



ANALYSIS OF THE APPLICATION OF MATERIALITY BY KAP X TO THE VOUCHING PROCEDURE FOR REVENUE AND OPERATING EXPENSE TRANSACTIONS OF PT Z

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Abstract

This study aims to comprehensively examine the application of the concept of materiality and the vouching procedure in the financial statement audit process at PT Z by Public Accounting Firm (KAP) X. This study uses a qualitative approach with a case study method, in which data is collected through in-depth interviews, documentation, and review of relevant audit working papers. The results show that KAP X sets materiality thresholds based on a quantitative approach, taking into account key financial indicators such as total assets and income, as well as qualitative factors that could potentially influence the decision-making of financial statement users. Vouching procedures are carried out in a structured manner on accounts that are considered material and high risk in order to obtain reliable audit evidence. These findings indicate that the synergy between the application of proportional materiality and targeted vouching can improve the effectiveness of audit procedures and the quality of testing the fairness of financial statements as a whole.

Keywords: Financial Audit, Materiality, Vouching Procedures, Revenue, Operating Expenses



INTRODUCTION

Being an auditor at one of the leading Public Accounting Firms (KAP) is a profession that plays a very important role, especially in a business environment that is becoming increasingly complex every year (Putri & Sulistyowati, 2023). Auditors are tasked with providing assurance on the credibility of financial statements prepared by companies, especially large clients with high transaction complexity (Boynton, 2014). A professional auditor is expected to have the competence to understand historical data, analyze current financial conditions, and apply auditing standards appropriately.

In this regard, each auditor certainly has different characteristics in terms of how they demonstrate their ability to compile client financial statements (Sutopo et al., 2022). This includes how they read previous financial data, process data for the current year, determine the level of materiality in accordance with existing standards, and make decisions in the form of audit opinions that show the extent to which the auditor has carried out their profession (Anggraini et al., 2019).

One crucial aspect of the audit process is determining the level of materiality (Nuryanto et al., 2025). Materiality is the threshold used by auditors to evaluate whether a misstatement could influence the decisions of financial statement users (ISA 320). Determining materiality requires a combination of quantitative analysis and in-depth qualitative considerations of the client's condition (Fajri & Rois, 2020). If the auditor sets the materiality level too high, there is a risk that significant errors will be overlooked. Conversely, if it is too low, the audit process becomes inefficient (Setiadi, 2019).

An auditor's ability to determine materiality greatly determines the quality of the audit results that will later be provided to clients (Abdurokhim, 2020). If the auditor fails to set the appropriate level of materiality, the audit opinion provided by the auditor may be less relevant or even misleading to users of financial statements, especially since these financial statements are publicly accessible for public companies (Tbk.) (Putri, 2020). If the auditor sets materiality too low, the audit process will become inefficient because too much time and resources are spent pursuing unimportant transactions. Conversely, if materiality is too high, the auditor may ignore a reasonable opinion on financial statements that actually contain material misstatements.

Previous studies have also revealed the importance of materiality in the audit process (Amalia & Munari, 2022). For example, Nudyah (2021) states that professional ethics and auditor professionalism influence materiality considerations. Meanwhile, Joddi and Sukarmanto (2023) adds that auditor



experience is also an important factor in materiality decision-making. However, there has not been much research that explicitly examines the relationship between the application of materiality to two main accounts at once, namely revenue and operating expenses, especially in the vouching procedure.

In fact, these two accounts play a very important role in reflecting a company's financial performance. Revenue describes the results of a company's main activities, while operating expenses show the costs incurred to support these activities (Nadias & Budiwitjaksono, 2024). Both accounts influence each other in assessing the operational efficiency and profitability of an entity. Several previous studies have discussed vouching and materiality, but their focus remains limited. For example, Wardhana and Haryati (2024) only examined revenue accounts, while Putri and Sulistyowati (2023) focused on operating expenses. Research Nurmalasari and Susilowati (2024) also confirms that without materiality, audits can lose focus. Therefore, research that combines these two accounts is needed to provide a comprehensive picture of how materiality is applied by auditors in the vouching process.

