The Risk-Based Audit Program Design for Export Activities at PT. PAMAS Indonesia: New Normal Preparation

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Abstract. This study aims to design a risk-based audit program for export activities and the consequences of VAT to help PT. Pamas Indonesia in preparing for the post-covid activities. This study uses a qualitative approach with a case study method. The case faced by PT. Pamas Indonesia is to identify the risk of a decline in export activities caused by the covid pandemic. The internal audit activity conducted by PT. Pamas Indonesia now is still not risk-based. Therefore, this study seeks to design a risk-based audit program, especially for export activities and the consequences of VAT. The results of this study indicate, first, that there are six risks that should be prioritized by PT. Pamas Indonesia. Those six risks have a 5 and 4 scale considered as very high and high. Second, there are 10 risks that have low and very low risks. These 10 risks could be ignored by management. And finally, the design of a risk-based export and VAT audit program can assist internal auditors in providing information as a warning to management to reduce the negative impact of business risks.

Keywords: Risk-Based Audit Program · Export · VAT

1 Introduction

The Covid pandemic has resulted in a decline in Indonesia's export activities [1]. The Indonesian government is able to control this pandemic to become endemic. It's time for us to face the new normal. The new normal is a form of carrying out activities as usual before the COVID-19 pandemic, but must comply with every health protocol that is put in place to prevent transmission. With this new normal situation, management must adapt to the company's operations to manage every risk in order to continue to survive during the pandemic. Operational risk is a business risk that arises from external factors of the company that greatly impact all business activities.

Operational risk can be minimized or managed by management with quality and internal control. Internal control is very important to do to maintain important aspects of the company starting from assets, accurate information, compliance with management policies, as well as improving company efficiency [2]. Some companies have poor internal control, so they fail in competition. These companies have not been able to adapt

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to this new normal condition. Therefore, companies need to strengthen internal controls that support risk management to help companies know well what needs to be prepared to deal with current and future risks that will threaten the achievement of company goals.

COSO introduces a framework that can help companies have good operational risk management, called Enterprise Risk Management (ERM). This ERM serves to identify, assess, and manage risks.

The covid pandemic is a risk that has not been anticipated by PT. Indonesian Pamas. The company is one of the largest yarn exporters in Southeast Asia. Export activities contribute 90% of total sales. The Covid pandemic has resulted in a decrease in export activities because transportation costs have increased by almost 1,000%. This resulted in a decrease in exports as well as a decrease in VAT refunds. According to export sales data of PT. Pamas Indonesia during March 2020 to October 2021 decreased by 50% when compared to before the pandemic. This indicates that there are operational risks that have not been anticipated by PT. Indonesian Pamas. Internal audits that have been carried out regularly have not been able to identify risks and manage them.

Operational risk identification can be done by designing an audit program. This research prepares a risk-based audit program for export activities and VAT. VAT is one of the focuses of the study because VAT is a logical consequence of export activities. Export VAT has a 0% rate which provides benefits for exporters such as PT. Pamas Indonesia for generating VAT refunds. This restitution can increase the cash inflow of exporters. However, with the covid pandemic, PT. Pamas Indonesia experienced a decline in export sales, resulting in a decrease in export VAT. The audit program used by internal auditors to evaluate export activities is not yet risk-based. A risk-based audit program can provide a risk mapping with a scale of vulnerability and scale of impact. The vulnerability scale shows the level of readiness, agility, and adaptability of the entity to the existing risks. The impact scale shows the criteria related to the size of the impact caused by risk. The impact shows a scale of values ranging from very high, high, medium, low, and very low [3].

