



Management Audit to Evaluate the Economical, Efficiency, and Effectiveness of Purchasing Function in GK Hotel

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Abstract. This research examines the economic, efficiency, and effectiveness of purchasing function and reveals findings obtained during the implementation of a management audit to give appropriate recommendations for better company performance in the future. The analytical techniques used in this research are quantitative and qualitative analytical techniques. The data analysis results in 2017-2019 show that the highest rate of economics occurred in 2019. The highest efficiency rate occurred in 2019 and declining the effectiveness rate in 2019. That is due to obstacles in the purchasing function resulting in wastage. These obstacles are the weaknesses in unauthorized purchase request activities, purchasing goods that did not comply with order specifications, and the delay of payment to the supplier due to a lack of funds from the head office. This research concludes that the economic rate in 2019 is uneconomical, the efficiency of purchase costs in 2019 is inefficient, and the effective rate in 2019 is quite effective. The recommendation is to make a payment agreement with the supplier, tighten the process of purchasing requests, and control in making the article description.

Keywords: *Management Audit, Purchase Function, Economical, Efficiency, Effectiveness*

1. Introduction

As one of the four-star hotels in Kuta-Bali, GK Hotel must survive and develop in business competition by carrying out management to be economical, efficient, and effective. Auditing is required to assess the economy, efficient and effective management of a company in implementing the company's policies and procedures. Consistent with theory, a management audit is auditing a company's operations to know if the operation conducted effectively, efficiently, and economically [1].

The purchasing function is the most critical and highly influential [2]. That is because purchasing functions served to control the cost so that the profit earned can maintain its continuity. The purchasing function activities must be followed under good governance principles to achieve this goal [3]. This governance is also related to policies related to economical purchase quantity, minimum amount of inventory that must be owned, maximum amount of inventory that can be stored in the warehouse, purchase period, so that overall inventory costs can be minimized [4].

Some problems could potentially cause weaknesses such as the order of rejected goods by vendors and the purchase of goods that do not comply with the order specifications. These circumstances lead to the onset of additional costs beyond the company's purchase cost budget [5], [6]. It is judging from the

rising cost of purchasing in 2019 the amount Rp51,283,064,093. The purchase cost exceeds the budget assigned in 2019, the amount Rp50,881,940,325. If conditions that contain weaknesses are not evaluated, it will harm the hotel. Therefore, further analysis is needed to find out the weaknesses that occur [7].

The research was conducted to determine whether the function of purchasing at the GK Hotel has been done economically, efficiently, and effectively. Management can know the weaknesses and evaluate the policies and make the right decisions so that the problems do not happen again in the future [7]. Therefore, a management tool is required to evaluate the purchasing function with audit management [3].

2. Research Method

This research uses qualitative and quantitative data. Qualitative data includes standard operating procedures (SOP) and results of interviews with the purchasing manager, receiving supervisor, general store manager, account payable supervisor, and cost control manager. Quantitative data includes budget and realization of purchasing costs, budget, and revenue realization in 2017, 2018, and 2019. The analytical techniques used in this research are as follows:

2.1. Quantitative Data Analysis Techniques

2.1.1. Economical Rate Assessment

The economic rate assessment is a measure of the inputs used in the company's operations [3]. The economic formula as follows:

$$\text{Economical} = \frac{\text{Realization of Purchase Costs}}{\text{Purchase Cost Budget}} \times 100 \%$$

2.1.2. Efficiency Rate Assessment

The assessment of efficiency rate relates to how the company conducts the company's operations [3]. The efficiency formula as follows:

$$\text{Efficiency} = \frac{\text{Realization of Purchase Costs}}{\text{Realization of Revenue}} \times 100 \%$$

2.1.3. Effectiveness Rate Assessment

The effectiveness rate assessment is a measure of output as the company's success rate in achieving its goal [3]. The effectiveness formula as follows:

$$\text{Effectiveness} = \frac{\text{Realization of Revenue}}{\text{Revenue Budget}} \times 100\%$$

2.2. Qualitative Data Analysis Techniques

Qualitative data analysis techniques through five steps that must be carried out in the management audit as follows:

2.2.1. Preliminary Audit

A preliminary audit of this research conducted to obtain information about the purchasing process conducted at GK Hotel and analyze the information obtained to identify potential problems or weaknesses.

2.2.2. Review and Testing of Management Control

At the step of review and testing of management control, carried out a review and test of the purchasing process, whether it is following the Standard Operating Procedure (SOP), intending to assess the economy, efficiency, and effectiveness of purchasing functions.



2.2.3. Detailed Audit

At the step of detailed audit, carried out evidence collection sufficient, competent, material, and relevant. This step is useful to support audit objectives related to the purchasing process. This step is also developing findings to find a link between one finding and another and group the findings into criteria, causes, and consequences.

2.2.4. Reporting

Reporting is an activity to communicate the results of audits, including recommendations given to various interested parties [8].

2.2.5. Follow Up

Follow up is an action to encourage the authorities to carry out follow up following the recommendations given [8].