Revenue and operating expenses have a continuous relationship because they influence each other in determining a company's financial performance. Revenue reflects the results of a company's main activities, while operating expenses are the costs incurred to support these activities. Without adequate revenue, a company will not be able to cover its operating expenses, which can result in losses or even business failure. Conversely, efficient management of operating expenses allows companies to optimize profit margins from the revenue earned. Therefore, the balance between revenue and operating expenses is crucial to maintaining business sustainability and achieving the company's financial goals.

The use of materiality in the vouching procedure for revenue and operating expenses is very important because materiality helps auditors focus on items that have a significant and high-risk impact on financial statements (ISA 500). By determining the appropriate level of materiality, auditors can evaluate whether revenue and operating expenses have been recorded correctly and in accordance with applicable accounting standards (Nurmalasari & Susilowati, 2024). This approach also ensures the efficiency of the audit process, as auditors can allocate resources to examine more relevant and high-risk transactions. Given that revenue and operating expenses are interrelated in reflecting the company's financial performance, the application of materiality in the vouching procedure helps provide reasonable assurance that the financial statements are free from material misstatement and can be relied upon by stakeholders.



The purpose of this study is to analyze the application of materiality by Kap X to the vouching procedures for revenue and operating expense transactions belonging to Pt Z.

LITERATURE REVIEW

Materiality

In accounting and auditing practice, materiality serves as a benchmark for auditors in assessing the extent to which an error or omission of information may impact the decision-making of financial statement users. According to Fadillah and Sulisty (2024), materiality is the magnitude of misstatements in financial statements that, individually or in aggregate, may influence the economic decisions of financial statement users. Therefore, materiality reflects the relevance and fairness of the accounting information presented.

According to International Standards on Auditing (ISA) 320, "Materiality is a measure used to evaluate whether misrepresented or incomplete information could influence the economic decisions of users of financial statements. Overall, materiality is a crucial concept in auditing that serves as a guide for auditors in assessing the relevance or fairness of accounting information.

Vouching Procedures

In addition to determining materiality, vouching procedures play an important role in assessing the reasonableness of account balances in audit procedures that aim to verify the accuracy of financial statement transactions through the examination of relevant supporting documents, and help auditors ensure that each transaction is recorded based on validated supporting documents, such as invoices or bank statements (Fadillah & Sulisty, 2024). According to ISA 500, regarding audit evidence, auditors must obtain appropriate evidence to support their conclusions.

In addition, vouching also involves selecting a sample of transactions from journals or ledgers to be verified against existing supporting documents (Makanza, 2019). These documents must be examined to ensure the completeness, authenticity, and accuracy of the data. For example, for revenue transactions, auditors will examine invoices, bank statements, and proof of payment to ensure the validity and consistency of the transaction (David & Abeysekera, 2021).

In a study by Amalia and Munari (2022), the vouching procedure was proven to be effective in detecting financial statement misstatements in audited companies. Furthermore, in Indonesia, the relevance of vouching can be found in Law No. 40 of 2007 concerning Limited Liability Companies and Law No. 28 of



2007 concerning General Provisions and Tax Procedures, which regulate the importance of accurate recording of financial transactions and valid supporting evidence.

RESEARCH METHOD

The approach used in this study is descriptive qualitative (Sugiyono, 2019). The object of this study is a public accounting firm, which will be referred to as "X," located in South Jakarta, DKI Jakarta.

The data sources used in this study are primary and secondary data. In this study, primary data was collected by interviewing one of KAP X's senior auditors named "Kak O," who has been preparing materiality for PT. Z for several consecutive years, as well as by observing the senior auditor working on working papers for materiality and vouching transactions on income and operating expense accounts. The secondary data sources that can be processed and collected directly from KAP X are:

- a. Audit Working Papers
- b. Materiality Calculator Working Papers
- c. KAP X's *benchmark* guidelines

The data collection techniques used were interviews and documentation. The data analysis techniques in this study consisted of several systematic stages, namely data collection, data presentation, and conclusion drawing.

RESULTS AND DISCUSSION

Steps for Determining Materiality

Determining materiality is a very important initial stage in the audit process, because materiality is used as the basis for designing audit procedures and evaluating the impact of misstatements on the financial statements as a whole.

