

Case Study

Operational Audit in Inventory Management: Case Study of CV. X in Bali

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Abstract

Inventory plays an important role in almost all organizations, whether in trade, services, or manufacturing. When an organization fails to control its inventories, the impact it will face is an inflated or inadequate inventory, loss of customers, decreased competitiveness of the company, and loss of revenues. If this continues to happen, it will affect the business continuity (going concern) of an organization. This study aims to improve comprehension related to audit operational in inventory management CV. X in Bali. The paradigm used in this study is qualitative descriptive, with data collected using semi-structured interview methods, observation, and document analysis. The results show that the company has been facing some problems, such as an inadequate consignment system, no stock cards in finished goods, awful semi-finished goods storage, forecasting errors in purchasing imported inventory, lateness in delivering the goods, and natural disasters. The existence of the operational audit aims to evaluate the company's performance in inventory management with regard to effectiveness, efficiency, and economy, so the company can improve its performance.

Keywords: Operational Audit, Inventory Management, Performance Improvement.

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Introduction

Inventory plays an important role in almost all organizations, whether in trade, services, or manufacturing. Inventory exists because there is an imbalance between supply and demand (consumption). That imbalance is a consequence that must be faced by all organizations. However, if an organization gets bigger and more complex, then a depth analysis is needed to control the inventory. Therefore, it is important for organizations to understand their inventories to organize and control the supply of goods to fulfill demand.

Ahmad (2018) describes inventory functions such as decoupling (fulfilling demand from customers without relying on the supplier in terms of quantity and delivery time), economic size (purchase of goods in large quantities so that a company has a discount or cost savings), and anticipation (a company's capability to face demand fluctuation because of its past experiences or past data).

When an organization fails to control its inventories, the impact it will face is an inflated or inadequate inventory, loss of customers, decreased competitiveness of the company, and loss of revenues. If this continues to happen, it will affect the business continuity (going concern) of an organization.

To understand more about inventory management, researchers found a case study of a manufacturing company as an example of a company that has poor inventory management (Marsudi, 2018). The XYZ company is located in Bekasi, West Java, and produces manufacturing and assembly components such as DVDs, LCDs, CTVs, and digital cameras. Problems that occur in XYZ company include environmental factors (unsuitable place for the storage location, hot and dark); technology factors (manual method to calculate and record incoming and outgoing component stock); and SOP factors (manual method to request and deliver goods). From the case study above, it can be concluded that if the company doesn't improve its inventory management, the activities carried out by the company are less than optimal and can affect the company's competitiveness.

Looking at the case study above, it is important to carry out an operational audit. Through the operational audit, challenges within the company are minimized by achieving effectiveness, efficiency, and economy. According to Supanto (2016), economy, efficiency, and effectiveness are three important things that are inseparable and must be achieved to increase a company's competitiveness.

Literature Review

Operational Audit

Sawyer et al (2005) described the operational audit as a comprehensive part of various functions in the company to evaluate effectiveness, efficiency, and economy. Tunggal (2012) explains that an operational audit aims to identify activities that require improvement and offer recommendations with resource utilization that is effective and efficient. From the above understanding, it can be concluded that an operational audit is

the process of various business operations to evaluate effectiveness, efficiency, and economy to achieve a company's goals.

Based on Jha (2013), the operational audit has multiple goals, such as evaluate performance, assess organization structure, examine the control, and examine your objectives and plans.

As for the five stages of operational audit (Sawyer et al, 2005):

1. Planning. The early stage of the operational audit starts with the preliminary survey. The preliminary survey aims to improve understanding of general business entities and realize goals, process, risk, and control related to the audit. The purpose of this stage is to identify the risks in the business entity.

2. Audit Program. The audit program is a bridge between planning and fieldwork that contains instruction and information evaluation that is needed to fulfill audit objectives in the audit scope.

3. Fieldwork. The process of gaining confidence by objectively gathering evidence, evaluating and monitoring whether goals have been met, standards have been met, and information is provided for management decision-making. In carrying out fieldwork, there are six methods that are commonly used, such as observation, confirmation, verification, investigation, analysis, and evaluation.

4. Audit Findings. Deviation from the norm: the norm which explains something right now or in the past that includes something wrong or something that could be wrong. The elements contained in it are: condition, criteria, cause, effect, and recommendation.

5. Audit Report. The audit report should have three goals: to inform management about the audit findings, to influence management about the value and validity of the audit findings, and to provide results to direct management toward change and improvement.

