

The Important Role of Information Systems Auditing in Compliance and Risk Management Review

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Abstract:- Information system auditing is a systematic process carried out to evaluate the security, relevance, integrity, effectiveness and efficiency of information systems in companies. The research method used is the literature study method and literature review to examine and analyze the Importance of the Role of Information Systems Auditing in Reviewing Compliance and Risk Management. The purpose of this study is to determine the important role of auditing in reviewing compliance and risk management in companies or organizations. Therefore, this article emphasizes the importance of the role of auditing information systems in this increasingly sophisticated era.

Keywords:- *Component; Information System Auditing, Compliance, Risk Management.*

I. INTRODUCTION

Information systems auditing is a systematic process applied to collect and assess evidence about assertions about economic actions and events [1]. This growing business world poses many problems, and only a few businesses fail because they cannot compete. One of the reasons for failure is the poor management of the company in question. To prevent this from happening, management functions such as controlling, planning, organizing, and directing, which are functions related to each other, must be fully implemented without separating these functions[2].

An information systems audit, also known as an EDP (Electronic Data Processing Audit) audit, is the process of collecting data and evaluating evidence to determine whether a computerized application system has established and

implemented an adequate system of internal control [3]. Then whether all assets are properly protected or misused, whether data integrity and reliability are guaranteed, and whether computer-based information systems operate effectively and efficiently [4].

An audit is also a systematic process for obtaining and assessing evidence objectively carried out by someone who has competence and is independent. This process is carried out by collecting and assessing evidence of information that can be quantified and related to the statement of a certain economic entity about economic actions and events [5]. Due to globalization that no longer recognizes national borders, business behavior has become broader [6].

Internal audit evaluates and improves existing internal control systems, risk management, and business processes to help companies achieve their business objectives [7]. This research includes risk management, transaction tracking, and internal audit, and compliance with applicable accounting standards. Although AIS has many advantages [8].

Information systems help protect sensitive data and maintain customer trust; information systems also help organizations comply with applicable regulations and security standards by providing strong access control, auditing, and data protection [9]. In addition, the developments of smart villages, digital villages, smart cities, as well as remote home control technology are some examples where information technology can be developed [10].

Information systems also offer many advantages that help companies achieve their goals [11]. Due to the tremendous advances in information technology, some

entities, including small family businesses that depend on IT to record and process company transactions, this can change. Some changes in control caused by the use of information technology into data systems [12].

The existence of a framework, often known as a framework, can help auditors to conduct information systems audits effectively [13]. ISACA (Association for Information Systems Audit and Control) develops ISO, COSO, ITIL, and COBIT (Control Objectives for Information and Related Technology) frameworks, which are used to manage and measure the performance of organizational information systems. This research will discuss this framework, namely COBIT [14].



One application for auditing is Control Objective for Information and Related Technology (COBIT) 5, which is a framework that can be used to measure IT performance. COBIT 5 offers an IT management framework and detailed control objectives for management, business process owners, users and auditors. It is intended to manage information technology holistically so that the value provided by information technology can be achieved optimally by paying attention to every aspect of information technology governance. [15].

According to Elshaddai, quoted in his article [16]. The SI / IT audit in the COBIT framework is more commonly referred to as IT Assurance, which can not only provide an evaluation of the state of Information Technology governance but can also provide input that can be used to improve its management in the future.

Auditing aims to ensure that the company's performance continues to support the vision and mission of the company in accordance with compliance or not [17]. In the audit of local government financial statements, the use of information systems (IS) has several significant benefits. First, IS allows the audit process to be automated, replacing manual tasks that tend to be more prone to human error [18].

There is a difference between auditors and audited, in simple terms it can be conveyed that in audit activities, the main actors are auditors and audited. Simply put, the auditor is the party conducting the audit, while the audited is the audited party. Things like this are found everywhere, both in government and the private sector [19].

In terms of opportunity risk, there are two main components: the risk/hazard associated with taking the opportunity and the risk associated with not taking the opportunity. Opportunity risks may or may not be physically visible, and are often financial in nature. However, even if the opportunity risk is taken with the intention of obtaining a positive outcome, this cannot be guaranteed. However, the

general approach is to take opportunities and the risks associated with opportunities [20].

Operating companies will not be separated from risk, especially for companies that have intellectual capital. Good performance will be seen from the existing resources and these conditions are free from all types of risks [21]. One important component of a company's efforts to identify, evaluate, and manage potential risks associated with the use of information technology is IT risk management. These risks include data security, system integrity, operational sustainability, and compliance with applicable regulations and standards [22].

II. BASIC THEORY FOUNDATION

A. Auditing

Collecting and evaluating evidence of information is a process known as auditing. Its purpose is to determine and report on the degree of conformity between the information gathered and predetermined criteria. Audits should be conducted by competent independent parties.

B. System

A system is a collection of elements or components connected to facilitate the flow of information, materials, or energy to achieve a goal. Often, the term is used to describe a collection of entities that interact with each other, for which a mathematical model can be created.