Kak O, the senior auditor who calculated the materiality, said that:

"We usually determine materiality at the beginning, during audit planning. Each client or company can have different benchmarks depending on their conditions" (researcher interview, March 6, 2025).

In addition to the interview, Kak O showed that in the audit case of PT Z, KAP X used a Microsoft Office Excel *working papers* template called "*Materiality Calculator Preliminary*," which had been adapted to international auditing standards (ISA 320) and KAP X's internal policies. This process was carried out systematically through several stages, as reflected in the content and interrelationships between the *sheets* in the *file*.



The first step in determining materiality is to select a relevant financial basis or benchmark, such as profit before tax, total revenue, or total company assets. The selection of this benchmark is tailored to the characteristics of the audited entity (Wardhana & Haryati, 2024). In the case of PT Z, the selection of the benchmark refers to the value of profit before tax as the main basis, considering that PT Z is a manufacturing company that is operationally stable and has reasonable profits. The following are the percentages for determining materiality according to the standards owned by KAP X:

Table 1.
Overall Materiality Guide KAP X

Appropriate Benchmark	Suggested Entity Type	Suggested Benchmark %
Turnover	Income-based entities	0.5% - 2%
Profit before tax	Profit-oriented entities	5% - 10%
Normalised profit before tax	Profit-oriented entities	5% - 10%
Gross assets	Asset-based/investment entities	0.5% - 2%
Net assets	Net asset-based/start-up entities	2% - 5%
Total income/expenses	Not-for-profit entities	0.5% - 2 %
Other (Gross Profit)	Other entities	2% to 5%

Source: KAP X Materiality Guidelines

After determining the benchmarks to be used, the auditor calculates the overall materiality.



Table 2. Overall Materiality Calculation

Appropriate Benchmark	Total (Rp)	Suggested Benchmark	Overall materiality
PT Z's Profit Before Tax	50.000.000.000	5%	2.500.000.000

Source: KAP X Working Paper

After determining the benchmark to be used, namely profit before tax, the auditor then calculates the overall materiality. Based on Table 2, PT Z's profit before tax of Rp 50,000,000,000 is used as the basis, with a percentage of 5% of the total profit before tax, resulting in an overall materiality figure for PT Z of Rp 2,500,000,000. The selection of the 5% percentage refers to the guidelines in Table 2, where the recommended range for profit-based entities is 5% to 10%. In this case, the auditor set the figure at the lower limit (5%) by considering several aspects, including the high-risk level of the client and the results of the audit team's discussion regarding the overall characteristics of the entity.

The use of the lower limit is also intended so that the materiality calculation results are not too high and remain representative of the potential for significant misstatement. It should be noted that the percentage range is illustrative and is only used as an initial guideline, so it still requires professional judgment based on the client's actual conditions. This value of IDR 2,500,000,000 then becomes the maximum tolerance limit for misstatements that are still acceptable before they are considered to affect the decision-making of users of financial statements, as well as the initial basis for determining the next level of materiality in the audit process.

In addition to calculating the overall materiality, KAP X also assessed a risk factor belonging to PT Z. This was based on several indications, including:

1. The total known and estimated misstatements are considered significant to the financial statements.
2. Management tends to be open to adjustments but focuses on those that are significant.
3. Many of PT Z's accounts have significant total values.
4. Control weaknesses and adjustments from the previous year were found to have an impact on the current year.
5. Audit testing involves many sampling procedures that have the possibility of undetected misstatements.



Table 3.

Performance Materiality Guide KAP X

Client Risk	Recommended Benchmark
Low Risk	60%-75%
Medium Risk	50% - 60%
High risk	40% - 50%
Significant Risk	40 % or lower

Source: KAP X Working Paper

Based on the assessment of a number of client risk factors described by the researcher, PT Z is categorized as an entity with a 'high risk' level, so it will use a benchmark to determine performance materiality of 50% of overall materiality.

Table 4.