The results of this study show that, first, 16 operational risks to export and VAT activities. Second, there are 6 operational risks that have a very high vulnerability and impact scale or scale 5. They are (i) purchase orders (PO) that cannot be used in the form of formal documents, (ii) product delivery not in accordance with the schedule set by the shipping company, (iii) a decrease in export demand, (iv) a very high increase in shipping costs, (v) a delay in disbursing non L/C, and (vi) a decrease in export VAT. Management should prioritize these risks in order to minimize the negative impact. Third, 4 operational risks are indicated to have a very low vulnerability and impact scale or 1 scale. They are (a) discrepancies between pro forma PO and PO, (b) there are no internal documents that provide information on product availability for the Marketing Department, (c) stockpiling of goods in the warehouse are goods entrusted by consumers due to delays in delivery, and (d) there is one transaction that does not match the document and the product in the container. These risks could be ignored by management since the impact isn't high. And finally, the risk-based audit program could be a tool for early warning. Auditor internal assists management by giving information on negative impact, so that the negative impact could be prevented.

The results of this study provide a practical contribution to the management of PT. Pamas Indonesia, in particular improving cooperation and procedures in carrying out export activities. Company management can improve cooperation with shipping companies. This is to ensure that the delivery is carried out according to the schedule. Management also needs to determine the use of formal documents in the implementation of export activities. Management also needs to find alternative buyers from within the country to reduce dependence on export sales.

The academic contribution of this research is that the concept of ERM can assist companies in identifying, assessing and managing risks. The application of ERM in the implementation of internal audits is important, because it helps companies to reduce the negative impact of risk on the company's operational activities [4–6].

2 Literature Review

2.1 Enterprise Risk Management

The business risk may occur in the company in carrying out a business activity. This risk can come from internal or external which generally threaten the achievement of company goals [7]. To make sure the risks that occur in the company can be effectively managed by management, COSO introduced a framework called Enterprise Risk Management (ERM). ERM has 8 components [8]:

1. Internal environment, including: vision, mission, organizational culture, ethical values, organizational structure. The internal environment serves as a guide for management in making decisions and managing risks.
2. Determination of business objectives. Business goals in the organization must be carried out for ERM to run effectively. Business objectives must be aligned with the vision and mission, so that management can easily implement strategies for identifying events, assessing risks, and managing risks.
3. Identify events both externally and internally that provide risk opportunities for the organization. For example: inflation, natural disasters, management fraud, and so on.
4. Risk assessment is the process of identifying the opportunities and impacts of risk. The results of the risk assessment become a source of improvement in risk management for the organization.
5. Risk management, namely the organization's efforts in dealing with risk. Risk management can be done by: avoiding risk, reducing risk, sharing risk, and accepting risk.
6. Control activities, in the form of policies and procedures within the organization to ensure risk management. An example of a control activity is standard operating procedure (SOP).
7. Information and communication, in the form of existing information systems within the organization. Information systems are a means for organizations to provide information and communicate risks throughout the organization.
8. Monitoring. ERM must be monitored on an ongoing basis to ensure the effectiveness of ERM.

This study focuses on the 4th ERM component, namely risk assessment. Risk assessment is at the core and aims to understand the possibility and impact of risks that occur on the company. There are several processes in assessing risk [3], starting with identifying risks, developing assessment criteria, assessing risks, assessing risk or impact interactions, and prioritizing risk.

2.2 Operational Risks

Operational risk is one model of business risk that hinders the achievement of company goals. Operational risk is mapped based on 3 aspects, namely related to processes in the company's internal activities, humans as internal agents of the company, and company finances [7]. The process in the operational risk model focuses on the company's operational activities and those related to business continuity. Humans in the operational risk model focus on attitudes and responsibilities as well as things that need to be considered by the company's internal agents while working. Finance in the business risk model is directed to focus on cash flow and corporate financial management.

3 Research Methods

This research method uses case studies. The case faced by PT. Pamas Indonesia is the operational risk caused by the covid-19 pandemic. Operational risk is one model of business risk that hinders the achievement of company goals. Operational risk is mapped based on 3 aspects, namely related to processes in the company's internal activities, humans as internal agents of the company, and company finances [7]. The process in the operational risk model focuses on the company's operational activities and those related to business continuity. Humans in the operational risk model focus on attitudes and responsibilities as well as things that need to be considered by the company's internal agents while working. Finance in the business risk model is directed to focus on cash flow and corporate financial management.

Data collection methods used are, first, interviews with the general manager of PT. Indonesian Pamas. Second, study the archives or documents used for export activities and VAT. Third, observe operational activities in factories and offices.