C. Information

Information is statements, statements, ideas, and signs that contain value, meaning, and messages, both data, facts, and explanations, which can be seen, heard, and read. With the development of information technology and electronic communication, information can be presented in various formats and forms.

D. Compliance

A series of ex ante (preventive) actions or steps taken to ensure that policies, provisions, systems, and procedures as well as business activities carried out are in accordance with company regulations and applicable laws and regulations is known as compliance.

E. Risk Management

Risk management is a structured method or approach to managing threats and uncertainties. It involves assessing risks, creating strategies to manage them, and managing resources to reduce risks. Transferring risks to others, avoiding risks, reducing their negative impact, and bearing some or all of the consequences of certain risks are some of the strategies that can be used.

III. RESEARCH METHODS

The research method that the author applies is the literature study method and literature review to examine and analyze the Importance of the Role of Information Systems Auditing in the Review of Compliance and Risk Management. Through a comprehensive literature review, this research aims

to better understand the practical implementation of this concept in a business context. The purpose of collecting data from various sources is to gather information related to the objectives of this research. The method the author uses to collect this data is based on journals, books and other supporting research materials.

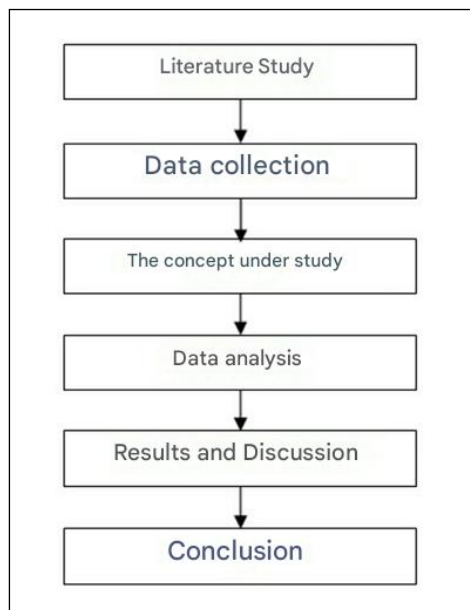


Fig 1. Research Stages

Based on previous research [23], in a study entitled The Role of Internal Audit in the Implementation of Corporate Risk Management, it was found that the role of information system auditing is very important for the development of audit activities, compliance, business activities and managing risks that arise in the company. However, this audit must be carried out carefully by auditors when conducting audits and not rely on information provided by computers. Auditors must understand information technology before deciding that the information provided by the computer is reliable and can provide accurate and precise statements. With the existence of information system auditing, it is expected to speed up the audit process carried out by auditors and help review compliance and manage risks properly.

IV. RESULTS AND DISCUSSION

Information system audit is an important aspect to ensure the integrity, confidentiality, and availability of organizational data. Conducting an audit is also no less important and has a code of ethics; the development of technology and information systems has changed many aspects of life, especially ethics and social society. The code of ethics of information systems has been created by several organizations [19]. However, there is still debate about the generally accepted code of ethics versus the specific code of ethics of information systems. The development of an information system code of ethics must be based on the five moral dimensions mentioned earlier:

A. Information Rights and Obligations;

The information system code of ethics should cover such things as the protection of each employee's personal e-mail, workplace supervision, the organization's treatment of information, and information policies for payroll.

B. Ownership and Obligations:

The information systems code of ethics should address issues such as licensing of software use, ownership of the organization's data and facilities, ownership of software created by the organization's employees, and software copyright issues. In addition, this topic should include specific guidelines for contractual relationships with third parties.

C. Accountability and Control:

The information systems code of ethics should indicate who is responsible for the entire information system and emphasize that they are responsible for individual rights, protection of property rights, quality of the system, and quality of life.

D. System Quality:

The code of ethics should describe the general data quality and the tolerable level of system errors.

E. Quality of Life:

The information systems code of ethics should state that the purpose of the system is to improve the quality of life of customers and employees by achieving high levels of product quality, customer service, and employee satisfaction.

The position of the internal auditor in the organizational structure greatly influences the success of carrying out tasks. This position allows the internal auditor to carry out his/her duties well and to work flexibly or independently, without bias [24].

To maintain the stability of the sustainability of the company's financial performance, the company requires an audit process, as stated in Financial Services Authority Regulation No. 29/POJK.04/2016 concerning Annual Reports of Public Companies to guarantee the reliability of the financial reports presented [25].

The involvement of several Public Accounting Firms in corporate financial scandals has reduced public trust in financial report audits [26]. Therefore, professional public accounting firms have a professional prudential attitude that requires professional accountants to maintain their professional knowledge and expertise as professionals, high-quality auditors will prevent earnings management practices. As a result, audit quality has an impact on earnings management [27].

Large companies will disclose more detailed information, thus involving auditors to examine the financial statements presented by management. The financial statements examined by auditors will be increasingly complex, and the size of the company will have an impact on higher audit costs [28].

F. Risk Identification

The risk identification process is carried out by analyzing all sources of risk that are at least carried out against the risks of new products and activities that have gone through a proper risk management process before being introduced or implemented [29].