Calculation of Performance Materiality

Overall Materiality	Client Risk	Benchmark	Performance Materiality
2.500.000.000	High risk	50%	1.250.000.000

Source: KAP X Working Paper

Based on the calculations in Table 4 and consideration of various factors and risks faced by PT Z, the auditor set the performance materiality at 50% of the overall materiality of 1,250,000,000. This percentage reduction aims to reduce the possibility of undetected misstatements so that the auditor can design more rigorous and focused audit procedures for high-risk areas.

After determining the performance materiality, the auditor sets a clearly trivial threshold.

In her interview, Kak O explained that:

"We usually use triviality as a matter of efficiency, so that we don't waste too much time on figures or transactions that are not very significant" (researcher interview, March 6, 2025).

Table 5.

Benchmark Clearly Trivial Guide KAP X

Clearly Trivial	Benchmark %
Clearly, a trivial threshold	5% or lower

Source: KAP X Working Paper

Table 5 presents the clearly trivial threshold used to filter out misstatements that are considered very small and insignificant, and therefore do not need to be followed up further in the audit process. KAP X sets a benchmark percentage of 5% or less of the overall materiality value as the clearly trivial



threshold. As explained by Kak O, this threshold is intended to avoid allocating resources to matters that do not have a significant material impact on the financial statements.

Table 6.
Trivial Threshold Calculation

Overall Materiality	Percentage Selected	Trivial Amount
2.500.000.000	5%	125.000.000

Source: KAP X Working Paper

After determining the benchmark used to calculate the Clearly Trivial Threshold, in the calculation example in Table 6, with a percentage of 5% of overall materiality, a trivial amount value of 125,000,000 can be obtained. This value becomes the threshold for disregarding insignificant misstatements while helping auditors make systematic professional judgments to focus their attention on misstatements that have a significant impact on the fairness of the financial statements.

By following these steps systematically, auditors can ensure that the materiality determination process is carried out appropriately and based on relevant data. This entire process not only helps auditors design effective audit procedures but also provides an objective basis for evaluating the impact of errors or misstatements found during the audit process.

Steps in the Vouching Procedure

After the auditor has determined the overall materiality, performance materiality, and clearly trivial threshold values, the next stage of the audit is to design and implement substantive audit procedures. One of the main procedures in substantive testing is vouching (Douglas, 2017). This procedure is particularly relevant for testing accounts that have a significant risk of misstatement, such as revenue and operating expenses, which have a high transaction frequency and materially affect the company's net income (Andriyani et al., 2020).

The materiality determination made earlier serves as the basis for the auditor in determining the sampling size of transactions to be vouched and the testing threshold. Based on the population of supporting documents using the materiality and risk approach that has been calculated in the previous calculation, the auditor will focus on transactions that are significant in value or have suspicious (unusual) characteristics, to be traced to source documents such as invoices, delivery orders, receipt reports, or proof of payment.

Kak O, a senior auditor, also explained that:

“In the vouching procedure, we usually check the transactions that we have determined through sampling, which are large in amount and usually above



the PM (performance materiality). The documents must be provided, complete and detailed” researcher interview, March 10, 2025

The same applies to testing operating expenses. Because operating expenses often consist of various types of transactions with varying values and involve many departments, auditors use the materiality determination results as a basis for determining the minimum transaction value to be tested (cut-off) and ensuring that each expense recorded reflects actual and valid transactions (Andriyani et al., 2020). In other words, the calculated materiality value becomes a tool in determining the sampling rate and the scope of documents to be verified through vouching (Agoes & Trisnawati, 2019).

Through this approach, auditors can perform substantive testing of revenue and operating expenses in a more focused, efficient manner and in accordance with the predetermined level of risk and tolerance for misstatement. The results of this vouching procedure are then used as a basis for evaluating whether the financial statements are free from material misstatement and whether adjustments or additional disclosures are necessary. Based on the materiality that has been determined and after the auditor has designed a substantive audit approach, the next step is to perform testing procedures on financial transactions that are considered to be at risk of material misstatement (Joddi & Sukarmanto, 2023).

One of the testing techniques commonly used in auditing accounts such as revenue and operating expenses is the vouching procedure. This procedure is performed to ensure that the transactions recorded in the financial statements are actually supported by valid transaction evidence.

