

Supply chain of the automobile industry: Internal control issues, operations, and sustainability of cars exported overseas

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ABSTRACT

This paper explores the internal control issues, operations and sustainability in the supply chain of automobile industry when exporting their cars overseas. Particularly this paper emphasized the possible reasons of internal control issues and implications that cause the increase in insurance claims on Damage in Transit (DIT) and/or Missing and Discrepancy (MAD) on car exporters. Goods and items exported overseas face the risks of DIT and/or MAD that are affected by any number of causes and exposures such as natural disaster, deficiencies, criminal activity and so forth. The increase in DIT and/or MAD insurance claims has a direct impact on the company's operating costs that requires a higher premium to be paid to the insurance company, hence reduce the revenue. The internal control weaknesses in handling the exported goods also can become one of the major reasons to DIT and/or MAD that related to criminal activities. This paper reviewed the past literatures relating to damages, missing or discrepancy happened during the process of exporting cars and the concept of internal control and some examples of the cases of companies that put it into practice. This study is expected to provide notion to the automotive industry that exporting cars overseas to evaluate their existing procedures in place and make improvisation to deliver better quality services and products to their customers and to improve the current working process in related departments if such weaknesses induced to DIT and/or MAD exists. In addition, this study also aims to improve communication between divisions to ensure and to prevent the occurrence of the same issues in the future. Finally, this study proposed the execution of COSO internal control framework and a better cost management exercise may be practiced to alleviate DIT and/or MAD.

Keywords:

Automobile, cars, damage in transit, internal control, missing and discrepancy

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1. Introduction

The import and export businesses involve the physical process of transporting the goods and cargoes from one place to another. The cargoes usually were transported by water, land, and air via ship, trucks, train or flight. The transportation and shipment industry have a significant impact on human life as almost everything is transportable; electrical and electronics goods, attire, food products, vehicle, etc. Automotive industry is one of the most enduring industrial activities, which accounts for an active import and export commerce. Car exporters around the world share the essential link between supplier and receiver where the important thing to be concerned is to send and receive the goods in good condition, when and where they are needed [19]. A number of critical considerations need to be highlighted when exporting vehicles overseas. Additionally, the holding of vehicles in storage before, during, and after transportation also poses the threat of considerable loss, mainly due to natural perils, such as storm, surges, flooding, earthquakes or hail. Fire on board also presents a substantial risk and may cause large losses during its transportation. This is due to each vehicle retains some fuel in its tank and parts of the interior trim are made of inflammable materials. Piracy attack and other criminal activities, such as stealing of components, fraud, and theft, among others, are some of the transportation risks. These are some of the major potential risks and challenges during the process of product shipment.

Damage, missing or discrepancy happened due to the incidents occurring between hand-over to the first carrier and delivery to the final destination. The terms, Damage in Transit (DIT) and/or Missing and Discrepancy (MAD) used in this paper are referring to the procedures practiced by one of the car manufacturers in Malaysia. They were developed internally to focus on delivering quality cars to customers, taking direction from management's constant emphasis on product quality. This initiative was taken to ensure the cars are handled properly during transit. It is a major problem when the exported cars suffered damages, loss, missing components or any other type of discrepancies during shipment or while in storage. As a protection, marine insurance are well advised when rating insurance cover, to ensure it will take sufficient account of the potential for major losses involving vehicles, during transportation at the sea and while in storage. According to Abdul Latif [1], a marine insurance refers to the insurance of goods shipped from one place to another, anywhere in the world. In normal practice, the seller undertakes to arrange and pay for the total costs of delivering the goods and insurance premium the final destination. The insurance policy is assigned to the consignee and the seller may claim under the policy for any DIT and/or MAD on the goods shipped. Even though the insurance policy serves as a protection, the increase in DIT and/or MAD insurance claims has a direct impact on the company's operating costs, as it requires a higher premium to be paid to the insurance company, hence, reduce the revenue. Car exporters might invest a big amount of money in insurance premium for its marine open cover. This is to ensure that the vehicles transported are in safe custody and its quality is sustained as per company's policy. Furthermore, maintaining the quality is crucial since it can ensure improvement of overall organizational performance [3].