Effectiveness, Efficiency, and Economy

There are three principles for carrying out an operational audit (Supanto, 2016):

1. Economic: Cost incurred as a result of the conversion of human resources to carry out responsibilities.

2. Efficiency: The method is used to organize and be responsible for the company's minimum expenditure.

3. Effectiveness: Company goals are met.

Inventory Management

Tuerah (2014) defined inventory management as a series of controls determining safety stock as well as the order quantity and time. Rangkuti (2007) explained a different point of view, stating that inventory management was one of the management functions that could be measured quantitatively.

Inventory management has five goals as follows (Ristono, 2009):

1. The fulfillment of customer demand quickly.
2. Maintain the production continuity.
3. Maintain and improve the company's sales and income.
4. Avoid making small purchases.
5. Keep in mind that the storage space in the emplacement is limited.

Below is a sign of poor inventory management (Bloomberg et al, 2002):

1. Increasing the number of backorders, which indicates a lot of stockouts.
2. The number of backorders was constant, but the investment in inventories increased.
3. Customer turnover is high.
4. Improve the number of cancelled orders from customers and suppliers.
5. Less storage space because there is a lot of inventory on hand.

Research Method

The researcher uses a qualitative descriptive research paradigm by observing the object of the research, which is CV. X, located in Bali. CV. X produces handicraft art, such as making sculptures. Making sculpture using clay imported from German, the results are called polymer clay.

In this study, the researcher will analyze various problems in the company using a semi-structured interview method, observation, and document analysis. A semi-structured interview is conducted face to-face with a number of sources, such as the president director, general department, administration and accounting department, and head of the production. On the other hand, the researcher also uses the observation method to observe the various activities in the company without being directly involved. The observation included inventory management activities from purchase orders until delivery of the goods. Document analysis is required to complete the result of the interview and observation, with data retrieval starting from the period of January until December 2020–2021.

Discussion

Planning Stage

This stage is an early stage of the operational audit that starts from the preliminary survey. The purpose of the operational audit is to increase the effectiveness, efficiency, and economy of inventory management in CV. X. The scope of the audit starts from purchase orders until delivery of the goods with various types of inventories such as raw material, semi-finished goods, supporting goods, spare parts, finished goods, and consignment goods. After conducting a preliminary survey, the researchers will collect data to explore the company's business operational processes and internal controls related to inventory management.

1. Interview

The researchers has conducted semi-structured interviews with the president director, general department, administration and accounting department, and head of production related to inventory management activities in CV. X. Below are the interview results for each party:

Table 1. CV. X Interview Results

PRESIDENT DIRECTOR
<p>1. What tasks or work do you do every day?</p> <p>“My duties are like those of a director in general, but I also double as manager, personnel, and marketing for the company. Some of my duties are setting strategy and company goals, making regulations and policies, supervising all parts of the company to achieve goals, representing the company in fostering relationships with customers and outsiders, planning marketing activities both short and long terms, setting the cost of production and determining the selling price of goods, assessing and evaluating the work of employees, appointing and dismissing employees, and taking full responsibility if there are employees who are negligent in carrying out their duties.”</p>
<p>2. What are the problems that the company is currently facing?</p> <p>“Most business entities will experience a decrease in income due to unstable economic conditions. However, what concerns me is the stockpiling of supplies in all locations, namely offices, galleries, and production sites. This is because finished goods are produced continuously but the goods sold are few, so I have to rack my brain to increase sales. Not to mention, the large quantities of supplies imported from abroad make the storage space in the office warehouse too full, even if it has not been used for several years. I'm trying to increase sales because if that's not done, what happens next is employee layoffs, and I don't have the heart if that happens. In addition, problems related to selling goods on the website, namely when getting orders for certain items, sometimes the goods listed on the website are not in the company. That's what makes me dizzy, because the website stuff already has its own place in the office and can't be contested.”</p>
<p>3. As long as the company is established, of course there will be complaints from customers and consignees regarding the goods ordered are not in accordance with what was sent or the goods arrived but are in a defective condition. How did the company</p>

respond and what solutions did they take to prevent this from happening in the future?

“My response is that this happened because of the negligence of the employees, such as not checking in detail the goods sent and according to the address, or the packing process was too tight or even finished, so that when opened, the item was damaged or broken in several parts. It could also be the fault of the delivery service, which has said that the goods are easily broken but still get slammed, so the goods are defective. If there is a defective item from a customer and a foreign consignee, we will replace the item with a new one so that the customer receives two items because, even if a return is made, the shipping costs are too high, while for domestic consignees, generally damaged goods will be reworked and then sent back. The solution so that the problem does not occur is to monitor by telephone to ensure the packing process has been carried out correctly, instruct the head of production to ensure that the goods to be sent are in accordance with the address, and notify the delivery service, considering that they have collaborated, to be careful with the goods. Because it is easy to break or become accost for company.”

