

# Operational Audit Analysis of The Production Department (Case Study PT. United Can Company, LTD)

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## Abstract

The purpose of this study is to determine the implementation of the production function is in accordance with the standard production function that has been set at the company PT. United Can Company, LTD . then, to find out the production function of PT. United Can Company, LTD undertakes planning in achieving production goals. This research uses a descriptive method with a case study approach, namely the method is carried out by collecting, presenting, analyzing and interpreting data systematically so that it can provide an overview that is used as the basis for providing suggestions. Data collection methods are interviews and documentation. The findings of this study are first, the activities of the production function starting from the master production schedule, assessment of inventory levels, maintenance schedules, productivity and added value, production equipment and facilities, quality control and control of finished goods in general have been carried out well. Second, in general the activities of the production function have been effective but there are some problems that exist so that in the future production operations can be effective.

*Keywords:* audit; operational, production.

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## 1. Introduction

A development of market demand in this business era makes the company more reliable in carrying out the company's operating units (Sri, Abbas, Satmoko, & Mialasmaya, 2021). The development of market demand for a good, cheap and timely product will make the company operate more efficiently, effectively and flexibly and place a product on time without neglecting product quality, because a quality product is one of the most important things to retain customers (Kusuma et al., 2020). Therefore the company must be able to produce products of good quality and in accordance with what customers want. Because the current era is an era with very strong competition, where other companies will try to take customers from other companies by providing better product quality than the company (Abbas, Eksandy, Mulyadi, Hidayat, & Sari, 2022; Mulyapradana, Sundah, et al., 2021).

In the ability to produce products in the right time, quantity, and quality, it is not enough to support the company's competitive advantage (Abbas et al., 2022; Mulyapradana, Zulkarnain, et al., 2021). Products must be produced through an efficient process where the optimization of the use of resources becomes the guideline in every transformation process (Astuti, Abbas, The, & Wehdawati, 2021). Produce products at low costs without sacrificing customer satisfaction attributes, means the company has moved towards its competitive advantage. Through low production costs, companies can offer products at prices that are relatively lower than competitors but still of high quality (Tasman et al., 2020). In order to ensure that the production and operation processes have been running in accordance with the policies and strategies that have been set, to help identify the weaknesses that still occur that can hinder the achievement of the objectives of this function and to find solutions for improvement, the company can conduct an audit of the production and operation functions that are well carried out. periodically. Production and operations audit conducts a comprehensive assessment of the overall production and operation functions to determine whether these functions have been running satisfactorily (economically, effectively, and efficiently) (Wahasusmiah, Indriani, & Pratama, 2019).

Operational audit can be carried out an examination of the operating activities of a company, including accounting policies and operational policies that have been determined by management to find out whether they have been carried out effectively, efficiently and economically (Agoes, 2017). This activity will provide benefits for the company because it can support the continuity of the production process of PT. United Can Company, LTD.

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Operational audits can be carried out by various companies in the metal packaging industry. In carrying out its operations, industrial companies cannot be separated from production because production is a determining factor for the success of a company, especially at PT. United Can Company, LTD itself, a general problem of a company in managing the production process is the low level of supervision in the production process and the low standard of supervision of the production process so that the production process does not run well and the intended target is not optimal or even not achieved properly. In this study, the term management inspection is more focused on the production function at PT. United Can Company, LTD whose activities are producing metal cans or packaging.

Based on this background, the formulation of the problem in writing this report is whether the production function at PT. United Can Company, LTD so far has been running effectively and efficiently?. The purpose of the operational audit is to evaluate the company's performance at PT. United Can Company, LTD and identify improvement opportunities and make recommendations for improvement for the company.