It is almost impossible to eliminate all the risks [2], however, car exporters may consider some alternatives to prevent misfortune within the supply chain, reduce product damage and returns, and thus, lessen the DIT and/or MAD claims. Companies should be able to identify and classify the risks and their possible impacts on the business operation. According to Jüttner [12], firms must not only identify direct risks to their operations but also the risks to all other entities as well as risks caused by the transportation linkages between organisations. This includes the process involved in the exportation procedure from holding of the vehicles in storage before, during, and after transportation. It is worth considering that there has to be a negotiation between an acceptable number of damages, missing and discrepancies cases and the cost of insurance premium paid. One

of the suggested strategies for car exporters is to improve their internal control procedure. Internal control refers to a process effected by plan management and other personnel, and those charged with governance, and designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting [4].

Effective controls reduce the risks of asset loss and ensure the plan information is complete and accurate, the financial statements are reliable, and the laws and regulations are observed [2, 4]. In view of the internal control, the Committee of Sponsoring Organisations of the Treadway Commission's (COSO) Internal Control – Integrated Framework provides detailed information about internal controls. It has been recognised by the executives, board members, regulators, standard setters, and professional organisations as an appropriate and comprehensive framework for internal control. Furthermore, it can be a valuable resource for car exporters to setting up their internal control plan. By adopting the proper internal control, any companies transporting their cargo through land, sea or air, might be able to mitigate and reduce the risks or costs by appropriate methods of dispatch, insurance coverage, suitable packaging instructions, and by considering the roles and responsibilities of the parties involved in the chain of transport events up until final delivery to the client [21]. Therefore, it is worth for the car exporters to have effective and efficient internal control procedures of exporting cars for their shipment of cargo. By adopting the best practice in transportation operations and supply chain management, companies can uncover savings while realizing synergies in terms of time, energy and the assessment of critical milestones [2, 6]. Since most companies' objective is to increase their profit and reduce the cost, priority should be given on improvement of internal control. Car exporters are also expected to gain competitive advantage for logistics and transportation through securing the supply network and managing supply chain risks when they have appropriate internal control in practice. This paper will review the past literatures about some topics relating to damages, missing or discrepancy happened during the process of exporting cars. This paper also reviews the concept of internal control and provides some examples of companies that put it into practice. A real case also presented in this review.

2. Supply Chain Procedure of Finished Vehicles for Export Sales- DIT and/or Mad Progression

The deliverance of a finished vehicle is established from the plant to the dealer. The mode of transportation could be via ocean vessels, inland vehicles namely rail, truck, self-driven or by air. Due to the geographic density of the dealers and demand, the logistics of finished vehicles can be arranged to go to multiple locations.

Damages are possibly caused on the exterior of the vehicles during the handoffs or distribution at these multiple locations. Minor defects also can be induced during the manufacturing process which may also lead to vehicle incurring damages before it leaves the plant. These damages are then rectified at the dealers or returned to the plant. Thus, a thorough inspection needs to be carried out at the plant and each point in the supply chain in order to determine or assign the "blame" for the damages and to recover the repair cost [22]. The supply chain of finished vehicles includes the following phases:

Staging at motor pool and loading onto trailers – In this phase, typically, the finished vehicles are officially handed over from the Logistic Department of the company to the transporter. Prior to the handover process, a pre-delivery survey is conducted by the company. Approximately a four minutes' walk through survey is conducted to inspect for any signs of Damage in Transit or Missing and Discrepancy (DIT and/or MAD) [1]. If DIT and/or MAD is found, the transporter is responsible to record it on the DIT and/or MAD survey record. Before the vehicles are handed over to the transporter, the logistic department will decide whether to repair or replace the DIT and/or MAD.

Both the logistic officer and transporter will also need to inspect the plastic pack to confirm that the seal is intact and had not been tampered with. The DIT and/or MAD survey record should be signed off by the Logistic Department and only then the transporter will claim possession of the vehicles.