The research data analysis was carried out in stages, namely [3]:

1. Identification of operational risks in export activities and VAT;
2. Establish risk assessment criteria based on vulnerability scale and impact scale;
3. Operational risk assessment;
4. Risk mapping based on risk priority; and
5. Design of a risk-based audit program.

4 Result and Discussions

4.1 Operational Risk Identification

The data obtained about the company shows that there are several potential operational risks during the new normal period. The following are some of the potential risks that have been identified, namely: (a) There is a possibility that unauthorized purchase orders (via whatsapp or email) can be manipulated; (b) There is a mismatch between the purchase order and the pro forma invoice; (c) There is a mismatch in the sales order input; (d) There is a production error that does not match the customer's request; (e) There are production delays that are not on schedule because imports of raw materials have decreased due to restrictions that occurred during the COVID 19 pandemic; (f) Not getting an appropriate shipping schedule because there are restrictions from the country during the new normal period; (g) There are production restrictions for export sales during the new normal period due to declining demand; (h) Export sales decreased by 50% during the new normal period due to the COVID 19 pandemic; (i) Error in the contents of the internal memo stuffing because the information provided by assistant manager of Production Planning Inventory Control (PPIC) and warehouse (WH) to supervisor of Marketing Exports that did not contain written documents; (j) Damage to the exported goods while on board; (k) The increase in costs for marine insurance cargo due to the special protection provided related to the pandemic; (l) There is a buildup of finished goods in the warehouse experiencing delays in delivery due to restrictions; (m) Ocean freight costs increase sharply during the new normal period; (n) There is a discrepancy in the goods loaded in the container; (o) Delay in disbursement of non L/C payments. (p) Export VAT overpayment decreased.

The potential risks that have been identified are generally due to the new normal period that suddenly requires companies to adapt, as well as lack of supervision so that from checklists, POS, interviews, and observations, potential risks are assessed and mapped with a scale designed based on vulnerabilities and impacts.

4.2 Establish Risk Assessment Criteria Based on Vulnerability Scale and Impact Scale

Risk assessment criteria's are made based on the needs of PT. Pamas Indonesia and is divided into 5 scales ranging from very high, high, medium, low, and very low. Each of each scale has its own definition that describes the type of scale.

4.2.1 Scale of 5 (Very High)

Risk Vulnerability:

a. No risk profile
b. Not using technology for efficiency in dealing with risks
c. Lack of enterprise-level or process-level capabilities to address risks
d. No backup plan or risk management plan
e. There is no guarantee to avoid the risk
f. No contingency plan

Risk Impact:

a. Decreased company profit $\geq$50%
b. Bad publicity in global media and lawsuits

c. *Cash flow* company stuck
d. The costs incurred by the company increase ≥50%
e. The achievement of the company's goals or objectives is disrupted
f. The work process is interrupted

4.2.2 Scale of 4 (High)

Risk Vulnerability:

a. Low enterprise-level or process-level capability to address risk
b. There are several backup plans or risk management plans
c. There are no consequences if there is a violation or error

Risk Impact:

a. Decreased company profit 30–40%
b. The emergence of bad publicity in the national media and lawsuits
c. Reduced external trust
d. The costs incurred by the company increased 30%–40%

4.2.3 Scale of 3 (Medium)

Risk Vulnerability:

a. There is a risk profile but not specifically
b. Enterprise-level or mid-process level capabilities to address risks
c. There is a backup plan or risk management plan in dealing with risks
d. Most risk management plans are in place but the practice is limited

Risk Impact:

a. Decreased company profit 10–20%
b. Bad publicity in local media
c. The costs incurred by the company increased 10%–20%
d. Need a business plan or other alternatives

4.2.4 Scale of 2 (Low)

Risk Vulnerability:

a. Medium-to-high-level enterprise-level or process capability to address risk
b. There is a backup plan or risk management plan in dealing with risks
c. A risk management plan is in place with some practice
d. There are consequences if there is a violation or error.
e. There is a guarantee to avoid risk

