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Analysis of internal control monitoring for tax management inefficiencies

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ABSTRACT

Tax payment efficiency results from the company's success in tax management. Efficiency or inefficiency occurs in the estuary of a series of procedures that constitute the internal control process within the company. Tax Control is a form of supervisory action whether the implementation or implementation is following the company's planning. The action referred to here is a series of procedures carried out for supervision. So internal control is attached to tax control to create efficiency. This research focuses on the strength or weakness of internal control over the implementation of tax obligations, especially on VAT of PT CTA. This research is a follow-up research from previous research that assesses the efficiency of VAT payments at PT CTA. This study analyzes the internal control of the company's VAT management. The analysis results show the company's internal control weakness using the COSO internal control measurement tool in managing VAT. Strong internal control will be able to minimize the potential for tax costs or minimize inefficiencies in tax payments.

INTRODUCTION

Internal Control is a process and procedure to ensure control objectives are met. Control in this study is control in terms of tax obligations so that tax administration can be carried out effectively and tax payments become efficient, especially VAT related to the results of previous research. The results of previous research indicate there was inefficiency in VAT payments for three consecutive years from 2018, 2019, and 2020. Companies do not implement tax as stipulated during planning (Saputra, 2020). Companies need to monitor tax implementation (Ulupui, 2016), as stated by COSO, that monitoring is a component of internal control (Rumamby, 2021). Conducting monitoring procedures for VAT transactions is the main thing that the company must do to ensure that the implementation goes according to the plan set by the company. Monitoring is the first step in achieving organizational effectiveness. With adequate internal control, the organization will be effective. Material internal control weaknesses vary greatly depending on several causes and what underlies them (Safitri, 2014). It is argued that there are two classification schemes, one based on the severity of internal control problems and the second based on the stated reasons for internal control problems. Weaknesses in internal control indicate that management could have been more successful during the year in identifying risks and establishing controls to provide reasonable assurance and confidence that misstatements have been prevented or corrected (Ardianingsih, 2021).

Disclosure of material weaknesses is more informative for small companies with higher pre-disclosure information uncertainty (Skaife, 2013). This provides an understanding that if the company has weak internal control, it would be better if it discloses and explains the weakness because the weakness of the information will be used to improve internal control in the future. This provides more certainty in finding the level of error/weakness to then take corrective steps. Companies that do not disclose internal control weaknesses have a higher level of uncertainty about changes toward improving the company's internal control in the future. This can occur in small companies. This is possible because small companies generally need help to analyze their weaknesses and strengths due to the limited human resources owned by the company.

A weak internal control system can also affect management's efforts to further manipulate company operations through controlled revenue, discretionary costs, and production costs (Lenard, Petruska, Alam, & Yu, 2016). The United States enforcing internal control weaknesses (ICW) disclosure reports with the Securities and Exchange Commission (SEC), as part of the annual reporting requirements of Section 404 of the Sarbanes-Oxley (SOX) Act of 2002, also showed higher levels of actual activity manipulation (RM) (Lenard et al., 2016). This shows that the problem of weak internal control not only shows the ineffectiveness of management and inefficiency of resources in the company, but at a different level, it can lead to manipulation of data and reports because weaknesses are continuously left unsolved.

Functional Chief Executive Officer (CEO) expertise in finance reduces poor performance risk, improves financial reporting quality, and mitigates audit risk (Oradi, Asiaei, & Rezaee, 2020). The relationship between the CEO's financial background and internal control weaknesses (ICW) is also interesting to understand to be able to find strengths and weaknesses carried out by the CEO to improve internal control in the future. Research in Iran shows that in addition to user characteristics, audit committee characteristics, and audit fees in conducting research, the use of alternative measures of financial expertise in CEOs is added. Apart from the financial CEO, the results remain the same. However, when this is done on the CEO, it gives different results (Oradi et al., 2020). The association between the CEO's financial background and ICW in the Iranian environment is that the CEO's financial background can improve company performance by reducing ICW because previous research shows that hiring a financial expert CEO improves the quality of financial reporting (Oradi et al., 2020). The resulting financial statements are the result of internal control being carried out, so the CEO's financial expertise background is one factor determining the weakness or strength of internal control.