An explanation of the vouching procedure applied in the audit of PT Z can be seen in the following description:

a. Revenue Vouching Procedure

The vouching procedure for revenue accounts is an important step in the audit process, which aims to ensure that the revenue recorded by the company actually originates from legitimate transactions, occurred in the correct period, and has been measured and recognized in accordance with applicable accounting principles (Setiadi & Sibarani, 2019). In this context, the auditor traces the revenue transaction records listed in the revenue listing to the supporting documents that serve as evidence of the transaction.

The first step in performing vouching is to select a sample of transactions from the revenue listing as of December 31, 2024. The sample is selected using the random sampling method to ensure that it is representative and unbiased. The



revenue listing is a complete list of all of the company's sales transactions in the period being audited, which includes important information such as the transaction date, customer name, invoice number, type of goods or services sold, and transaction value.

Kak O, a senior auditor, added:

“Revenue is always in the sales details or revenue listing, which is usually complete from the invoice to the discount, whereas the general ledger is more general and not as detailed, and we need all the documents in detail until the goods are received by the customer” researcher interview, March 15, 2025

After the transaction samples are determined, the auditor traces each transaction to the main supporting documents, such as sales invoices, delivery orders, proof of payment, and sales contracts, if any. This tracing aims to prove that the transaction actually occurred and is consistent with what is recorded in the accounting system. The auditor checks whether the amount stated on the invoice is the same as that recorded in the revenue listing, whether the goods or services have actually been delivered to the customer, and whether payment has been received or guaranteed. In the vouching process, auditors also use several evaluation criteria known as vouching attributes. These attributes include: (1) consistency between the transaction value in the records and the documents, (2) authorization from the relevant authorities, (3) completeness of supporting documents, and (4) consistency of information between the documents and the records. Each transaction will be examined based on these four attributes and given a status according to the results of the examination (for example: vouched, not vouched, or differences found).

If there are discrepancies between the records and documents, such as differences in value or incomplete supporting documents, the auditor will record this in the difference column and provide additional explanations in the remarks column. This becomes the basis for the auditor in assessing whether the error is material or not, and whether further investigation is necessary.

Overall, the revenue vouching procedure provides assurance to the auditor that the revenue reported by the company has been recognized accurately, completely, and supported by valid evidence. Thus, vouching is an integral part of the audit process that aims to improve the reliability and integrity of financial statements.

b. Operating Expense Vouching Procedure

In addition to revenue, operating expense accounts are also a major focus in the audit process because they are directly related to the company's main activities and have an impact on net income. Vouching for operating expenses



aims to ensure that all costs recorded by the company have actually occurred, are relevant to business activities, are recorded in the appropriate amounts, and have been charged in the correct period (Ningsih et al., 2024). The accuracy of these expense records is very important to prevent the recognition of invalid or manipulative costs.

The first step in this procedure is to select a sample of expense records taken from the general ledger. The general ledger contains all of the company's expense transactions classified into specific accounts, such as electricity, salaries, rent, telephone, and so on. Auditors select samples randomly based on certain criteria, such as the number of transactions or the level of materiality, to ensure that the sample represents the entire population of expenses.

Once the sample has been determined, auditors trace each transaction back to the source documents that support the expense. Supporting documents commonly used in this test include invoices from vendors, proof of payment (e.g., transfer or check receipts), and other supporting documents such as lease agreements or purchase orders. The auditor checks whether the transaction was actually paid to the right party, whether the amount matches what is stated in the document, and whether the goods or services paid for were actually received by the company.

As with the revenue procedure, auditors also make assessments based on vouching attributes, namely: (1) the conformity of values between the general ledger and proof of payment, (2) the existence of authorization from the competent authority, (3) the completeness of supporting documents, and (4) the consistency of information between documents.

If there is a difference between the recorded value and the value on the document, or if the document is incomplete, the auditor will record the difference in the difference column and provide an explanation in the notes section. Vouching for operating expenses plays an important role in detecting potential fictitious expenses, mark-ups, or recognition of expenses outside the period. Therefore, auditors must be careful in matching each transaction with its supporting evidence.

Through this process, auditors not only test the validity of transactions, but also assess the effectiveness of internal controls in the company's expenditure process.

