity to identify inaccuracies in reporting that may be caused by various factors, such as human error or limitations in human resources' ability to understand accounting principles. Furthermore, irregularities in the presentation of financial statements can also be an indication of hidden fraud. Therefore, the external auditor's understanding of the conditions and characteristics of the audited entity is very important. Research by (WINTORO, 2023) reveals that the role of external auditors is crucial in preventing financial statement fraud and has a significant impact on both internal and external decision-making within a company. This underscores the importance of auditor opinions in strengthening the credibility of financial statements and ensuring the sustainability of a company's operations. In line with this, (Sumaryanto & Witanto, 2024) emphasize that to effectively detect indications of fraud, auditors must have a deep understanding of audit procedures, internal control systems, and the ability to establish good communication with management. This certainly shows how important the role of an auditor, especially an external auditor, is in assessing the presentation of a client's financial statements. The results of research by (Navis *et al.*, 2024) also indicate that internal control performance and internal auditor competence support the opinion of external auditors. Therefore, it can be concluded that in presenting company financial statements, internal audits are also needed to refine the company's financial statements so that there are no errors when audited by external auditors.

RESEARCH METHOD

This study adopts a qualitative research design employing a case study approach. The selection of this method is grounded in the study's primary objective, which is to achieve a profound understanding of the role of external audits in detecting and resolving issues pertaining to the presentation of financial statements within the livestock industry. The case study approach is deemed appropriate, as it facilitates an in-depth exploration of a single phenomenon within its contextual setting, thereby enabling the researcher to construct a comprehensive depiction of audit implementation, the problems identified, and the corrective measures undertaken by both auditors and corporate management. Moreover, this study is descriptive in nature, as it seeks to systematically, factually, and accurately present information concerning existing realities and the interrelationships among the observed phenomena.

The data in this study was collected through several complementary techniques. The main technique used was interviews with external auditors who specifically handled cases involving one of the audit clients operating in the livestock industry. These interviews were conducted in person and aimed to gather information about the audit process, audit findings, types of problems encountered, and efforts made to adjust the financial statements to comply with Financial Accounting Standards. One of the auditors

from the audit team, who was believed to have extensive information relevant to the data required, was selected for the interview. The reason for this selection is that this staff member was assigned to be part of the audit team to conduct the audit process for this client. In addition, a documentation study was also conducted on audit documents, including the company's financial statements before and after the audit, audit working papers, confirmation letters, and transaction evidence used as the basis for the examination.

Data analysis was conducted qualitatively through several stages. The analysis process began with data reduction, which involved sorting the data based on themes relevant to the research focus. Data reduction is the process of drawing a final conclusion that can later be described and verified through a series of analytical steps that refine, select, focus, discard, and organize the data (Hardani, 2020). Next, the data is presented in narrative form and categorized according to the findings in the field. In the final stage, conclusions are drawn to answer the research questions based on the patterns and relationships between the data found during the research process.

RESEARCH RESULTS

Initial Conditions and General Overview of the Client

This client is an industry engaged in animal husbandry, supplying meat for sacrificial offerings, aqiqah, goat milk, and meat for restaurants and daily consumption. In preparing its financial statements, the client is assisted by human resources (HR) who are considered to have sufficient understanding of the financial statement preparation process. Based on these financial statements, the client requested an audit to determine the quality of the financial statements that had been prepared.

Based on an interview with one of the staff members of PT Smart Consultant Indonesia's Malang Branch, who served as an audit staff member for the client, the source explained that the financial statements prepared by the client were not yet in accordance with Financial Accounting Standards (SAK), appeared untidy, and the placement of account items was not in accordance with the provisions. "It's true, this client's financial reports are still a mess, so it's difficult to conduct an audit. That's why we, as external auditors, also have a role to play in helping the client's business," said the source.

This situation resulted in the quality of the financial statements presented being inaccurate, which could potentially lead to errors in decision-making. Based on interviews with client staff, it was found that the personnel responsible for financial reporting did not have an accounting background, which affected the accuracy of financial reporting. "...yes, one of the reasons is indeed due to human resources, because at this client, the people who assist in preparing financial reports are not from an accounting background, which is why the financial reports are not accurate."

This is also evident from supporting evidence such as missing waybills, unrecorded transactions, expenditure and income transfers that do not match the bank statements, and other incorrect accounting records. Therefore, an external audit is needed to help address problems in the presentation of financial statements.