3. Results and Discussion

3.1. Preliminary Audit

The purchasing process's three critical steps include purchasing planning, purchasing execution, and handling goods or services [3]. On that basis, the preliminary audit focuses on the three steps by carrying out the data collection procedure through the direct observation and interview step. Based on the preliminary audit results, discovered things that could potentially contain weaknesses in the purchasing function, such as ordering goods to suppliers that did not comply with the order's specifications, rejection of purchase orders by suppliers, and the increase in purchase costs 2019.

3.2. Review and Testing of Management Control

The step of review and testing of management control aims to assess the economy, efficiency, and effectiveness of purchasing functions in supporting the company's achievements [3]. That stated in the theory purpose of auditing the management of purchasing functions. At this step, it also aims to ensure that the prevailing provisions and regulations have carried out the purchasing activity.

The results of the review and testing of purchasing activities state that GK Hotel has guidelines drawn up by containing written procedures for purchasing activities set out in the Standard Operating Procedure (SOP). However, several SOPs are not implemented, such as the payment process to the supplier, which sometimes does not correspond to the specified period. The store section does not authorize the purchase requisition form, and the purchase order does not comply with the purchase requisition form.

3.3. Detailed Audit

The findings of audit management of purchasing function at GK Hotel are as follow:

3.3.1. Late payment of the debt to the supplier

The condition that occurs is that the supplier makes a complaint to the account payable section regarding the payment that has been due, while the criteria that are the account payable section receives a purchase order form to use as the basis for making the payment process based on the specified period. That is because GK Hotel has to apply for the necessary funds to the head office based in Jakarta. The problem is that the amount of funds submitted to the head office does not match the amount received by GK Hotel. As a result, the supplier rejects the purchase order until the payment can be completed by GK Hotel so that for the goods needed immediately, the purchasing department must look for another supplier with more expensive price consequences.

One of the purchasing function's strategic objectives is that the materials' procurement must comply with the requirements and at the lowest possible cost [2]. Of course, this is not per the activity that occurs in the function of purchasing GK hotel, so it has not reached its strategic target. In addition to its strategic objectives, it will also impact the loss of trust from suppliers [9].



3.3.2. *The purchase requisition form is unauthorized by store section*

The condition that occurs is that the store section does not carry out its duty to check the storeroom's stock goods availability. While the criteria are submitting a request for goods by requesting authorization from the store manager. That is because the user does not request approval from the store manager in the purchase request. As a result, the user made excessive purchase requests to the purchasing section. That, of course, if it continues to happen over and over again, will lead to waste that increases the cost of purchasing, so it is not economical.

That is consistent with the theory that good planning or purchase demand should reflect the optimal relationship between the desire to meet the needs and the availability of resources owned with the lowest sacrifice (economic) [3]. In terms of economy, excessive purchases will also have an impact on the stockpile of goods in the storeroom [10].

3.3.3. *Purchase of goods that do not comply with the order specifications*

The condition that occurs is the purchasing section's mistakes in the purchase of goods, while the criteria are creating a purchase order form based on the purchase requisition form. That occurs because the purchasing section makes a purchase order form that is not appropriate with the purchase requisition form—the purchasing section confusion in selecting the article description.

Consistent with the theory that assignment, good purchasing practices will obtain goods or services by the specification stipulated [3]. However, the purchasing practices at GK Hotel have not suitable due to purchases that do not comply with the specifications, so the purchasing section must re-purchase the goods. That is due to the article description more than one for the same or similar items. The cause has published in research which states that the appearance of more than one article description for the same or similar goods on the system make confusion in the user in creating the market list, the purchasing section in the creation of purchase orders, and the receiving section in the receipt of goods [9].

3.3.4. *Economical rate assessment*

Calculation of economical rate:

$$\text{Economical 2017} = \frac{38.205.083.115}{40.753.147.880} \times 100 \% = 94\%$$

$$\text{Economical 2018} = \frac{43.959.775.110}{46.084.413.735} \times 100 \% = 95\%$$

$$\text{Economical 2019} = \frac{51.283.064.093}{50.881.940.325} \times 100 \% = 101\%$$

The condition is a waste of purchase costs in 2019. That can be seen from the calculation of the economic level of purchase costs in 2019 of 101%. The economic criteria state that purchasing cost is assessed economically if the realization of the purchase cost does not exceed the budgeted target result of its achievement $\leq 100\%$. That is due to an increase in the purchase of operational goods from waste in procurement or goods' purchasing activities.

The result is that the not achieved strategic targets from GK Hotel, namely the more extensive the company's funds incurred against the cost of purchasing, will affect the smaller the company's profit. Consistent with the theory that one of the purchasing function's strategic objectives is to control market share and obtain a profit rate appropriate to the specified target [2]. As a result, it has been published in research showing that uneconomic causes the company's burden to increase and will affect its less profit [11].