ADMINISTRATION AND ACCOUNTING DEPARTMENT

1. What tasks/works do you do every day?

“My job is to take care of the administration, finance and record keeping. Every day, I also check regarding customer and consignee complaints regarding the goods sent, change photos of display of goods on the website, check the website for orders, record and archive data on parties who have business relations with the company, input data on delivery of goods, input and check reports company-owned inventory and consignees, make packing lists and invoices, collect and archive invoices to consignees, archive evidence of cash in and out, calculate employee salaries and make financial reports every month.”

2. What are the complaints from customers and consignees that the company has received so far?

“Complaints are usually sent via email, most of which are answered directly by the President Director. Customer complaints usually include delays in delivery and the presence of damaged or broken goods when received, while consignee complaints are only about returning goods that require replacement.”

3. What are the problems that occur when checking stock inventory reports?

“There is a difference in the recording of the company's stock inventory with the consignee. There was one time when I only saw the total number of items, but didn't see the quantity per item because I was sure that the large consignee could not have made a recording error. A few months later, I found item X, which was out of stock, actually had a sale. From there, I realized that it was impossible for item X to be minus and after doing some searching, there were indeed differences in the records for some items, so I had to unpack old documents, which took 1-2 days. Then, I confirmed it to the consignee along with the evidence.”

GENERAL DEPARTMENT

1. What tasks/works do you do every day?

“My duties include ensuring the availability of materials in the office, checking the ordered goods, recording stock cards, making packing boxes, buying goods if the inventory is running low, maintaining and caring for the inventory, conducting stock taking, and recording and reporting to the President Director if there are damaged and must be replaced.”

<p>2. Are all supplies in the office recorded on the stock cards? “Not all inventories are recorded in stock cards. The only stock cards available are glass eyes, poly blades, and clay slicer steel blades.”</p>
<p>3. How do you organize the inventories? “I didn't make any special arrangements, the most important thing was to fit things in the office when needed. If it's not enough, it's usually placed on the floor or on the table.”</p>
HEAD OF THE PRODUCTION
<p>1. What tasks/works do you do every day? “Check the availability of materials at the production site, check the ordered goods, monitor and control the production activities, maintain and care for the production equipment, and match the packing list with the goods sent.”</p>
<p>2. Is there a production target in the manufacture of goods every day? If so, who determines the production target and what is the process? “Yes, there is a daily production target, which is determined by the President Director so that the production division only runs it. Usually, if there is an order, the consignee will send a template of the goods ordered one month in advance and a notification when the goods are delivered. If this is not done, there will be chaos at the production site, while the goods will be shipped immediately.”</p>
<p>3. How does the company work if there are many orders for certain types of items, even though the goods manufacturing division makes different types of animals? “The company's method is that I was ordered by the President Director to make employees help each other. When, for example, there are a large number of orders for item X that must be delivered immediately, other employees can help each other to make animal parts such as legs, arms, horns, and other parts. The employee who is in charge of and responsible for item X will completely complete one type of animal, because each employee has different talents and abilities.”</p>

2. Observation

The purpose of observation is to compare inventory management procedure with facts on the ground, so it is known whether the procedure has been implemented properly or not. Below are the results of the observations are made:

a) Equipment condition

This observation aims to ensure that the equipment owned is still running so the operational process doesn't stop and make the company unable to fulfill orders. Observation of the condition of the equipment was carried out in three locations, namely the office, gallery, and production site. The condition of the equipment is the responsibility of the head of production at the production site and the general department in the office and gallery. Overall, the condition of the equipment is still good because the company carries out routine maintenance and maintenance and makes purchases of the highest quality so that it can be used in the long term.

b) Inventory placement

Inventory placement is one of the inventory management activities that aims to facilitate supervision, search for goods and keep inventory from being lost or damaged. From the results of observations, the researchers found that the company's large amounts of inventory were placed carelessly on the floor or table, which caused various risks, including the theft of goods and the location of scattered goods. Storage space that is too full is an indication that there is a buildup of inventory, which includes damaged and expired goods. In addition, the researchers found the absence of CCTV and adequate supervision of the company's inventory.