## **2. Literature Review**

### *2.1. Operational Audit*

Audit is a systematic process to obtain and objectively evaluate evidence regarding statements about economic activities and events with the aim of determining the level of conformity between statements and established criteria and delivering the results to interested users management. Definition of operational audit according to (Bayangkara, 2015) is the evaluation of the efficiency and effectiveness of the company's operations. The scope of operational audit covers all aspects of operational activities such as activities, activities, programs and areas within the company that are known or identified as still requiring improvement or improvement in terms of economy, efficiency and effectiveness. While the main elements in the audit objectives consist of:

- Criteria are standard guidelines for each individual/group in carrying out their activities within the company.
- Cause is an action taken by each individual or group in the company.
- Effect is a comparison between causes and criteria.

### *2.2. Raw Material Control*

Control of raw materials aims that in the production process, all raw materials needed to be processed are in accordance with the needs of product quality standards to be produced by the company. Raw material control includes all activities related to raw materials starting from purchasing, receiving schedule, handling when received, storage until the raw materials are used (processed) in the production process (Wijaya, Saerang, & Kalalo, 2018).

Purchasing raw materials involves selecting suppliers and ordering these materials to selected suppliers. To get confidence that the supplier is able to supply raw materials according to the needs, the selected supplier must go through a verification process. To obtain immediate assurance of supply, periodic inspections of the supplier's quality assurance system must be carried out according to the company's written procedures.

Acceptance of raw materials must be in accordance with the needs of the production process. Material Requirement Planning (MRP) describes the production schedule into the schedule for receiving raw materials and integrates the schedule into the production process. That way the need for raw materials is always met when the production process is running and the company does not bear the burden of a large investment in the form of inventory (Astuti, Sri, et al., 2021).

Handling of raw materials is a very important activity to ensure that the materials received from suppliers are in accordance with the needs of product standards that have been implemented by the company. This activity must be supported by adequate equipment and written procedures for handling raw materials, to determine whether the materials received from suppliers are in accordance with the specified specifications. Each material received must be given a special code so that it is easy to trace its distribution and use (Bayangkara, 2015).

### *2.3. Economics*

Economization is a measure of the inputs used in the various managed programs. That is, if the company is able to obtain resources that will be used in operations with the least sacrifice, this means that the company has been able to obtain these resources in an economical way. Thus the cost of goods per unit of input used in operations is also low,

which allows the company to produce products with a relatively lower cost of goods compared to its competitors. (Bayangkara, 2015).

#### 2.4. Efficiency

Efficiency is a measure of the process that links between inputs and outputs in the company's operations. Efficiency relates to how the company conducts operations, so that optimal use of its resources is achieved. Efficiency relates to the work method (operation). In relation to the input-process-output concept, efficiency is the ratio between output and input. How much output is produced using a number of inputs owned by the company. A good work method will be able to guide the running operation process by optimizing the use of the company's resources (Bayangkara, 2015).

#### 2.5. Effectiveness

In short, the notion of effectiveness can be understood as the level of success of a company to achieve its goals.

### 3. Research Method

Research with a descriptive approach is a research that is structured in order to provide a systematic description of scientific information originating from the subject or object of research (Ghozali, 2013). This research was conducted at PT United Can Company, LTD Daan Mogot Kalideres, West Jakarta. This study uses primary data as a source of data in this study. Primary data in this study is data that was first recorded and collected by researchers, such as the results of interviews or the results of filling out questionnaires conducted by researchers. Furthermore, the data used is secondary data. Secondary data in this study is data that is already available and collected by other parties.

#### 3.1. Management Audit Stage

The stages and processes of management inspection can simply be described as follows:



**Figure 1.** Management audit stages.

From the illustration, the management audit stages consist of:

*Preliminary survey*, This stage is the introduction between the auditor and the auditee organization, confirming the scope of the audit, discussing the audit plan, knowing more about the company.

*Management control review and testing*, This stage identifies and classifies deviations and disturbances that occur that can cause delays in the production process.

*Advanced audit*, This stage an auditor conducts a more in-depth audit of a company on the development of findings on procedures, records, facilities or those related to production and operations..