Overall, the vouching procedure for both revenue and operating expenses serves as a means of in-depth verification to ensure that the transactions recorded in the financial statements actually occurred and were recorded fairly. By



applying the vouching technique systematically and comprehensively, auditors can provide an objective opinion on the fairness of the company's financial statements and assist management in improving the recording and internal control systems.

Discussion

The audit of PT Z's financial statements by KAP X is a very complex process, given the characteristics of PT Z's business, which not only includes production but also large-scale food distribution and an extensive distribution network. This complexity creates a need for audits that not only comply with regulatory requirements but also truly understand the company's operational dynamics in order to develop an appropriate audit strategy. In this context, the auditor's knowledge of PT Z's organizational structure and business processes is key in determining the focus areas of the audit, especially the income and operating expense accounts, which are at the core of the company's business activities.

KAP X, as an experienced auditor and part of an international network, applies a risk-based approach to its audits. This approach is used to identify areas of financial statements that have a high probability of material misstatement. In this case, revenue and operating expense accounts are considered high-risk areas due to the large number of transactions and their direct impact on the company's profits. The determination of this area is not without basis, but is based on a deep understanding of PT Z's business processes and their relationship to the presentation of the financial statements as a whole. This is where the importance of the audit planning stage lies, because this is where the auditor begins to adjust all audit procedures to be applied, taking into account the client's risk level.

The first step taken by the auditor is to determine the level of materiality. Materiality is not only the basis for evaluating the impact of a misstatement, but also acts as a filter throughout the audit process (Suhardi, 2023). In the case of PT Z, the auditor set pre-tax profit as the main basis for determining materiality due to the company's stable profit characteristics. This determination is very strategic because profit before tax reflects the actual operating results of the company, which indicates the company's ability to generate profits after all operating expenses are calculated. Therefore, any misstatement that affects profit before tax can have an impact on the perception of financial statement users.

After the general materiality value is determined, the auditor calculates the performance materiality and trivial misstatement threshold values. This shows that auditors do not just set a single threshold, but create a system to control risk. Performance materiality, which is generally set at 75% of general materiality, is



used to minimize the risk of accumulating small misstatements that, when added up, could exceed the tolerance limit. Meanwhile, the trivial misstatement threshold is used so that auditors do not focus too much on misstatements that are individually insignificant. Thus, this materiality value system serves as a guide in determining which population of transactions should be tested and which can be ignored.

The application of this materiality value is then converted into the implementation of substantive audit procedures, one of which is the vouching procedure. Vouching is the main technique in testing the existence and validity of a transaction, which is done by tracing the data from the financial statements back to the source documents. In the context of PT Z, this procedure is crucial due to the large volume of transactions, especially in revenue and operating expense accounts. The audit of revenue focuses on the revenue listing, which is a list of all sales transactions. Auditors randomly select samples and trace them back to supporting documents such as invoices, delivery notes, and proof of payment receipts. This step not only verifies the figures but also proves that the transactions actually occurred and were recorded in the correct period. These findings are in line with Wardhana's (2024) research, which shows that a systematic vouching procedure for revenue accounts helps auditors verify the validity and completeness of transaction documents. Putri and Sulistyowati (2023) expressed a similar view in an audit of operating expense accounts, stating that the use of vouching based on the principle of materiality is very important for identifying deviating or suspicious expense items. Both studies confirm that a vouching-based audit approach, when combined with appropriate materiality calculations, can provide efficiency and effectiveness in detecting potential material misstatements.

The same applies to the audit of operating expenses. The general ledger is used as the basis for selecting a sample of expenditure transactions. The auditor then traces the documents such as vendor invoices, proof of payment, and other procurement documents. This process is carried out systematically by paying attention to important attributes such as authorization, value conformity, and document completeness. By doing this, auditors can identify whether there are fictitious expenses, improper expense recognition, or recording period discrepancies.