c) Packing process

The packing process is an important thing to do so that the goods arrive in good condition. Overall, the packing process was quite good, although the researchers found some packing items that were too tight or not even tight enough because the goods had to be shipped immediately. The existence of a packing process that is not in accordance with this procedure creates the opportunity that the goods will arrive at the recipient in a damaged or broken condition, so the company must replace them.

d) Inventory management

CV. X has six types of inventories which cover raw material, semi-finished goods, supporting goods, spare parts, finished goods, and consignment goods. Overall, the company has never done the physical recording while the administrative recording is still manual, although some are already using the computers. Administration records don't use a special program, just Microsoft Excel and stock cards. Below are the details of the inventory management procedures in the CV. X:

- Raw material

The raw material used is FIMO, a type of clay imported from Germany. The purchase was made when the color mixing division felt that there were few raw materials left, so it was reported to the President Director to immediately make a purchase, because it took about six months to get into the company's hands. It was the President Director herself who did the shipping from Germany to Bali so that shipping costs would be cheaper.

When the raw materials arrive at the production site, the head of production will check the similarity between the order list and the number of items to be written on the stock card. The placement of raw materials is divided into types of bars (stored in the color mixing division room) and blocks (stored in the warehouse) to make it easier to find goods. Bar type raw materials are rarely used because they are old products from Germany, so they usually use block types. If the color mixing division finds any remaining clay from the previous stock that can still be used, it can be written on the stock card to be reported to the administration and accounting department along with the reason. On the other hand, it turns out that the company has never done stock-taking on raw materials to ensure the state and physical condition of the materials.

Administrative recording is carried out every month by means of the color mixing division visiting the administration and accounting departments to deposit the stock card

so that it is immediately inputted into the computer. The card stock is made according to the color of the clay, following the code from Germany. Each clay color is distinguished by two types, namely bars (units of pieces) and blocks (units of kg).

- Semi-finished goods

Semi-finished goods are raw materials that have been processed but are not finished products because they require further production processes in order to be sold. The semi-finished materials sold by the company through the website are FIMO designs. The company's semi-finished goods such as FIMO dough, FIMO stack, FIMO design, animal body and animal parts.

Overall, the company never did stock taking on semi-finished goods. All semi-finished goods at the production site are the responsibility of the division in charge of such as dough and stack FIMO (color mixing division), FIMO design (FIMO design division), body and animal parts (manufacturing division). If there are dry semi-finished goods, efforts are sought so that the materials can be used and if this is not possible then animal bodies are made. Usually, if a certain division wants to request goods from another division, it only needs to go to that division, there are no special documents.

The company does not have a record on the stock card due to the few semi-finished goods used but in various colors, making it difficult to record. In addition, there is no document requesting goods from one division to another, and an operation list document (how to make animal sculptures) is not known with certainty, which means the use and taking of semi-finished goods is not known with certainty.

- Supporting goods

Supporting goods are materials used in the production process and packing of goods. The company's supporting materials are packing box, glass eye, thick carton, fox glue, packing sponge, soap, shoe polish, sticker "made in Indonesia", mineral oil, bubble wrap, and packing foam. Purchases are made when the production division requests supporting materials from the general office. If there is a small amount of supporting goods left, then the general department immediately makes a purchase, specifically for glass glasses imported from the USA. The general department reports to the President Director so that a purchase is made considering the waiting time. It takes about three months using DHL shipping services.

Supporting goods purchased will be checked for similarities between the order list and the number of items and then written on the stock card by the general department. All supporting goods are placed in the office to make it easier to find items. The collection of supporting goods does not use special documents, they only need to go to the general department and write down the amount taken along with the name on the stock card, while the general department itself takes the required amount of materials. Basically, the company never does stock taking because the amount is too large and not material.

Card stock is recorded only on the glass eye, which causes the company to be unable to monitor the availability of other materials. In addition, the company also does not have a material request document from the production division to the general department, so it is not known whether the material retrieval has reached feasibility verification or not.

- Spare parts

Spare part is an item of various components that form a single unit and has its own function. Spare parts that owned by the company's are poly blade, clay slicer steel blades, and sand paper (400 and 1.000 grit). Purchases are made when the production division requests spare parts from the general office. If there are a few spare parts left, the general department immediately makes a purchase, while for spare parts imported from Malaysia, such as poly blades and clay slicer steel blades, the general department reports to the President Director to make a purchase considering that the waiting time required is two weeks using DHL shipping services.

The spare parts purchased will be checked for similarities between the order list and the number of items, then written to the stock card by the general department. Just like supporting goods, all spare parts are stored in the office. Taking spare parts through the general department so that the production division only writes the number of picks along with the name on the stock card, while the general department takes the amount of material needed and there are no special documents. However, the company has never carried out stock taking even though the number of spare parts is quite large and material in nature.