*Reporting*, This stage is the audit stage that has been summarized and concluded in the audit work paper, which is the basis for making audit conclusions and audit formulations in a company..

*Follow-up*, This stage is to follow up on the audit to make improvements offered by the auditor and follow-up actions to make the company better.

### 4. Results and Discussion

#### 4.1 Management audit of production function

Management audit report on production function at PT. United Can Company, LTD are as follows:

##### a. Preliminary Audit Analysis

The results of research from the audit are as follows:

**Table 1.** Management audit report on production function

No.	Question Items	Explanation
1.	Does the company have a strategy used in achieving company goals?	Yes, the company has a strategy in achieving the company's goals, namely, doing orders quickly and precisely with higher quality products. For this reason, the company always tries to do high-quality product work, because for the company customer satisfaction is the main.
2.	Does the company have a short term plan?	Yes, the company has a short-term plan, which is to complete as quickly and as best as possible orders from customers. The company does not want to disappoint its customers who have ordered. So when an order occurs, the company will immediately work on the product quickly, neatly and thoroughly in order to maintain the quality and trust that has been given by the customer.
3.	Does the company have long term plans?	Yes, the company's long-term plan is to increase sales overseas. Therefore the company is always trying to improve the quality of the company's products, starting from renewal to excellent quality, so that it is worthy of being marketed outside country.

Based on the preliminary audit that has been carried out, it can be concluded that the audit objectives are as follows:

- Assess how company management implements each production and operation program/activity.
- Assess the economy, efficiency and effectiveness of the company's production and operation program/activity management.
- Provide various suggestions for improvement on weaknesses in production and operation functions.

*b. Review Analysis of Management Control System*

Reviewing the questionnaires that have been distributed and assessing the determination of production goals:

*1) Production master plan assessment*

The production department has carried out the production process and the production master plan has been in accordance with the standards set by the company and drafted a production budget and planning in making production schedules and raw materials. The production department has also compiled daily production reports. In achieving the production target, it has not been maximized because in the production process there are often problems and the machine used has trouble.

*2) Productivity assessment and added value*

The company has productivity standards that are used as guidelines by production employees and companies that have given responsibility to employees in planning, implementing and controlling their respective activities. Weaknesses are still frequent rework, material wastage and product failure to meet specifications product standards to be achieved.

*3) Production Equipment and Facilities*

All equipment used in the production process is in accordance with predetermined sizes and designs and the location of equipment placement is very effective and efficient in accordance with the needs of the production process.

*4) Quality Control*

The company has a written quality control guideline but there are some production employees who still don't know or get a copy of the quality control policy. The company also provides training in order to improve the quality of employees but it is recognized by employees that it is still rarely done.

*5) Finished goods control*

Control of finished goods means that the final product from cans or metal packaging that will be sold to customers will be separated from unfinished products. Defective products will be processed again / cut back so that nothing is

wasted. Defective products are reprocessed into cans but with a different type (reject). The strengths in management control are as follows:

- The company has a fairly clear organizational structure that measures the authority, duties and responsibilities of each section.
- The company has good production operational standards, this can facilitate the supervision department to monitor the production process
- The company has a good factory and warehouse as well as a layout where the arrangement is by grouping machines that have the same function in one place in order to facilitate the production process.
- Checking the quality of raw materials and machines used for the smooth production process so as to guarantee the quality of the products produced.

#### c. Detailed Audit

Based on the results of the evaluation of the production function of PT. United Can Company, LTD, here are the audit objectives and procedures that can be used to carry out the detailed audit stages.

#### 4.2 Inspection of Production Planning

The purpose of the audit of production planning is to assess whether the production planning set by the company has been effective, efficient and economical and to evaluate the achievement. The audit procedure for production planning is as follows:

- Obtain information on whether the company has a production plan each year.
- Obtain information about the standards that have been set by the company in planning annual production.
- Evaluate whether the production plan has been supported by the availability of raw materials for the production process.
- Make audit conclusions.