The link between the vouching procedure and materiality is very clear here. Auditors cannot possibly trace all transactions thoroughly due to time and resource constraints. Therefore, materiality is used as a reference in determining



which transactions are significant enough to be tested. For example, with performance materiality, auditors can focus their audit on transactions with large values or unusual characteristics. This approach is very important for the efficiency and effectiveness of the audit. This is reinforced by the results of Abdurokhim (2020) research, which states that the concept of materiality allows auditors to streamline the vouching procedure by focusing on transactions that are truly significant. That way, audit resources can be utilized optimally, and potential misstatements that have a major impact can be more easily identified. The study shows that without a clear concept of materiality, auditors can get caught up in examining things that do not materially affect the financial statements.

In addition to providing assurance on the fairness of the financial statements, the results of this audit also serve as evaluation material for the management of PT Z. Findings from vouching, whether in the form of value differences, incomplete documents, or incorrect period entries, will signal to management that there are weaknesses in the internal control system. Thus, the audit also serves as a diagnostic tool for improving the company's internal financial reporting system.

In many cases, the added value of an audit lies not only in the audit opinion itself, but also in the input provided to management to improve business practices. The involvement of KAP X as an independent auditor brings a high level of professionalism and accountability to the audit process.

With international standards and structured audit methodologies, KAP X is able to provide audits that are not only regulatory compliant, but also provide added value to its clients. The integration of technical knowledge, understanding of client businesses, and the application of modern audit methodologies makes KAP X's audit results a reliable accountability tool for various stakeholders, from management and investors to regulators.

Thus, the entire audit process—from understanding the entity, determining materiality, to performing vouching procedures—forms an interconnected and inseparable series. Each step plays an important role in building the auditor's confidence in the fairness of the financial statements. The approach taken by the auditor towards PT Z is an example of the practical application of international auditing standards adapted to the real conditions of the company. Audits such as this are expected to not only ensure compliance but also improve the overall quality of corporate governance. The emphasis on the integration of a risk-based approach, the application of materiality, and substantive audit procedures is also evident in the research by Yanti (2024), which



examines the determination of materiality levels in financial statements. They show that the use of quantitative bases such as profit before tax and standard-compliant audit procedure documentation, as applied by KAP I Gede Oka, reflects practices that are accountable and in accordance with ISA 320 provisions. In the context of this study, this further confirms that the audit of PT Z by KAP X has combined a contextual understanding of the entity with strict application of standards.

Managerial Aspects

From a managerial perspective, the audit process of PT Z's financial statements by Public Accounting Firm (KAP) X can be analyzed through a management function framework that includes planning, organizing, actuating, and controlling. These four functions run systematically and continuously in each stage of the audit, reflecting that audit activities are not only technical-accounting in nature, but also complex and structured managerial activities.

At the planning stage, senior auditors and managers play a role in formulating audit strategies that are appropriate to the characteristics of the client entity, including setting audit objectives, identifying high-risk areas, and selecting the basis for materiality. The determination of this materiality basis, as explained in the calculation of overall materiality in the audit of PT Z, uses a profit before tax of IDR 50,000,000,000 with a percentage of 5%, which has been agreed upon through internal discussions by the audit team and taking into account the client's risk level.

In the context of the PT Z audit, the planning process began with an in-depth understanding of the company's business structure, transaction complexity, and the type of industry in which it operates. Based on this information, the auditor established a risk-based audit approach and set materiality thresholds based on pre-tax profit. This determination was not only to determine the misstatement tolerance threshold, but also to serve as a guideline in developing substantive audit procedures such as vouching. One of the results of this process is the selection of a risk-based approach, which influences the auditor's decision to set performance materiality at IDR 1,250,000,000 and a clearly trivial threshold at IDR 125,000,000, to ensure that the audit focuses on the most risky and significant areas.

The organizing function is evident in the clear division of roles and responsibilities within the audit team structure. In the PT Z audit, organization is also reflected in the division of technical tasks in the vouching process. The senior auditor determines the sample based on materiality and instructs staff to trace



source documents such as invoices, delivery orders, and proof of payment. KAP X implements an audit organizational structure consisting of partners, managers, senior auditors, and audit staff. In this case, managers are responsible for developing the audit framework and overseeing the implementation of the plan, while senior auditors act as liaisons between managers and staff and ensure that technical procedures are carried out according to standards. Audit staff perform technical tasks such as document tracing, filling out audit worksheets, and performing vouching. This division of tasks allows each team member to work efficiently and purposefully according to their respective expertise and level of authority.