The recording on the card stock is only poly blades and clay slicer steel blades. The company does not have a document requesting goods from the production division to the general department, which results in the taking of spare parts, whether they have passed the feasibility verification or not.

- Finished goods

Generally, the company's finished goods are used for consignment sales, websites, and galleries. Therefore, the placement of finished goods is in three locations, namely the gallery, office, and production site.

Physically, the company never did a stock take even though the quantity of finished goods was large and the price was quite expensive. All finished goods, both old and new, are centered at the place of production. Finished goods that have been produced or distributed to galleries, offices, and consignment places are directly recorded on stock cards by the goods manufacturing division. The division of manufacture of goods itself does the sorting between old goods (stored in the office for sale via the website) and new goods (some are stored in the gallery). However, due to the fast turnover of goods, especially when there are many orders, the company does not have stock cards in the gallery and office, so the flow of goods in and out is unknown.

The company only has a record of stock cards at the place of production. Finished goods from production sites that are distributed to galleries and offices do not have any documents, so the company finds it difficult to monitor the number of items in stock and there is a risk of missing items. On the other hand, the sale of finished goods in the gallery can be done with cash (providing memorandum) or debit/credit cards (providing shopping receipts). Both the memorandum and the shopping receipt are made in duplicate because the first copy is given to the customer, while the second copy is archived as proof of sale. In contrast to website sales, customers must pay in advance via PayPal before the order is processed, while the administration and accounting department record sales via computer.

- Consignment goods

Management of consignment goods is a vital activity because it is the company's largest income. Initially, the company carried out negotiation activities with consignees by sending proposals to hotels, resorts, and galleries. After the proposal is approved, a consignment agreement is made as proof of the agreement between the two parties, so that the following month the company can send the goods and the consignee is in charge of selling the goods in order to get a commission.

When there is an order from the consignee, the company checks the availability of the goods and manufactures the goods if it is deemed insufficient. The head of production will check the goods sent using the sales order document. After that, it is given to the driver, who brings the packing list document to be sent to the consignee. For overseas shipments, companies usually use DHL shipping services. If there is a return of goods, usually the consignee calls or sends an email to the administration and accounting department. Generally, returns occur because the company's goods have not been sold for three months or the goods are damaged or broken so they are returned using a return list document. The company's goods that are not sold will be matched, whether the number and type of goods are appropriate, while the damaged or broken goods will be reworked. After the rework process is completed, the company driver sends the goods to the consignee. However, overall, the company has never carried out stock operations on consigned goods both domestically and abroad.

Usually, the consignee sends a list of goods ordered one month in advance to the company via email and provides information on when the goods must be delivered. The administration and accounting department will make sales order documents (order lists) and packing list documents (proof of goods shipped). Sales order documents are made in three copies, with the first copy given to the goods manufacturing division, the second copy given to the head of production to check the goods sent, and the third copy given to the general department for making packing boxes. While the packing list document is made in two copies, the first copy is given to the consignee as proof of the goods being shipped, and the second copy is brought by the driver as a travel document and asks for the consignee's signature, which will be archived by the company. Every month, the consignee will report the number of items sold so that the administration and accounting department can create an invoice. Regarding the return of goods, the consignee will send a return list while the administration and accounting department record returns when the goods are returned. If the consignee wants to add to the stock

inventory, they can contact the administration and accounting department by phone or email so that the administration and accounting department record it on the date the item is requested. The administration and accounting departments match the stock inventory that is sent via email at the beginning of the following month. If there is a consignee who does not send a consignment report, the administration and accounting department will ask by telephone.

3. Document analysis

The researchers uses document analysis to examine and analyze documents related to inventory management so that the researchers can find out the completeness of documents in the company, track if there are lost documents, and avoid creating duplicate documents and document falsification. In addition, the researchers also ensures whether the document has been properly archived and who is responsible for the document.

By carrying out a series of activities for data collection through interviews, observation and document analysis, the researchers can determine and identify critical problem areas. Critical problem areas are related to three important things, namely effectiveness, efficiency and economy, all of which are inseparable and must be achieved in improving the company's performance and competitive ability. The following describes the critical problem areas identified by the researchers, namely:

1. Inadequate consignment system.
2. There are no stock cards for the finished goods.
3. Awful semi-finished goods storage.
4. Forecasting errors in purchasing imported inventory.
5. Lateness in delivering the goods.
6. Natural disasters.