The Role of External Auditing in Financial Statement Presentation

The unavailability of adequate accounting data constitutes a substantial impediment to the effective preparation of clients' financial statements. The deficiency of human resources with sufficient accounting competencies often results in the production of financial reports that lack credibility and fail to adhere to the requirements of the Financial

Accounting Standards. In light of these conditions, the engagement of external auditors becomes imperative, particularly because many clients do not possess an internal audit function capable of ensuring the reliability and compliance of their financial reporting processes.

The audit process is carried out in several stages to comply with audit procedures, one of which is through interviews with clients. This step aims to understand the actual condition of the company so that auditors can identify problems and provide appropriate solutions. Next, the auditor requests supporting data such as sales data, purchases, confirmation of accounts payable and receivable, and other financial data. The auditor also prepares audit working papers to trace weaknesses in the financial statements and identify potential risks.

After obtaining data and conducting analysis, the auditor compiles the findings and provides recommendations for improvements to the financial statements. In addition, the auditor also recommends adding human resources in the accounting field and providing training so that the recording of sales, purchase, and other financial transactions can be done correctly.

All findings and recommendations are compiled in a management letter, which is a document containing notes on weaknesses in the accounting system and suggestions for improvement. This document is very important for the continuity of the client's business in order to identify areas that need improvement. The client is then given the opportunity to approve or follow up on the findings and recommendations provided by the external auditor.

Evaluation and Optimization Strategy

The audit results of the financial statements indicate that the client's financial reporting and recording systems are still weak and do not comply with accounting standards. The main issues identified include disorderly manual recording, incomplete transaction documents, discrepancies between data and bank statements, and the absence of well-documented sales records. This indicates weak internal control systems and a lack of human resources with accounting expertise.

As a follow-up, the external auditor provided an evaluation and recommendations through a management letter, including the implementation of a digital-based accounting system, increasing human resource capacity through accounting training, and developing SOPs for recording and archiving transactions. The auditor also encouraged the implementation of regular financial reconciliation and the establishment of an internal audit function as a preventive measure.

With this strategy, it is hoped that the livestock industry can improve the reliability and regularity of its financial reporting, thereby supporting more accurate and accountable decision-making in the future.

DISCUSSION

Based on the results of the research described above, it can be concluded that the main problem faced by the client is the weak capacity of human resources in preparing financial statements that comply with Financial Accounting Standards (SAK). The inconsistency of financial statements with accounting standards, as well as incomplete transaction documents and disorderly records, indicate that the accounting system implemented is still manual and lacks adequate internal control mechanisms. In the context of accounting theory, this can cause financial statements to be unreliable and irrelevant for management decision-making.

The role of external audit in such conditions becomes very important. External auditors not only serve to provide an opinion on the fairness of financial statements, but also help provide added value to the company through the identification of system weaknesses and recommendations for improvement. Based on the Public Accountant Professional Standards (SPAP), auditors have a responsibility to communicate significant findings related to internal control weaknesses to management, one of which is through the preparation of a management letter. In this study, auditors from PT Smart Consultant Indonesia have carried out this function by conducting interviews, collecting data, and preparing audit working papers to trace errors and risks in the client's financial statements.

From a theoretical perspective, this external audit activity is in line with the principle of risk-based auditing, whereby auditors assess areas with the highest risk of misstatement and then focus their examination on those areas. When auditors find that most transactions lack supporting evidence or that the records do not match the bank statements, this indicates a significant risk of material misstatement. Therefore, the auditor's recommendations to improve the accounting system, increase the number of accounting staff, and provide training for human resources are appropriate and in line with internal control theory as described in the COSO Framework, which emphasizes the importance of continuous control and monitoring activities.

In addition, the recommendation to implement a digital based accounting system is also a form of adaptation to developments in modern accounting technology. Digital systems can help speed up the recording process, reduce human error, and improve the reliability and traceability of financial data. With the implementation of this system, companies will have a more transparent and accurate recording mechanism, which in turn can strengthen accountability in the preparation of financial statements.

Overall, the role of external audit in this case is not only oriented towards assessing compliance with accounting standards, but also contributes to building a more effective and efficient financial reporting system. Through evaluation, recommendations, and guidance, auditors help clients improve their overall corporate financial management. Thus, it is hoped that clients will be able to produce reliable, relevant financial reports that comply with generally accepted accounting principles and can serve as a solid basis for future managerial decision making.