In addition to the CEO's financial expertise background affecting internal control, research on the role of gender diversity on corporate boards in reducing internal control weaknesses (ICW). The results found that companies with excellent female board representation tended to reduce ICW. The results were not driven by women sitting on the audit committee (Chen, Eshleman, & Soileau, 2016). Specific characteristics of a firm's board of directors may have substantial power to influence the strength of the firm's internal controls. The findings suggest this relationship may exist because female board members help reduce internal control weaknesses. Research in the United States on companies traded on the US stock market during 2004-2007, this study examined the effect of internal control (IC) weaknesses on firm performance (Lai, Li, Lin, & Wu, 2017). Findings confirm that IC weaknesses, in general, have a negative impact on firm performance, and this impact varies with each of the major IC components. Findings confirm that material IC weaknesses in the firm's control environment, information technology, accounting documentation, accounting policies, procedures, or control design significantly negatively impact firm performance. We also confirm that delaying corrective actions to address IC's weaknesses will continue hindering the firm's financial performance.

Research in Malaysia found that internal audit department management, professional skills, objectivity, and review have a significant effect on the monitoring aspect of the internal control system (Fadzil in Kotb, 2020). The scope of work and performance of audit work significantly affect the information and communication aspects of the internal control system. In contrast, the implementation of audit work, professional skills, and objectivity have a significant effect on the environmental aspects of the internal control system. The COSO Report reemphasizes the importance of internal control in achieving entity objectives. It encourages entities to focus on internal control systems to ensure responsible corporate governance and reliable financial reporting processes (Fahmi, 2021). Effective internal control (Brewer in Thabit, 2017) is an internal control that functions properly where all controls will become "safe self-policing procedures," and detective controls will work very quickly. Ineffective Internal Control indicates that whatever controls it has, it does not work (Wang, 2017). All detective controls will be so slow to detect an event that the time window will always end before the problem can be fixed. The efficiency of tax payments is the result of the company's success in tax management (Rahmawati, 2022).

Efficiency or inefficiency occurs in the estuary of a series of procedures that constitute the internal control process within the company. Tax Control is a form of supervisory action whether the implementation or implementation is following the company's planning (De Widt, 2017). The action referred to here is a series of procedures carried out for supervision. So internal control is attached to tax control to create efficiency. An analysis will be carried out to conclude whether the company's internal control is effective or ineffective regarding the efficiency of VAT payments and the effective implementation of PT CTA's tax rights and obligations. Based on the description above, companies need to conduct internal audits conducted by internal auditors. The internal auditor must monitor the implementation of internal control.

RESEARCH METHODS

The object of this research is the inefficiency of Value Added Tax (VAT) payments in 2018, 2019 and 2020. In 2018 there was an inefficiency of 8.37%, 2019 of 6.80% and 2020 of 11.33% is a significant value for a tax payment inefficiency. This research uses qualitative descriptive analysis, the method used is a method based on the formulation proposed by COSO related to internal control. Conceptually the research framework can be seen in the following figure:

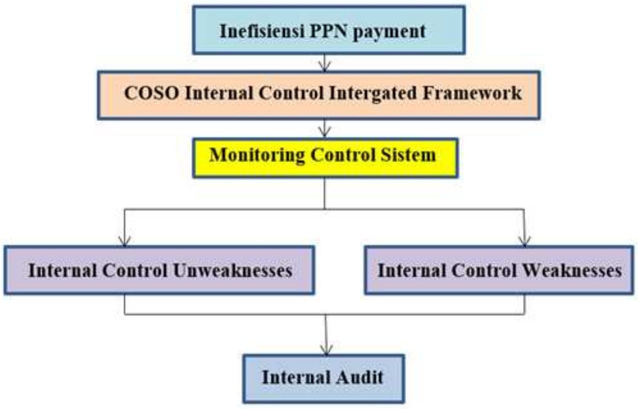

Figure 1. Research Framework

RESULTS AND DISCUSSION

Analysis of Internal Control monitoring carried out by tax staff for tax year 2018

Table 1. Internal Control monitoring carried out by tax staff

Monitoring Procedure	Information Type	Monitoring Type	Description
1. Ensure that staff record all purchase transactions, both transactions with PKP and Non PKP, every day.	Direct	Not in progress	This procedure ensures that every purchase transaction is recorded and nothing is missed.
2. Ensure that staff record VAT In on transactions with Taxable Person for VAT Purposes, on a daily basis.	Direct	Not in progress	This procedure ensures that every VAT input is recorded and nothing is missed.
3. Make a weekly report of which transactions are carried out with PKP or not with PKP which is reported to the manager.	Direct	Not in progress	This procedure ensures that the company has a measurable record of all purchase transactions on a weekly basis.
4. Prepare a weekly report on the amount of Input VAT reported to the tax manager, which is reported to the manager.	Direct	Not in progress	This procedure ensures the company has a measurable record, on a weekly basis, of creditable input VAT
5. Prepare a monthly report on the amount of Input VAT reported to the tax manager, which is reported to the manager.	Direct	Not in progress	This procedure ensures the company has a measurable record, on a weekly basis, of creditable input VAT

Internal Control Monitoring carried out by tax staff has five procedures: ensuring that staff records all purchase transactions and VAT Inputs for both transactions with PKP and Non-PKP. Then make a weekly report on transactions and records of Input VAT and a monthly report on the amount of Input VAT to be reported to the manager. This procedure is carried out to ensure that the company has measurable records every time it uses them. The same results were found for the 2019 and 2020 tax years.