Risk Impact:

a. Decreased company profit 5%–10%
b. The emergence of bad publicity in the internal and external environment
c. Decreased internal trust
d. The costs incurred by the company increased 5%–10%
e. Business plans or other alternatives that already exist are more optimized

4.2.5 Scale of 1 (Very Low)

Risk Vulnerability:

a. Real options are deployed to maximize strategy flexibility
b. High enterprise-level or process-level capability to address risks
c. Technology is used for efficiency in dealing with risks
d. Double check is carried out by the relevant divisions and leaders
e. There is a backup plan or risk management plan for dealing with risks
f. A risk management plan is in place and regularly trained
g. There is a guarantee to avoid risk
h. There is a contingency plan

Risk Impact:

a. Decreased company profit <5%
b. The emergence of bad publicity in the internal environment
c. The company's cash flow is not affected
d. The costs incurred by the company increase <5%
e. The achievement of company goals or objectives is not disturbed
f. Uninterrupted work process

The design of risk assessment criteria is made according to the needs of PT. Pamas Indonesia relates to the level of ability and readiness of the company in the scale of vulnerability and the high and low impact resulting from these risks.

4.3 Operational Risks Assessment

Potential risks that have been identified at PT. Pamas Indonesia in Table 1 is assessed based on the risk assessment criteria that have been designed along with the reasons for the assessment.

The risk determination that has been carried out shows the readiness and ability of PT. Pamas Indonesia in managing potential risks. Some of the potential risks related to negligence or errors in operations can be said to have been handled well enough, but some risks related to the pandemic and supervision it is still not maximized or even not handled.

Table 1. Risks Assessment

No	Risk Exposure	Risk Scale	Reasons
a.	There is a possibility that unauthorized purchase orders (via whatsapp or email) can be manipulated	5	There is no double check because unauthorized purchase orders are only entered into the logbook manually by export marketing staff and there is no guarantee to avoid this risk
b.	There is an order mismatch between the purchase order and the pro forma invoice	1	There is a double check carried out by the general manager and the customer on the pro forma invoice and authorization
c.	There is a mismatch in inputting sales orders	2	There are consequences that must be borne by the marketing admin if you make an input error
d.	There is a production error that does not match the customer's request	4	Only in the form of negotiation and confirmation to the customer if there is an error
e.	There are production delays that are not on schedule because imports of raw materials have decreased due to the restrictions imposed happened during the COVID-19 pandemic	3	There is a backup plan in the form of 100% raw material allocation for production, no special allocation for trading. And the allocation has been running
f.	Didn't get the appropriate ship schedule because there were restrictions from the country during the new normal period	5	No risk management or contingency plans in place by the company
g.	There are production restrictions for export sales during the new normal due to declining demand	2	There is a backup plan to increase the allocation of local sales production so that it can pursue the company's target. The initial allocation of export production was 80% to 60%, while local production which was originally 20% became 40%. This backup plan has been running
h.	Export sales decreased by 50% during the new normal period due to the COVID-19 pandemic	5	There is no risk profile that is formed to describe facing this risk during the new normal period

(*continued*)

Table 1. (*continued*)

No	Risk Exposure	Risk Scale	Reasons
i.	Error in the contents of the internal memo stuffing because the information provided by PPIC and WH to supervisor of Marketing Exports did not have a written document	1	There are double checks and authorizations carried out by PPIC and WH as well as Marketing Exports on internal memo stuffing
j.	There is damage to the exported goods while on the ship	2	There is a guarantee provided in the form of marine insurance cargo to ensure the safety of goods during transportation
k.	The increase in costs for marine insurance cargo due to the special protection provided related to the pandemic	3	The company's ability is increasing costs for marine insurance cargo
l.	There is a buildup of finished goods in warehouses that experience delays in delivery due to restrictions	1	High company ability to store finished goods in storage warehouse and real option to rent additional warehouse
m.	Ocean freight costs increase sharply during the new normal	5	No risk management or contingency plans in place by the company
n.	There is a discrepancy goods loaded in containers	1	Double check is done before loading into the container
o.	Late disbursement of non L/C	5	Only negotiate with customers for settlement
p.	Export VAT overpayment decreased	5	The absence of a risk profile that is formed to describe facing risks during the new normal period

4.4 Operational Risk Mapping

The scale of risk vulnerability and risk impact is entered into the risk mapping matrix. This matrix provides an overview of which risks must be prioritized to be handled immediately by PT. Pamas Indonesia.