Unloading at the Vehicle Transit Centre (VTC) yard – The second phase marks the official delivery of vehicles from the said transporter to VTC. A similar procedure, as conducted in the first phase, is carried out at the VTC yard. However, the inspection and signing off of the DIT and/or MAD record will be executed by the transporter and VTC [1]. The VTC is required to record any missing items and if necessary, to contact the company to repair or replace DIT and/or MAD. VTC will then take over the vehicles and park them with due care and diligence.

Loading onto vessels – Next, the vehicles are delivered from the VTC to the shipping line. Both the VTC and shipping line representative will conduct the inspections, record noted DIT and/or MAD and sign off the DIT and/or MAD survey record. DIT that occurs as a result of movements from VTC needs to be recorded by VTC, confirmed by the ship or ocean liner and insurance agent. The responsibility of the vehicles is then passed on to the ship liner.

Unloading at port – The vehicles is handed over to the distributor company during this phase. The process of inspecting, recording, and signing off of the DIT and/or MAD is a joint effort performed by the overseas company and shipping line representative at the port. The overseas company will make a copy of the DIT and/or MAD survey record to be kept as a reference, whilst the original as well as the claims submission form will be forwarded to the insurance company in order to process the DIT and/or MAD claims.

Delivery of vehicles to the distributors – Finally, the vehicles are delivered to the respective distributors, the point at which the vehicles are sold to customers. If there is a need to repair the vehicles due to remarks made in the earlier DIT and/or MAD survey, the distributor company may assign any agent to perform the required work.

3. The Internal Control System of a Supply Chain in the Automobile Industry

Internal control can be defined as a process, effected by the entity's board of directors, management, and other working personnel, which is aimed to provide a reasonable assurance pertaining to the effectiveness and efficiency of operations, reliability of financial reporting as well as compliance with the applicable laws and regulations [3, 8, 15]. Hence, there are increasing calls for a better internal control system. This is because internal control offers countless important purposes and is perceived as a solution to numerous potential problems.

Additionally, internal control positions the company on track towards achieving its profitability goals, realising its mission and minimising unanticipated 'surprises' along the way [16]. In return, the management is able to deal with the rapidly changing economic and competitive environments, shifting customer priorities and demands, and restructuring for future growth [8].

In the absence of a proper internal control, companies may face high risk consequences such as the possibilities for fraud, unauthorised or illegal activities, and incorrect information during the business process and other unforeseen events which are harmful to the companies' performance [1]. Additionally, risks, such as supply chain glitches or disruptions including DIT and/or MAD may inflict a significant impact on the supply chain performance [5]. Supply chain disruptions may results in long lead-times, stock-outs, failure to meet customer demand, and increase in costs [7, 14, 18]. In the long run, these hiccups will lead to an adverse effect on the firm's financial performance [10]. For example, in July 2007, Toyota Motor Corporation suspended its production throughout all its Japanese factories – Riken Corporation – due to an earthquake that damaged their major parts supplier for piston and seal rings [5]. The catastrophe also affected other automotive manufacturers, namely

Mitsubishi Motor Corporation, Suzuki Motor Corporation, and Honda Motor Corporation who solely depended on Riken for their engine parts [9].

Another example is to look into the automotive company's approach to internal control systems such as Nissan Motor Company [16]. Nissan strives to be steadfast in implementing an efficient management to achieve clear and quantifiable commitments. To materialise this mission, a board member has been assigned to oversee the internal control systems, holistically. The Board of Statutory Auditors is responsible to oversee the Board of Directors, attend board and other important meetings and hold interviews with the board members to audit their activities. The Statutory Auditors consistently receive reports on the results of inspections. They also receive reports from independent accounting auditors on plan and preparation for future audits and swap information to confirm these reports. In addition, Nissan implemented a security-related export control under an independent system chaired by the company's operating officer. A security-related export control aims to contribute towards global peace and security. Specifically, the export control lay out the process of monitoring and validating the exports which is firmly applied in its operations. Even their affiliated companies adhered to a similar export control rules, thus, the whole of Nissan Group's level of compliance is strengthened [16].