Audit Program Stage

Critical problem areas that are obtained from the planning stage can be used for a basic program audit.

Table 2. The Audit Programs for CV. X

Risk	Control	Audit Program
CPA 1: Inadequate consignment system		
<ul style="list-style-type: none"> • There is no fulfillment between rights and obligations for both parties. • Finding goods that 	<ul style="list-style-type: none"> • The existence of a consignment agreement. • Every month, conduct a stock take. 	<ul style="list-style-type: none"> • Understand the procedure of the consignment storage system. • Interview with the

<p>don't sell.</p> <ul style="list-style-type: none"> • Differences in stock management between consignee and company. 		<p>administration and accounting departments about the procedure for stock administration.</p> <ul style="list-style-type: none"> • Cross-check between the stock consignee and the company. • Confirmation of the different stocks to a consignee. • Evaluate the procedure of consignee inventory management.
CPA 2: There are no stock cards for the finished goods		
<ul style="list-style-type: none"> • The amount of goods is unknown. • Lost/damaged/broken goods. • The difficulty of tracking goods. 	<ul style="list-style-type: none"> • Monitoring of the finished goods by the department at each location. 	<ul style="list-style-type: none"> • An interview with the general department about the absence of stock cards in finished goods items • Observation of ingoing and outgoing finished goods items. • Evaluation of the procedure of finished goods inventory management.
CPA 3: Awful semi-finished goods storage		
<ul style="list-style-type: none"> • Lost, damaged, or broken goods. • Decreased the quality of goods. • The difficulty of tracking goods. 	<ul style="list-style-type: none"> • The placement of goods is based on the in-charge of each department. 	<ul style="list-style-type: none"> • An interview with the head of production about controlling semi-finished goods items. • Observation of the storage location of the semi-finished goods items. • Evaluate the procedure of semi-finished goods inventory management.
CPA 4: Forecasting errors in purchasing imported inventory		
<ul style="list-style-type: none"> • Consumer purchasing power is based on the selling price. • Profits that are not in line with the costs incurred. • Excess or shortage 	<ul style="list-style-type: none"> • Allocation of selling prices. • Checking between physical goods and stock cards. 	<ul style="list-style-type: none"> • Interview with the president's director regarding inventory purchase time for imported goods. • Understand the

goods.		<p>procedure of purchasing imported goods.</p> <ul style="list-style-type: none"> • Check the material usage report. • Review the company's pricing decision.
CPA 5: Lateness in delivering the goods		
<ul style="list-style-type: none"> • Complaints from consignees and customers. • Inadequate customer information or an incorrect address. • A shortage of goods. • The absence of an employee who is in charge of making goods. • Wrong order. • Sorting error. 	<ul style="list-style-type: none"> • Late notification delivers the goods to the consignee and customers by telephone or email. • Evaluate the inventory to anticipate demand for goods. • Check the packing list or airway bill with the goods delivered. 	<ul style="list-style-type: none"> • Interview with the administration and accounting departments about the lateness in delivering the goods. • Check the document of airway bill and delivery date. • Check the document for the packing list and delivery date. • Understand the procedure of inventory check. • Observation of the whole process delivers the goods.
CPA 6: Natural disasters		
<ul style="list-style-type: none"> • Material loss for the company. • Cessation of the company's activities in an uncertain time. 	<ul style="list-style-type: none"> • Back up data on the hard disk. 	<ul style="list-style-type: none"> • An interview with the company's president director regarding the company's readiness to face a natural disaster. • Evaluate the company's business vulnerability.

Audit Findings and Recommendations

Audit program results from the previous stage will be used in the fieldwork stage. Objective evidence found in the fieldwork stage will be developed to audit findings.

1. CPA 1: Inadequate consignment system

Consignee selection is one of the crucial factors for the company. The sale of consigned goods can run smoothly when there is a negotiation activity that includes the fulfillment of the rights and obligations of both parties through a consignment agreement. Of the 16 consignments owned by the company, 11 of them did not find a consignment agreement. After the interview, CV. X admitted that he did not carry out

the consignment agreement because he had an internal line of acquaintance. The non-negotiation activity for a number of consignees led to defaults, such as several consignees being found to be late in paying for almost a year and goods not being sold at the consignee but not being notified to the company. Therefore, in order to avoid the occurrence of a default that could be owed by one of the parties, the company must carry out negotiation activities with 11 consignees in order to achieve the fulfillment of rights and obligations.