3.3.5. *Efficiency Rate Assessment*

Calculation of efficiency rate:

$$\text{Efficiency 2017} = \frac{38.205.083.115}{76.208.023.603} \times 100 \% = 50\%$$

$$\text{Efficiency 2018} = \frac{43.959.775.110}{86.145.086.380} \times 100 \% = 51\%$$

$$\text{Efficiency 2019} = \frac{51.283.064.093}{83.170.620.347} \times 100\% = 62\%$$

The condition that occurs is the uneconomical cost of purchasing, causing the process (efficient) in the purchase's function is not maximal. That can be seen from the calculation of the purchase cost-efficiency rate in 2019 of 62%. The efficiency criteria state that the cost of purchasing is assessed efficiently if the result is $\leq 60\%$. That is because the cost of purchasing used has not generated a more considerable amount of revenue for the company, or the purchase cost incurred is too high.

The result is that not achieved the strategic goal of purchasing functions, consistent with the theory that achieving a strategic plan is a measure or benchmark to assess whether the purchasing function is maintained with a high level of efficiency [2]. The result of inefficient purchase costs is not the maximum profit earned by the company. That is because the cost of the purchase used is not comparable to the company's income. The result has been published in research showing that inefficiencies cause the resulting output to be less than the maximum [11].

3.3.6. Effectiveness Rate Assessment

Calculation of effectiveness rate:

$$\text{Effectiveness 2017} = \frac{76.208.023.603}{73.542.806.806} \times 100\% = 104\%$$

$$\text{Effectiveness 2018} = \frac{86.145.086.380}{83.079.689.499} \times 100\% = 104\%$$

$$\text{Effectiveness 2019} = \frac{83.170.620.34}{92.616.572.192} \times 100\% = 90\%$$

The condition that occurs is the uneconomical cost of purchasing, causing the process (efficient) in the purchase's function is not maximal, and the result of income (effective) in achieving the company's goals does not run by the plan set by the company. This can be seen from the calculation of income effectiveness rate in 2019 of 90%, while the effectiveness criteria states that if the result is $< 100\%$ very effective, 90.01% - 100% effective, 80.01% - 90% quite effective, 60.01% - 80% less effective and $< 60\%$ ineffective. That is due to declining sales in all business sectors such as rooms, food and beverage, and spa.

The result is that the revenue in achieving the company's goals in 2019 does not appropriate the plan, namely revenue budget or not maximum. Achieve the maximum goal if the achievement is above 100%. Consistent with the theory that to measure effectiveness must first establish the output that wants to achieve (budget), then if the output that to achieved (budget) can be achieved, then the activity of the effective purchasing function [3]. The results have also been published in research showing that ineffectiveness causes the purpose of the achieved by companies not yet maximized. Achieve the goal if the percentage assessment of achievement rate reaches 100% [11].

3.4. Reporting

Recommendations that can be given to address the weaknesses that occur in the purchasing function, namely before entering into a contract of cooperation between the hotel and the supplier to make an agreement on the payment as well as the debt limit provided by the supplier, the process of filing a purchase request must be tightened with a record if the purchase requisition has not been authorized by the store then it is not permitted to submit a purchase request to the purchasing department, the cost control section should be more controlling in terms of makes article descriptions in order to facilitate the related sections, the purchasing section seeks to find suppliers who offer the lowest prices so that the expenditure of funds on purchase costs can be obtained at the minimum price, the purchasing section uses funds on purchasing costs by economically and is tailored to the company's needs so that the costs sacrificed are comparable to the revenue received by the company and the achievement of the company's objectives in generating revenue should be reviewed so the company's revenue budget can be achieved to the maximum.

3.5. Follow Up



The weaknesses found from management audit results in this purchasing function are interconnected. If the weakness is not immediately corrected, it will have an impact on operational activities. The user not requesting authorization from the store to submit a purchase request may lead to the buildup of goods stored in the storeroom and result in a hampered in business capital turnover. Also, the purchase of goods that do not comply with the order specifications causes the purchasing section must re-purchase the goods.

Late payment cause rejection of purchase order, and the purchasing section must reimburse the supplier with more expensive price consequences. In addition to being detrimental in terms of time also impacts the increased cost of purchasing. Increased purchasing costs can affect economic level, efficiency, and effectiveness. That is because the cost of purchasing exceeds the target, namely the budget of the cost of purchasing so that not the maximum profit to be earned by the company and revenue in achieving the company's objectives does not go according to the company's plan, namely the revenue budget. That can continue to repeat until it does not close the possibility for GK hotels to difficulty reaching targets in the future. Therefore, GK Hotel must immediately make improvements to the purchase function based on the recommendations provided. The recommendations have also been applied in research and show that the recommendations can be used to address weaknesses found from management audit results in purchasing functions.

4. Conclusions

Audit management has been able to assess the economy, efficiency, and effectiveness of purchasing functions at the GK Hotel by detecting weaknesses that occur and give recommendations for such weaknesses. The assessment of the economic level of purchase costs in 2019 is 100%, so that it is considered uneconomical. That is due to the rising cost of purchasing in 2019. Efficiency level assessment in 2019 >60%, which means the cost of purchase used is inefficient so that the profit earned is not maximal. The effectiveness assessment in 2019 reached 90%, which means that the company's revenue does not run appropriately with the plan, namely the revenue budget. However, it quite effective because it is within the achievement rate of the goal.

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