Generally, a company that manufactures and exports cars overseas subscribes to an insurance policy, which known as marine open cover for protection from unwanted events during shipment. The company may have to invest a big amount of money on insurance premium for its marine open cover, to ensure the vehicles transported are in safe custody and at an accepted level of quality as per the company's policy. Policy holders must first file an insurance claim before any money can be disbursed to the repair shop or for other contracted service. The insurance company need to appoint an adjuster or assessor before releasing any insurance claims to the policy holder. The insurance only covers damages occurred during transit. The damages caused by other factors such as negligent, poor handling, wilful misconduct or any other related issues outside the policy are to be borne by the company. When this happened, it causes the company to spend unnecessary cost in order to cover the damages.

This paper reviewed a real case of local automobile company which is renamed as Purple Automobile Company that produced cars for local demand and export. We analyse the company's background, the processes of shipment, and how the DIT and/or MAD procedures were executed. The issues and implications relating to the internal control problems were also highlighted and discussed. The proposed internal control elements as the best practices to alleviate the DIT and/or MAD issues are presented.

4. Purple Automobile Company: Internal Control Issues and Inferences on DIT and/or MAD- Case Study

Purple Automobile Company appears to have some internal control issues. The Internal Audit Division of this company independently monitors the issue of compliance with internal policies and procedures and the internal control systems effectiveness. The division highlighted any significant findings for corrective actions by the line management and they reported directly to the Audit Committee. Another division known as the International Business Division (IBD) is responsible for handling the delivery of vehicles to the distributors around the world. The division has its own procedures in delivery i.e. to ensure the cars are properly delivered on time. The main policy of the company is to retain ownership over the cars at all times i.e. inclusive during transit until it reaches its final destination. On top of this, the company is expected to face risks due to its size and complexity of the operations.

Due to the risks that might be face by them, Purple Automobile Company expended a lot on insurance premium for its Marine Open Cover to ensure vehicles transported are in safe custody and the quality is sustained. If damages occurred during transportation, the policy holders will make their claim. Upon insurance claim, before insurance company can disburse the money to the repair shop or other contracted service, the policy holders are required to file the claim first. The insurance company may appoint an adjuster or assessor before releasing any insurance claims to the policy holder. It is crucial that the levels of DIT and/or MAD claims for every shipment is maintained at the lowest level and the company must strive for the best in handling products from all parties until it reaches the distributor company. Since the company has to pay higher insurance premium, they should now start to focus on how to reduce the cost especially the unnecessary expenses.

There are some issues or weaknesses regarding the DIT and/or MAD claims based on the company's case. For example, there is about 49% of DIT and/or MAD rejected claims in 2010 due to wrong classification. Most of the rejected claims were non-DIT claims but were submitted as DIT and/or MAD claims. The misclassification claims resulted in unnecessary additional cost to the company because the cost of the rejected claim will be borne by the company. Only DIT and/or MAD claims are eligible to be claimed with the insurance company. Another flaw is the inability of the respective personnel to meet the DIT and/or MAD claim submission dateline. Most of the personnel were aware that the time duration allowed for claim submission is sixty (60) days; however, they were unable to submit the claims accordingly due to various reasons. As a result, the company has to bear the DIT and/or MAD costs because the insurance company will not reimburse the amount claimed due to late submission.

Staff's competency is another issue faced by this company. It was revealed that some staffs were not properly trained for certain jobs. For instance, one of the problems occurs was on how well the work is done, because normally new staffs are guided by the senior staff. They were only provided with the summary of procedures without further details on the precautionary measures to be taken while doing the job. Most of the staffs learned from their experience in handling issues or matters arising while they were on duty. Thus, the staff competency in maintaining the quality of the work that they perform is questionable. This will affect the quality of cars distributed and exported to distributors.