In addition, it was found that there were differences in the recording of stock inventory between the company and the consignee, which made the company's administration and accounting divisions conduct searches for a long time and effort, resulting in a buildup of work. The difference in recording arises because the administration and accounting divisions only check the recording of stock inventory on the total number of goods, not the amount per item of goods. In the future, administration and accounting department must be a detailed check on inventory reports based on quantity per item, not only see the total of number items. Also, they can ask the consignee to send inventory report, not only sales report. This is importance because both parties must know the total of number items and easy search if there is a difference. Hence, a stock-taking schedule is needed periodically for each consignee to make sure physical goods and stock cards are the same.

2. CPA 2: There are no stock cards for the finished goods

Stock cards are only available at the production site, while there are none at the office or gallery. This causes the inflow and outflow of goods of the office and galleries to be unknown. Furthermore, the finished goods belonging to the company are in large quantities and the price is quite expensive. In addition, the absence of a stock card makes the company inefficient because it wastes time searching for goods and even loses sales because the availability of goods is unknown. The absence of stock cards is due to the very fast turnover of goods, which means that recording on stock cards in the gallery and office is not carried out. On the other hand, the number of finished goods is too high, so it is difficult to find and monitor the availability of goods. This results in the company's having the potential to lose sales due to the availability of unknown goods and even losing goods due to theft.

The company's must have stock cards in the gallery, and the office to track the movement of goods. Also, only stock cards is not enough, so it needs to be supported by stock-taking, which can be done once a year to know the condition of the goods. To reduce storage costs, use finished goods for commercial purposes such as advertising, participate in exhibitions and magazine covers with the concept of high and glamour.

3. CPA 3: Awful semi-finished goods storage

The company's storage is less effective and efficient due to the difficulty of finding materials with different designs (the company's designs are very diverse). Difficulties in finding materials can cause the production process to be hampered. In fact, the arrangement and maintenance of materials is an important element in storage. One of the causes found was that the utilization of human resources was not optimal because it

did not take into account the placement of semi-finished materials and the presence of materials that were not returned to their original places. The company's should collected the semi-finished goods based on similar designs and then grouped by fast-moving and slow-moving categories.

In addition, placing the semi-finished material in the open creates the risk of the material hardening. This can happen due to excessive material production due to designer orders and being made into stock. The use of plastic wrap is important to prevent material damage as a result of a lot of air coming in. Also, in the future, the company's can reduce the stock of semi-finished goods because the quality of material is easy to lose. For semi-finished materials that are already in stock, it can be optimized by processing them into finished goods. If it's not possible, it can be used for animal bodies

4. CPA 4: Forecasting errors in purchasing imported inventory

The purchase of imported supplies needs to consider the time and quantity of purchase as well as the accuracy of the selling price. The company has not been effective and efficient because the procedure for purchasing imported supplies is based on checking that does not have a schedule, resulting in the cessation of the production process and loss of sales. On the other hand, the company does not include the risk uncertainty factor for the sale of goods abroad, which means the company will have to incur shipping costs and compensation for goods. In fact, website is one of the biggest contribution sales for the company. This is because the company has never used various inventory control calculation methods and does not include risk uncertainty factors in the selling price because the risk of occurrence is small. In addition, there are unemployed human resources, so that inventory checks are not carried out routinely. As a result, the company was never right in determining the time and amount of purchases, which resulted in an excess or shortage of inventory. In addition, the selling price of goods that does not include the risk uncertainty factor causes the company to bear the cost of shipping and compensation for goods, especially for shipping goods abroad.

In order to prevent this from happening more in the future, the researcher recommends using the EOQ method in view of the fact that there is a minimum quantity purchased so the company can maximize their purchasing power. Also, the company's must do hedging with the suppliers to buy inventory at a certain price and at a certain time to avoid the fluctuating exchange rate. Regarding the determination of the selling price, the company's must include uncertain factors when making a pricing decision for export sales as a replacement for insurance.

5. CPA 5: Lateness in delivering the goods

The delivery speed and good condition of goods are the company's goals so that consumers are satisfied with the company's performance in handling demand. Therefore, the company must check the availability of the required goods, pay attention to the packing process properly, and check the data and goods sent. There are several things that cause companies to be inefficient in delivering goods, including the use of materials in the packing process that are not considered carefully, the wrong sorting of

goods, the wrong delivery address, a shortage of inventory, and the absence of employees in charge of making goods. The impact that occurs is the emergence of complaints from consignees and customers, returns of goods, and even the cessation of the production process.