Analysis of Internal Control monitoring carried out by the tax manager for the 2018 tax year

Table 2. Internal Control monitoring carried out by tax manager

Monitoring Procedure	Information Type	Monitoring Type	Description
1. Checking the correctness of the recording of all purchase transactions, both transactions with PKP and Non PKP, is carried out every day.	Not in progress	Not in progress	This procedure ensures that every purchase transaction is recorded and nothing is missed.
2. Checking the recording of VAT In on transactions with Taxable Person for VAT Purposes, conducted daily.	Not in progress	Not in progress	This procedure ensures that every VAT input is recorded and nothing is missed.
3. Check weekly reports of which transactions with and without taxable persons are reported to the manager.	Not in progress	Not in progress	This procedure ensures that the company has a measurable record of all purchase transactions on a weekly basis.
4. Prepare a weekly report on the amount of Input VAT reported to the tax manager, which is reported to the manager.	Not in progress	Not in progress	This procedure ensures the company has a measurable record, on a weekly basis, of creditable input VAT
5. Prepare a monthly report on the amount of Input VAT reported to the tax manager, which is reported to the manager.	Not in progress	Not in progress	This procedure ensures the company has a measurable record, on a weekly basis, of creditable input VAT
6. Provide suggestions to the Director of Finance to make changes to the selection of vendors, only PKP vendors	Not in progress		This procedure ensures the company has a measurable record, on a weekly basis, of creditable input VAT

Internal Control Monitoring carried out by the tax manager has six procedures: checking the correctness of recording all transactions carried out daily. This ensures that every purchase transaction is recorded and nothing is missed. Then check the recording of input VAT on transactions with PKP which are carried out daily, to ensure that every input VAT is recorded and nothing is missed. Furthermore, checking weekly reports of which transactions are carried out with PKP and not with PKP reported to the manager, making monthly reports on the amount of input VAT reported to the tax manager reported to the manager, and providing proposals to the Finance Director to make changes to the selection of vendors only PKP vendors for the company to have a measurable record every week, on creditable input VAT. The same results were found for the 2019 and 2020 tax years.

Analysis of Internal Control monitoring carried out by the Finance Director for the 2018 fiscal year

Table 3. Internal Control monitoring carried out by Fianance Director

Prosedur Monitoring	Information Type	Monitoring Type	Description
1. Consider the tax manager's proposal and decide on the start of transferring Non-Convictable vendors to Convictable vendors.	Not in progress	Not in progress	The procedure ensures that the company only transacts with taxable persons, which ensures the implementation of tax management.
2. Calculate and decide the potential inefficiencies that occur if transactions with non-PVC vendors continue to be carried out.	Not in progress	Not in progress	This procedure ensures that tax management inefficiencies are addressed from the outset.
3. Every month conduct simulations on tax management efficiency and inefficiency.	Not in progress	Not in progress	This procedure ensures that the evaluation of tax management inefficiencies continues to be carried out regularly every month.

Internal control monitoring carried out by the finance director has three procedures related to the transfer of non-PKP vendors to PKP vendors to ensure the implementation of tax management. Then the potential inefficiency in ensuring tax management inefficiency has been done since the beginning. And the last is the simulation of tax management efficiency and inefficiency to ensure that the evaluation of tax management inefficiency continues to be carried out regularly every month. Monitoring is done indirectly. The same results were found for the 2019 and 2020 tax years.

CONCLUSION

From the research results, it can be concluded that during the 2018, 2019 and 2020 tax years PT. CTA did not monitor internal control over the management of Value Added Tax (VAT). Inefficiency occurs because monitoring is not carried out in all lines from the implementing line to the decision-making line. Not conducting periodic internal control monitoring, resulting in the inability to disclose internal control in one period resulting in the inability to improve internal control in the next period. The company has a high internal control weakness, because there is absolutely no internal control monitoring from the lowest period of daily to annual, this results in poor tax management performance. We recommend that PT CTA carry out a regular internal control monitoring process considering that as a company engaged in trade there are many transactions related to taxes (tax events) for Value Added Tax so that Value Added Tax payments become more efficient. The company conducts structural internal control monitoring. The company monitors internal control periodically. High internal control weaknesses are immediately corrected by monitoring internal control so that internal control weaknesses become internal control strengths and have good tax management performance and lead to tax payment efficiency.

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