The execution stage (actuating) reflects the directing and coordinating functions in carrying out audit procedures. At this stage, the application of vouching procedures for revenue and operating expense accounts is carried out systematically, taking into account the predetermined materiality threshold. Auditors focus on transactions whose value exceeds performance materiality and transactions with indications of irregularities, as described in the substantive analysis results in Chapter 4. Managers and senior auditors direct audit staff in performing substantive testing of revenue and operating expense accounts. Vouching is performed by staff based on instructions from seniors, who also conduct preliminary evaluations of findings to be reported to managers.

The actuating function in this process involves effective communication, responsive leadership, and continuous monitoring of fieldwork to ensure that audit objectives are achieved in a timely and accurate manner. The final function, controlling, is performed to ensure that the entire audit process is in accordance with the plan and applicable professional standards.

In relation to vouching, the controlling function is applied through the process of reviewing substantive testing results, re-verifying material findings, and preparing working papers that reflect the completeness and consistency of supporting documents. In the PT Z audit, the control process included reviewing working papers, re-checking material transactions, and evaluating the consistency between audit findings and established criteria. Managers and partners conduct a final review of the team's work, and if errors or system weaknesses are found, the auditors will submit recommendations for improvement to PT Z's management. This process shows that the controlling function in auditing is not only intended for the purposes of fair financial reporting, but also as a tool to assist the client's management in strategic decision-making.



The entire range of management functions illustrates that auditing is a multidimensional activity, covering both technical and managerial aspects simultaneously. The involvement of various levels of auditors—from managers and senior auditors to staff—demonstrates a structured and controlled work coordination system. Each level has a complementary role in supporting the success of the audit process. In particular, the appropriate allocation of work between senior auditors and staff has a significant impact on the effectiveness of audit procedures, such as vouching, which requires precision in tracing and matching source documents with accounting records.

The implementation of audits based on the principles of planning-organizing-actuating-controlling has positive implications for the management of PT Z. The application of these principles is also evident in the coordination of the audit team in preparing the materiality calculator, systematically documenting the results of vouching, and preparing audit conclusions based on the relationship between the materiality and validity of the transactions tested. The audit findings obtained through the vouching procedure are not only used to compile an opinion on the fairness of the financial statements, but also serve as important input for improving the company's internal control system. For example, if discrepancies or weaknesses are found in the documentation process for operating expenses, management can use this as a basis for developing policies to improve administration and cost control. Thus, the audit results have not only an external impact, but also an internal impact in improving corporate governance to make it more transparent.

CONCLUSION

Based on the results and discussion, it was found that the application of the materiality concept and vouching procedures by KAP X in the audit of PT Z's financial statements was carried out systematically, integrated, and in accordance with applicable international auditing standards. The determination of materiality by the auditor is not only a quantitative formality but also the main basis for designing a risk-based audit approach.

By using profit before tax of IDR 50,000,000,000 as the main basis and setting overall materiality at IDR 2,500,000,000, performance materiality at IDR 1,250,000,000, and a clearly trivial threshold at IDR 125,000,000 proportionally, KAP X was able to direct the audit process to significant areas, particularly those related to revenue and operating expenses, which are the center of PT Z's financial activities. Furthermore, the vouching procedures applied by the auditors showed



a direct correlation with the materiality determination results. Vouching was carried out selectively on transactions of significant value, with tracing of source documents as evidence of the validity and existence of the transactions. The application of this procedure not only provides assurance regarding the fairness of the financial statements, but also reveals the effectiveness of internal controls and the integrity of the company's transaction recording process. The audit by KAP X is not limited to providing an opinion on the financial statements, but also adds strategic value to PT Z's management in improving the company's recording and internal control systems. The entire process, starting from understanding the entity, assessing risks, determining materiality, to testing transactions with vouching, forms a whole that is not only complete but also logically and practically interrelated. Thus, the application of materiality and vouching procedures in the audit of PT Z's financial statements can be said to have fulfilled the principles of modern auditing that are accurate, efficient, risk-based, and have a positive impact on the company's financial governance.

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