In the future, the company's must look over the address and whether the goods delivered are suitable or not, input the airway bill data that include the customer's phone number so the expedition can contact them later, assessing inventory can be done at different times to make sure the material's availability anticipates sudden requests, and give training employees in carrying out the packing process so the potential for damaged or broken goods can be minimized, and also reducing the potential loss for the company.

Below is the efficient packing process of the researcher. First, the vulnerable part is coated with a packing sponge. Then, the whole animal's body is coated with bubble wrap. When the goods are still moving, they can be given packing foam sufficiently in the empty room. Last, give a fragile sticker outside the packing box as proof that goods are easily damaged.

6. CPA 6: Natural disasters

In the long term, the company's ability to go on is doubtful because the company only has back-up data as an anticipatory measure, meaning that the company is very vulnerable to natural disasters. If a natural disaster occurs, all company inputs, both supplies, equipment, and even human resources, are not available or even inadequate. Back-up data is not enough because it is not directly related to the company's main activities. The use of self-insurance has the highest risk in the event of a natural disaster because the risk borne is very large for personal wealth. Therefore, asset protection is necessary in the face of natural disasters so that the company has the opportunity to be a going concern in the long term. The researcher suggests asset protection in the form of insurance, because the risks and costs incurred are smaller than those of self-insurance. The researchers expect the company to insure its inventory because it is the company's main activity. The use of insurance makes companies economical in their use of resources in the form of goods. This is because these resources will be compensated by the insurance company in the event of a natural disaster, even if it is in the form of money, which the company can use to rebuild its business.

Conclusion

The aims of this operational audit are carried out, such as analyzing and assessing the adequacy of CV. X inventory management procedures and evaluating the inventory management activities that have been running with effectiveness, efficiency, and economy. Hence, the researcher's audit scope is inventory management, which starts from purchase orders until delivering the goods. From the results of the study, the researcher assessed inventory management activities in CV. X has been running out well. Below some recommendations for the company's to increase their performance and for the company's strategic decision-making:

1. CPA 1: Inadequate consignment system

- Do negotiation activities for 11 consignments for the fulfillment of rights and obligations for both parties and avoid the occurrence of default.
- The administration and accounting department must be a detailed check on inventory reports based on quantity per item, not only see the total of number items.
- Administration and accounting department can ask the consignee to send inventory report, not only sales report → Aims: Both parties know the total of number items and easy search if there is a difference.
- Make a stock-taking schedule periodically for each consignee to make sure between physical goods and stock cards are the same.

2. CPA 2: There are no stock cards for the finished goods

- Stock card making in the gallery, and the office is important to track the movement of goods.
- Stock card making must be supported by stock-taking, which can be done once a year to know the condition of the goods.
- To reduce storage costs, use finished goods for commercial purposes such as advertising; participate in exhibitions and magazine covers with the concept of high and glamour.

3. CPA 3: Awful semi-finished goods storage

- Material is collected based on similar designs and then grouped by fast-moving and slow-moving categories.
- The use of plastic wrap to prevent material damage as a result of a lot of air coming in.
- The importance of stock-taking, which can be done once a year to separate good material from hardened or broken material, which can be processed immediately.
- Reduce the stock of semi-finished goods because the quality of material is easy to lose.
- The use of semi-finished goods optimally by processing them into finished goods. If it's not possible, it can be used for animal bodies.

4. CPA 4: Forecasting errors in purchasing imported inventory

- The researcher recommends using the EOQ method in view of the fact that there is a minimum quantity purchased so the company can maximize their purchasing power.

- Do hedging with the suppliers to buy inventory at a certain price and at a certain time to avoid the fluctuating exchange rate.
- Include uncertain factors when making a pricing decision for export sales as a replacement for insurance.

5. CPA 5: Lateness in delivering the goods

- Look over the address and whether the goods delivered are suitable or not.
- Input the airway bill data. It should include the customer's phone number so the expedition can contact them later.
- Assessing inventory can be done at different times to make sure the material's availability anticipates sudden requests.
- The use of bubble wrap and packing foam in the packing process is.
- Give training to employees in carrying out the packing process so the potential for damaged or broken goods can be minimized, and also reducing the potential loss for the company.

6. CPA 6: Natural disasters

- Use asset protection in the form of insurance because the risk and cost are lower than self-insurance. The company can insure their inventories for the reason that inventories are the main activity of the company.

The researcher is only performing operational audits related to inventory management CV. X, which limits data retrieval because of the company's assessment. On the other hand, this study doesn't discuss the other activities of the company, so the recommendation that is given is limited to the manufacturing company. The possible recommendations are difficult to apply to other companies to increase their performance and the company's strategic decision-making.

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