In addition, most of the personnel committed trivial mistakes, such as writing on the body of the car or the windscreen or not using clipboard for recording. During the loading of cargo, it was noticed that the vehicles were not arranged according to the required specification i.e. one door width. This will expose the cargo to damages as the journey to the final destination may take a longer time.

4.1 Internal Control Issues of Shipment Procedures for DIT and/or MAD Identified from the Purple Case.

There are several stages of procedures for shipping cars to overseas. For Purple Automobile Company, the checking for DIT and/or MAD is done at the motor pool area, vehicles transport centre, and shipment loading until the process of unloading the cargo upon arrival at the final destination. Here, some internal control issues are identified and briefly discussed below:

Observation at motor pool area – As reported in the case in hand, there are several issues in the process of placement or docking the cars before they are transited. During inspection, the personnel in charge write on the documents of DIT and/or MAD on the body of the car or on the windshield instead of using the clipboard. This practice could causes damages such as paint abrasion, scratch or dent to the body of the car. Moreover, the company personnel pre-signed the form before the carrier conducted the actual inspection. This is not acceptable and a deviation from the policies since pre-

signing the form indicates that the car have gone through the pre-check process, when in fact, it has not. Furthermore, the cars were not parked with one-door width in between them. In addition, there was no identification stamped on the form. The delivery order (DO) form and DIT and/or MAD form was printed not according to sequence. Damages on under carriage front bumper and door frame were overlooked and the recordings of damages were not highlighted. The DIT and/or MAD forms were placed on the instrument panel instead of the front passenger seat.

Observations at Vehicles Transport Centre (VTC) – At this centre, the cars were uploaded into the trailer before being carried out from the port. Based on the case reviewed, the personnel did not use the clipboard when filling the DIT and/or MAD forms. They tend to write the documents on the body of the car or on the windshield. Furthermore, upon uploading the vehicles to the trailer, it was observed that the vehicles were not carefully handled, where the cars might bumped hard and this may damage the body of the vehicles. Besides, the top deck of the trailer is not properly aligned and the parking area does not follow the specification of one foot apart at the front and rear bumper and one door width at the side. The DIT and/or MAD forms were placed on the instrument panel instead of the front passenger seat.

Observation in the ship – This is the process where the cars are uploaded into the ship. The same issue occurred; the personnel did not use the clipboard when filling in the DIT and/or MAD forms, but writing the documents on the body of the car or on the windshield. The DIT and/or MAD forms were not kept in the glove compartment. The personnel involved in the lashing were wearing jewellery on their fingers. They may accidentally scratch the cars.

Unloading at port and delivery to distribution centre – Following landing at port, the vehicles were driven off the vessels by the port personnel and they had to pass through an adjacent compound before arriving at the warehouse for storing. The distance is relatively short, being less than 0.5 kilometres but it requires careful driving as there is one roundabout and two gates as well as turns through lines of parked cars. The cars are protected over their roofs, hoods, boots and upper parts of their fenders and quarter panel with adhesive plastic sheeting. During this process, it was indicated that they have noted minor damages to 22 out of 270 cars. The warehouse was contracted by the company to check and repair any or all damages and generally prepare the cars for distribution and sale.

4.2. The Implications of Poor DIT and/or MAD Handling from the Case.

This case reported 22 damage cars, however, only 4 cars are eligible for insurance claim. The cost of repairing the other 18 cars will be borne by the company because the damages are not covered as they happened not because of the transit. The list of remarks from this issue as extracted from the case of Purple Automobile Company is tabulated in Table 1.

To justify how the weaknesses relating to internal control practices could affect the Purple Automobile Company, we attempt to elucidate them with the possible consequences. For example, when the car was not parked with one door width distance from each other, it could cause damage to door or body of the car. Furthermore, it could not facilitate the walk-through as the space available is too narrow for a person to walk through it. Poor lashing to the trailer may cause damage to the car if there is an emergency braking. The personnel involved in the lashing were wearing jewellery on his fingers and may scratch the cars accidentally. The top deck of the trailer is not properly aligned and thus if the pillar of the trailer gives in, it may cause damage to the car. Further, there is no identification stamp on the form, which may later lead to dispute over authenticity of initials and responsibility.