The risk mapping matrix shows that 6 potential risks have 5 scales. It means there are several potential risks that must be immediately noticed and managed by PT. Pamas Indonesia because of the very high impact and vulnerability, namely: (a) there is a possibility that unauthorized purchase orders (via whatsapp or email) can be manipulated; (f) not getting an appropriate shipping schedule because there are restrictions from the country during the new normal period; (h) a decrease in export demand by up to 50% during the new normal period due to the COVID-19 pandemic; (m) ocean freight costs increased sharply during the new normal; (o) late disbursement of non L/C payments; and (p) VAT reduction refund. The six risks above have a negative impact on sales activities, cash flow, and governance of export activities. Therefore, management must try to find alternative markets in the country so that the negative impact of declining export sales can be minimized. Management must also improve procedures and establish documents as standard procedures for export activities.

Only 1 potential risk with a scale of 4 or high, namely (d) there is a production error that does not match the customer's request. This can be overcome by making improvements to standard operating procedures for export activities.

Two operational risks have a medium scale or 3, namely (e) there are production delays that are not on schedule because imports of raw materials have decreased due to the restrictions imposed during the COVID-19 pandemic, and (k) the increase in costs for marine insurance cargo due to the special protection provided related to the pandemic. This risk (e) can be overcome by looking for alternative domestic suppliers that have quality close to imported products. Risk (k) can be overcome by purchasing an insurance policy.

Risks (c), (j), and (g) are risks with a low scale or 2. While risks (b), (i), (l), and (n) are in the very low category. This means that management can ignore these risks because they have a low impact.

This risk mapping shows the priority scale that must be handled by the management of PT. Indonesian Pamas. The risks on a scale of 5 and 4 become the priority scale for improvement. While the risks on a scale of 3, 2, and 1 can be ignored by management.

4.5 Risk Based Audit Program Design

The design of the audit program is adjusted to the risk assessment of the scale of impacts and vulnerabilities. Each step of the procedure or export sales activity has a potential risk, the internal auditor checks one column to provide information that in the export sales procedure or activity there is a risk that must be prioritized or not by PT. Pamas Indonesia.

The audit program is a tool for internal auditors to test related workflows or activities in each procedure on a risk-based basis. If the procedure finds potential risks, they can be assessed by ticking one of the columns on a scale of 1 to 5 in terms of vulnerability and the impact it has on the company. If necessary, you can provide special information or additional information.

5 Conclusions

The results of the analysis and discussion show that ERM as the basis for a risk-based audit program can identify operational risks that exist in export sales activities and the company's export VAT. Some of the potential risks must be prioritized by PT. Pamas Indonesia, namely there is a possibility that unauthorized purchase orders (via whatsapp or email) can be manipulated, do not get an appropriate shipping schedule because there are restrictions from the state during the new normal period, export sales decreased by 50% during the new normal period due to the COVID-19 pandemic, ocean freight costs increased sharply during the new normal period, delayed disbursement of non-L/C payments, and decreased export VAT overpayments. All these potential risks greatly affect the company, especially on cash flow, trust, profits, costs, performance, and the achievement of company goals. Therefore it should be prioritized and dealt with as soon as possible.

The risk-based audit program is the best tool for internal auditors to assist management by giving information on the negative impact. Management should handle the highest risk appropriately, so that the negative impact should be prevented.

The results of this study provide a practical contribution to the management of PT. Pamas Indonesia, namely (1) management must immediately deal with risks that have a vulnerability and impact scale of 5, (2) management must improve procedures and documents related to export activities and VAT, and (3) management must diversify sales so that they do not depend on export activities. The academic contribution of this research is the importance of a risk-based audit program to assist management in managing the negative impact of risk on its operational performance.

Future research can apply risk-based auditing to other manufacturing companies. A risk-based audit can help management to anticipate future risks.

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