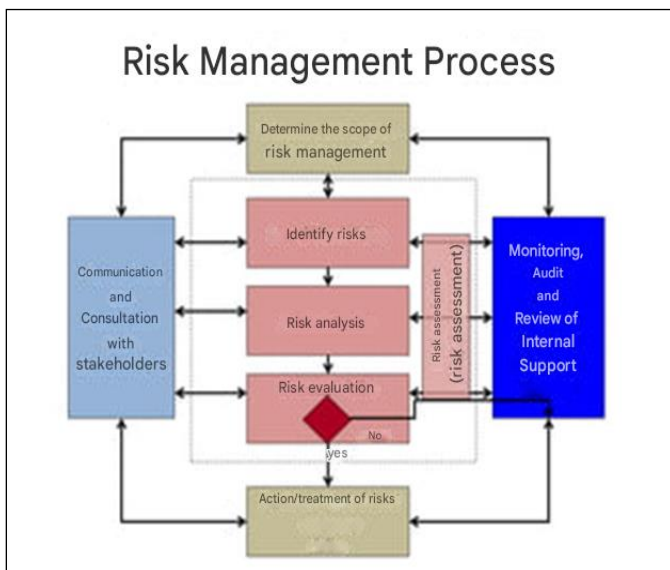


Fig 2. Risk Management Process
Source: Google

Auditor independence, audit quality, information transparency, and financial reporting compliance are important factors. To ensure a comprehensive assessment, each variable will be measured with several indicators, namely:

- Auditor Independence: Signs may include the existence of an independent audit committee, the absence of financial relationships between the auditor and the insurer, and compliance with independence rules.
- Audit Quality: Defined as auditor competence and experience, compliance with auditing standards, and performance of internal control systems.
- Information Transparency: Assessment of information transparency based on whether complete and easily accessible information is found in financial statements, annual reports, and other public documents.
- Financial Reporting Compliance: The extent to which the insurer complies with accounting standards, regulations, and best financial reporting practices [30].

Some audit risks consist of two components:

- Audit risk is the risk of audit error in giving an unqualified opinion on materially misstated financial statements;
- Inherent risk is the susceptibility of an account balance or class of transactions to a material misstatement, assuming that there are no related controls; a strong contingency as well as a response plan if the contingency does not work. A suitable response plan might include various cost-saving measures aimed at keeping the economy sound.

The benefits of the Risk Response Plan are in overcoming risks based on a priority scale. Use of resources, activities according to budget needs, program arrangements and project management plans [31].

The evaluation of compliance audit results consists of 2 (two) parts, namely the evaluation of the performance of the compliance audit process to each audit team and the evaluation of the performance of compliance audit results produced by the audit team. The first evaluation is based on a monitoring sheet or logbook that consists of monitoring the team's preparation stage, implementation stage, and reporting stage [32].

Compliance audits have some very important benefits in business, including:

- Reducing Legal Risk: Compliance audits help companies ensure that they comply with all applicable rules, regulations, and standards, thereby reducing the risk of fines or penalties and ensuring future compliance.
- Identify Opportunities for Improvement: Compliance audits can reveal systems or processes that are not in compliance with applicable rules, regulations, and standards, thus providing opportunities for improvement and development
- Reduce Costs: Compliance audits can reduce costs associated with violations of applicable rules, regulations, and standards, as well as reduce costs associated with complaints and adjudication.
- Improve Financial Statement Quality: A compliance audit can improve the quality of financial statements by ensuring that they conform to applicable accounting principles and meet established standards.
- Increase Awareness and Engagement: Compliance audits can increase the awareness and engagement of workers and company management on the importance of complying with applicable rules, regulations, and standards.
- Improve Operational Efficiency: Compliance audits can improve operational efficiency by ensuring that companies comply with applicable operational standards and reduce costs associated with violations of operational standards.
- Improve Service Quality: Compliance audits can improve service quality by ensuring that companies comply with applicable service standards and provide better service to clients and customers.
- Improving Management Quality: A compliance audit can improve management quality by ensuring that the company complies with applicable management standards and provides better management to the company.

As such, compliance audits are essential in business to ensure that companies comply with applicable rules, regulations, and standards, as well as improve financial statement quality, awareness, engagement, third-party trust, operational efficiency, service quality, information security, and management quality.

V. CONCLUSION

Information system audits are an important aspect of ensuring the integrity, confidentiality, and availability of an organization's data. In today's digital age, where technology plays an important role in business operations, the need for effective risk management and compliance with regulatory requirements has become increasingly important. This study has demonstrated the importance of integrating audit into the risk management process, particularly in the context of information systems.

The findings of this study highlight the importance of identifying and assessing risks associated with information systems, and implementing controls and measures to mitigate those risks. The results also emphasize the need for organizations to build a culture of compliance, where auditing is seen as an important component of risk management.

In conclusion, the integration of auditing into the risk management process is critical to ensuring the security and integrity of information systems. It is recommended that organizations prioritize the development of a comprehensive risk management framework that includes auditing as a key component. This will enable them to identify and mitigate risks, ensure compliance with regulatory requirements, and protect their information systems from potential threats.

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