Table 1

List of DIT and/or MAD found from the shipment

Item	Type of Damage	No. of cars	DIT/MAD Insurance Coverage
1.	Paint scratched on body	10	×
2.	Paint chipped on body	4	×
3.	Buckled	1	×
4.	Small scratches	1	×
5.	Part spring in front door moulding	1	×
6.	Green spray paint on life side quarter panel	2	√
7.	Drips of white paint on front bumper	1	√
8.	Green paint on rear bumper	1	√
9.	Part scratch on door moulding	1	×

From the look of the case of this company, it is obvious that there are the same mistakes reported by the personnel in charge and they also failed to perform their work with due care. For example, when the personnel did not use the clipboard during the recording of DIT and/or MAD survey form, the last carbonized page of the form became unclear or legible. The habit of writing the documents on the body of the car or the windshield will result in scratch on the body and the windshield. The pre-signing of form before checking is contradictory with the procedures stated and proved that the checking may not be done properly. If they claim no remarks or non-existent damage, the company would be responsible for all DIT and/or MAD losses.

The delivery order (DO) form and DIT and/or MAD form is printed not according to sequence, thus, it is time consuming in the process of matching of these documents. The overlooked and non-recording of damaged records proved negligence by the personnel. Furthermore, the DIT and/or MAD forms were placed on the instrument panel instead of the front passenger seat; it tempts to discoloration of instrument due to sunlight and may cause damage to the form. Such negligence and inappropriate attitude while doing their job would result the company to bear the cost of repair for the damages or to replace the missing item which occurs not because of the transit. In addition, the company also suffers bad implication from the late submission claims, claims submitted with incomplete supporting documents, or non-DIT claims which were submitted as DIT claims.

The poor attitude of the personnel and improper arrangement and monitoring at every stage of the delivery process has led to the damage and missing items were overlooked. The observation activities during the shipment substantiated that there are weaknesses in the handling of cars delivery activities. This is evidenced by the personnel who repeatedly committed the same mistakes which would damage the cars and could lead to the DIT and/or MAD claims.

The increase in the number of claims submitted will indirectly increase the amount of cost to be borne. However, there are also possible reasons for such increase. For example, the costs of repairing and maintenance of the cars are increasing and the costs of individual spare parts also contributing to the increase in DIT and/or MAD claims.

The rising of insurance claims threatened the company's annual insurance renewal programme for Marine Open Cover. The rising of claims in DIT and/or MAD require the company to bear high cost of premiums paid to the insurer company. As extracted from the case of Purple Automobile Company, Table 2 shows the total premium and claims paid from the year 2006 until 2010.

Table 2

Total premium and claims paid by Purple Automobile Company

Year	2006	2007	2008	2009	2010
Premium including tax (RM)	1,288,201	1,578,530	773,285	936,656	1,102,303
Claims (RM)	1,989,477	454,790	137,700	123,750	1,665,766

5. Execution of COSO Internal Control for the Sustainability of Local Automotive Industry- A Way Forward

Without a proper internal control, organisations are exposed to high risks and other unwanted events which can be detrimental to their performance. In the meantime, the renowned COSO framework provides guidelines for the organisations to effectively and efficiently develop an internal control system. Thus, the organisations are able to adapt to changing of business and operating environments, mitigating risks to acceptable levels, and support sound decision-making and governance of the organisation. Designing and implementing an effective system of internal control can be challenging; operating the system effectively and efficiently every day can be daunting. A new and rapidly changing business models, greater use and dependence on technology, increasing regulatory requirements and scrutiny, globalization, and other challenges demand any system of internal control to be agile in adapting to changes in business, operating and regulatory environments. Internal controls work best when applied to multiple divisions and when they handled interactions of various business departments.