#### 4.3 Inspection of Production Execution

The purpose of the audit of the implementation of production is to assess the production process in the company has been running in accordance with the production plan so that effectiveness and efficiency in production can be achieved. The audit procedures for the implementation of production are as follows:

- Conduct interviews regarding the production procedures that have been applied by the company.
- Understand the company's production procedures and workings.
- Evaluate whether the production process is carried out in accordance with the company's production standards.
- Evaluate whether the company has been able to control the production process run by the company.
- Distribute questionnaires to employees of the production department related to the production process and evaluate the answers to the questionnaire.
- Make audit conclusions.

#### 4.4 Audit Report

Production and operation audit report:

**Table 1.** Production and operation audit results report

No.	Question Items	Explanation
1.	Less effective planning of production targets?	<u><b>Condition:</b></u> Based on the evaluation of the questionnaire conducted, it is known that PT. United Can Company, LTD in planning production is still less effective. Due to the limited number of machines, according to several

No.	Question Items	Explanation
		<p>employees, they have experienced production problems so that when equipment problems occur, the production process is hampered.</p> <p><b><u>Criteria:</u></b> Companies must pay attention to problems in the production process such as congestion that can interfere with productivity.</p> <p><b><u>Impact</u></b> Fulfillment of production targets is not according to plan and the resulting product is not effective so that it does not satisfy customers.</p> <p><b><u>Recommendation:</u></b> Companies should pay attention to the number and feasibility of the machines and equipment used. So that when the production process takes place there are no interruptions.</p>
2.	There are no written instructions regarding the maintenance and care of production equipment.	<p><b><u>Condition:</u></b> The absence of written instructions or written procedures in the maintenance and maintenance schedule of production machines. So that employees do not know for sure to care for and clean each production equipment (intensity of maintenance and equipment maintenance).</p> <p><b><u>Criteria:</u></b> The company should have written maintenance and care procedures for each equipment so that employees know the rules and how to care for and maintain the equipment and maintain the economic life of the existing equipment.</p> <p><b><u>Impact :</u></b> Employees don't seem to care about caring for and maintaining the production equipment used. Even with verbal notification, there may be a possibility of deviations or errors in the maintenance and maintenance of production equipment that can damage existing equipment.</p> <p><b><u>Recommendation:</u></b> The company must establish written procedures for each employee who are directly related to the production process so that the equipment can be used effectively and efficiently. It can also be affixed to the contents of each piece of equipment so that employees can read it carefully.</p>
3.	To ensure the production process is not disrupted, the company does not have a written procedure for managing raw material inventory.	<p><b><u>Condition:</u></b> The company does not make a written list of raw material stock management and raw material monitoring.</p> <p><b><u>Criteria:</u></b> The company must make a written list of the stock of raw materials so that there is no buildup and make a monitoring list so that there is no difference in raw materials.</p> <p><b><u>Impact :</u></b> Certain types of raw materials may be in excess or raw materials may be lacking. Lack of raw materials can hamper the production process.</p> <p><b><u>Recommendation:</u></b> It is necessary to compile a list of types of raw materials, so that there is no excess buildup and shortage of raw materials or differences in raw materials.</p>

## 5. Conclusion

In general, production and operating activities at PT. United Can Company, LTD has been effective, but there are still some problems in production activities, including ineffective production target planning, written instructions regarding maintenance and maintenance of production equipment are not available, to ensure the production process will not be disrupted, the company also does not have written management procedures. Raw material inventory so that PT. United Can Company, LTD needs to carry out some corrective actions.

PT. United Can Company, LTD should pay attention to the number and suitability of the machines or equipment used so that during the production process goes well and there are no disturbances. The company must establish written procedures for all employees who are directly related to the production process so that the equipment can be read and used effectively and efficiently. It can also be affixed to the side of each piece of equipment so that employees read carefully. It is also necessary to compile a list of raw material inventory and a monitoring stock list so that there is no excess buildup and shortage of raw materials.

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