CONCLUSIONS

External audits have proven to play a significant role in detecting and providing solutions to financial reporting issues, as found in a case study of one of our audit clients engaged in the livestock industry. Based on the results of the examination, it was found that the financial statements prepared did not reflect the appropriate accounting principles, partly due to unsystematic recording, weak transaction documentation, and limited human resource competence in the field of accounting.

The role of external auditors is not only limited to the examination process, but also includes providing constructive input for improving the reporting system. This includes strategic proposals such as the use of accounting software, training staff on transaction recording, and developing standard operating procedures in the financial field. Through this audit, the client gained a comprehensive overview of the weaknesses in the existing financial system and the direction for improvement, so that the quality of financial information in the future can be improved and used optimally for decision making.

REFERENCES

- Afryan Iriando Sipayung, Y., & Morasa, J. (2021). Evaluasi Audit Internal Dalam Meningkatkan Kualitas Laporan Keuangan Daerah (Studi Kasus Pada Inspektorat Kota Tomohon) Internal Audit Evaluation in Improving the Quality of Regional Financial Statements (Case Study on Tomohon City Inspectorate). *Emba*, 9(3), 871–879.
- Arista, D., Kuntadi, C., & Pramukty, R. (2023). Pengaruh Audit Tenure, Ukuran Perusahaan, Dan Rotasi Audit Terhadap Kualitas Audit (Literature Review Audit Internal). *Jurnal Economina*, 2(6), 1247–1257. <https://doi.org/10.55681/economina.v2i6.594>
- Fay, D. L. (2023). Analisis Penerapan Audit Judgement Dalam Menilai Resiko Penyajian Akun Laporan Keuangan Badan Layanan Umum Daerah Pada Rsud Kota Makassar Tahun 2022. *Angewandte Chemie International Edition*, 6(11), 951–952., 269–277.
- Hastiwi, M., Novilasari, E. D., & Nugroho, N. T. (2022). Pentingnya Laporan Keuangan Dalam Menilai Kinerja Keuangan Pada Perusahaan. *Prosiding Seminar Nasional Hukum, Bisnis, Sains Dan Teknologi*, 3(1), 16–24.
- IAI. (2019). Kerangka Konseptual Pelaporan Keuangan (KKPK). *Dsak Iai*, 1–78. [http://iaiglobal.or.id/v03/files/file_berita/DE_Kerangka_Konseptual_Pelaporan_Keuangan_\(KKPK\).pdf](http://iaiglobal.or.id/v03/files/file_berita/DE_Kerangka_Konseptual_Pelaporan_Keuangan_(KKPK).pdf)
- Karunia. (2021). *Pengaruh Profitabilitas, Ukuran Perusahaan, Komite Audit, Dan Struktur Kepemilikan Terhadap Ketepatan Waktu Penyajian Laporan Keuangan Perusahaan Yang Terdaftar Di Bursa Efek Indonesia (Bei) Periode 2015-2019*. 4(June), 2016.
- Navis, M. N., Nisa, L. L., & Paramadina, K. R. (2024). Peran Kinerja Pengendalian Internal dan Kecakapan Auditor Internal dalam Mendukung Opini Auditor Eksternal Suatu Perusahaan. 42–49.
- Pagan, F. A., Herdi, H., & Aurelia, P. N. (2024). Pengaruh Internal Audit Terhadap Kualitas Laporan Keuangan di PT. *Pos Indonesia Cabang Maumere*. 3(1), 21–34.
- Sartika Pratiwi, T. (2023). Pentingnya Komite Audit Untuk Kualitas Pelaporan Keuangan Informasi Artikel. *Jurnal Riset Akuntansi Tridinanti*, 5(1), 1–11. <https://ejournal.univ-tridinanti.ac.id/index.php/ratri/index>
- Sumaryanto, S., & Witanto, A. C. (2024). Peran Dan Tanggung Jawab Auditor Eksternal Deteksi Dini Kecurangan Akuntansi Berdasarkan Laporan Keuangan Auditee. ... *Jurnal Akuntansi Dan Keuangan*, 8(2), 148–166. <https://jurnal.umt.ac.id/index.php/competitive/article/view/11717>
- WINTORO, A. A. (2023). Analisis Peran Auditor Eksternal Terhadap Pencegahan Kecurangan Laporan Keuangan Pada Perusahaan Yang Diaudit Tahun 2022 (Studi pada KAP Bharata Arrifin Mumajad & Sayuti (BAMS) Korespondensi Cirebon). *Skripsi: Institut Agama Islam Negeri*, 2022, 45–46.