In 1992, the Committee of Sponsoring Organisation of the Treadway Commission (COSO) released its Internal Control – Integrated Framework, and it has gained a broad acceptance and is now widely used around the world. It was recognised as a leading framework for designing, implementing, and evaluating the effectiveness of an internal control system. The framework sets out five components, namely control environment, risk assessment, control activities, information and communications, and monitoring activities. To elucidate the components of this framework, we reviewed the framework and explained it briefly in this paper. First, the control environment is the control consciousness of an organisation that describes the atmosphere in which people performed their activities and carried out their control responsibilities. An effective control environment can be achieved when competent people understand their responsibility, limitation of authority, knowledgeable, mindful, and committed to doing the right things [8]. Meanwhile, risk assessment is the identification and analysis of risk associated with the achievement of operations, financial reporting, and compliance with goals and objectives. It involves a dynamic and iterative process for identifying and assessing risks and forms a basis for determining how those risks should be managed. The control activities are the actions established by the policy and procedures that is to be carried out properly and in a timely manner by the management in order to mitigate the risks. Example of control activities are approvals, authorisations, verifications, reconciliations, review of performance, security of assets, segregation of duties, and control over the information systems [8]. On the other hand, information and communication is necessary for the entity to carry out internal control. The information about organisation plan, control environment, risks, control activities, and performance must be communicated and disseminated from up, down and across the organisation. It is important to ensure that the relevant and reliable information from internal and external sources are identified, captured, processed, and communicated to the people who need them according to the timeframe and usefulness.

The next component of COSO is monitoring activities. It is describes as the assessment of internal control performance over time. This can be accomplished by on-going monitoring activities and by separating valuation of internal control, assessment of risks and other management considerations. The monitoring activities also aim to ensure that controls is adequately designed, properly executed, and effectively implemented. The organisation selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and operative. To be effective, the organisation evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate [8].

The COSO internal control can be well-matched in all types of organisations. The framework assists the management, boards of directors, external stakeholders, and others interacting with the entity in their respective duties in regards to internal control without being overly prescriptive [8]. Thus, it is also applicable to the automotive industry to strengthen its internal control. This is because internal control is a crucial aspect of an organisation's governance system and ability to manage risk, and is fundamental to supporting the achievement of an organisation's objectives and creating, enhancing, and protecting stakeholder value [11]. Meanwhile, [13] pointed out development of new paradigm of internal control – risk based internal control that was from the revised COSO model which not represents only addition of traditional risk management model. They mentioned that internal control is expected to promptly detect and warn the existence of certain risks. It is also used to regularly and thoroughly evaluate the nature and extent of the risk to which the enterprise is exposed. On top of that, it also provides a recommendation for resistance to the adverse consequences, or, respectively, a recommendation for exploitation of the perceived opportunities.

Since the inception of COSO framework, many organizations began implementing the framework as they recognizes the potential benefits for the organization in terms of providing a solid foundation for determining the degree of assurance provided [21]. The use of this framework in reporting helps the organization to reveal their strengths and weaknesses in their internal control system [21]. For more than 20 years since the commencement of COSO, it assist managers and internal auditors in terms of creates a control-oriented mindset so that the risk and control issues can be viewed consistently whether internally or externally [17]. Although COSO framework may not perfectly eliminate the internal control issues and risks faced by the organization, however it is proven that this framework helps the organization's personnel particularly the managers and internal auditors to have an insight for the approach to deal with any internal control issues and strengthen the governance [17].

For instance, a study used the eight-step framework of risk management and internal control (Enterprise Risk Management) applies the COSO framework in automotive manufactures in Thailand; their aim is to reduce the downtime in automotive production line to an acceptable level of less than 100 hours per production of 400 cars per month [19]. Their study revealed that a downtime of less than 100 hours is achievable; down from 170.4 hours to 85.45 hours per production of 400 cars per month, a decrease of 49.85%. Meanwhile, the value of loss was reduced from an average of 1,720,447 baht per month to an average of 946,245 baht per month, or a 45% reduction in loss. The study indicated that the application of COSO internal control framework to reinforce the internal control is regarded as a paramount step in the DIT and/or MAD procedure.

The automotive industry in Malaysia with a strong workforce of 550,000 is important to the country. In 2012, the industry contributed 3.2% to the GDP, which accounted for MYR5.3 billion in exports and an investments value of MYR5 billion (January-October 2013: MYR3 billion). Various measures need to be taken to ensure that the automotive industry is sustainable and competitive, domestically and globally. In addition, the government had introduced measures that are aligned to

global and regional technology changes and developments to ensure a competitive automotive industry is operational in efficiency and effectiveness (National Automotive Policy, NAP 2014). In this regard, the NAP 2014 focused the efforts to enhance the supply chain development and improve the quality management system, operational management system, business management system, and testing and validation capabilities.

The DIT and/or MAD procedure is a good checking system; it ensures each party in the transport chain to check the vehicle once it is in their care and custody. The DIT and/or MAD procedures and claim procedures benefit both the company and its distributors. However, having a procedure in place is only part of the process. The willingness to apply the procedure and to make people accept responsibilities for handling the cars correctly is more difficult and even more important. The follow-up through aspect arising from claims analysis is equally important. The personnel in charge should be competent in handling the procedures and be accountable for their own work in order to achieve the company's mission. Therefore, in order to sustain and become a strong automotive industry player, Purple Automobile Company has to reinforce its internal control practice by adopting the COSO internal control framework as part of their practice.

6. Conclusion

The issues and implications of DIT/MAD procedures and claims processing were discussed meticulously based on the case reviewed. Purple Automobile Company failed to comply with most of the internal control procedures in the supply chain performance, which exposed them to DIT and/or MAD claims. The procedures were set up to ensure the smooth handling of cars exported is maintained at the highest quality; however, the employees' incompetency and a shortfall in monitoring led to other issues and problems. There are always a room for improvement. Further study and analysis can be conducted in the future to continuously assess the situation such as to survey the local automotive industry and assessing their level of internal control policy. A future study also can be conducted to review the difference of local and international automotive industry in handling their shipment procedures. In addition, future study also could emphasize on identifying internal control weaknesses using the COSO framework in order to explore more outlook to reinforce the internal control for automotive industry. In this case, the DIT and/or MAD procedure and claims procedure should be formally recognised as part of the company's ethical values building to increase operational efficiency and effectiveness in the organisation. It should also be documented and disseminated to the relevant personnel and the distributors. This would encourage the personnel and distributors to comply with the procedure and work as a team; thus, ensuring continuity of practices of both the DIT and/or MAD survey procedures and claims application.

The poor handling habits had been allowed to form over long period of time without control. The resistance to follow the documented procedure as a result of using the experience factor will actually affect the quality of cars being delivered to the customer. It is important to ensure that proper training and guidelines has been given to the relevant personnel and to ensure that the procedure have been followed accordingly. The training must emphasize on the compliance of DIT and/or MAD survey to deliver the cars in good condition. Continuing efforts must be put in to educate all parties in the transport chain to have them understand the reason for the DIT and/or MAD survey, get their commitment to filling it in accurately and ensure that the personnel understands the requirement and the procedures that has to be followed.

Furthermore, the relevant personnel should be properly trained on the insurance requirement for claims submission. They must know how to differentiate between DIT and non-DIT claims to avoid submission of wrong claims or overlapping with warranty claims. They must be informed about the

importance of complying with the stipulated timeframe in submitting the DIT and/or MAD claims with the documents required. Timeliness is critical; failure to comply will cause the insurance company to rejecting all claims. A penalty is imposable for noncompliance of procedure for both DIT and/or MAD and its claim procedure resulted from the massive losses to the automotive company.

In conclusion, slowly but surely, a sound internal control system will be able to establish a good compliance system, to ensure the reliability of financial information disclosure and form a rational organisation. A strong internal control system will enhance the organisation's chain of command, to ensure a systematic management execution exists and the risk management system is upgraded. The internal control does not merely focus on the production process, but may encompass every aspect of the automotive industry; from the initial process of manufacturing until the product reach the customers' hands.

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