

Risk and Control of Cross border E-commerce Enterprises from the Perspective of Internal Audit

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Abstract. From the perspective of internal audit, exploring that cross-border e-commerce is the main form of popular enterprise development at present and an inevitable product under the Internet. However, it is precisely in this environment that compared to the audit work of traditional business industries, the audit business conducted by cross-border e-commerce enterprises will generate larger business and the transaction process is relatively more complex, which requires the supervision and evaluation function of internal audit, Strengthen internal management and enhance transaction standardization, identify, analyze, evaluate, dispose of, and mitigate risks more efficiently, and establish a comprehensive and full process risk warning system. Therefore, establish a control mechanism led by internal audit, integrating internal audit throughout the entire process of cross-border e-commerce risk control, and promoting the healthy and sustainable development of cross-border e-commerce enterprises.

Keywords: Cross border e-commerce enterprises; risk management; internal auditing.

1. Introduction

Driven by the gradual opening up of the COVID-19, the country has constantly introduced policies to encourage the development of cross-border e-commerce industry. When receiving strong support from national policies, cross-border e-commerce enterprises, especially in the export sector, have developed rapidly, releasing domestic economic activity and promoting industrial upgrading play an important role. It is in this era that cross-border e-commerce enterprises will inevitably face new challenges in their business activities, bear greater operational risks, and have stricter requirements for internal auditing. In the risk management of cross-border business activities of enterprises in the new situation, internal audit reexamines and positions, comprehensively analyzes the relevant content of the enterprise's product trade methods, transaction subjects, and processes, identifies, measures, and analyzes potential risks, proposes the most effective methods to control and respond to risks, and safeguards the healthy development of cross-border e-commerce enterprises.

2. The Role of Internal Audit in Risk Management of Cross border E-commerce Enterprises

2.1. Risk identification

The prerequisite for risk identification is to conduct sufficient risk investigation. Based on the developed internet era, compared to traditional e-commerce enterprises, cross-border e-commerce enterprises have distinct characteristics, such as transaction virtualization, network security, information dynamics, etc. Internal auditors conduct economic efficiency checks and analysis in conjunction with various aspects of the enterprise, and use professional risk analysis methods to identify various risk factors in enterprise management in the e-commerce environment, for example, factors such as trading, operations, finance, and regulations should be identified and covered in every aspect of cross-border e-commerce enterprises. A risk management system should be established to input each risk factor, laying a solid foundation for risk assessment.

2.2. Risk assessment

When evaluating risks, internal auditors should consider the company's profits and various losses, analyze the probability of the company encountering risks, prioritize them accordingly, and update the risk assessment based on the suddenness, variability, and complex market changes in business development. Cross border e-commerce enterprises need internal auditors to grasp the primary and secondary aspects, accurately analyze key risks, establish a risk indicator system using scientific methods, quantitatively evaluate transaction partners based on data analysis, and classify credit risk levels. Different measures should be formulated and taken for different levels to reduce risk management.

2.3. risk response

In terms of auditing cross-border e-commerce enterprises, it is necessary to conduct audits on all aspects of the enterprise. Internal auditors should not only improve their professional quality, but also comply with the industry development trend, improve audit technology, and audit the inventory, fixed assets, monetary capital flow, contract signing, and other contents of cross-border e-commerce enterprises. Use big data technology to accurately analyze and analyze data, avoid Audit risk caused by data errors in audit, strengthen communication with enterprises, and on the basis of risk identification and assessment, efficiently discuss the guidelines with practical significance, ensure audit quality, and reduce the risk of e-commerce audit from the source.

3. Risks faced by cross-border e-commerce enterprises from the perspective of internal audit

3.1. Transaction risks centered around products and payments

The primary risk faced by cross-border e-commerce enterprises in their daily business activities is product risk. The products produced by enterprises can cater to the preferences and needs of consumers in different regions and countries, but there is no way to estimate the uncertain factors brought about by market operation. Therefore, the production volume of products cannot be predicted, and the ever-changing market demand is difficult to grasp. However, the quality of products can be controlled by enterprises, and the materials, types, prices, and other issues used cannot meet the requirements of the consumer market, and will inevitably be eliminated by the market, causing transaction risks such as customer returns and exchanges. Secondly, payment risk is one of the biggest risks faced by business operations, mainly reflected in exchange rate fluctuations. If foreign e-commerce companies do not adjust their sales pricing based on the exchange rate, it is highly likely that merchants will have to bear the risk of exchange rate losses, especially for companies with small profits but high sales, the debt and debt caused by exchange rate fluctuations will cause significant losses in profits. In addition, based on third-party payment platforms providing payment services, some platforms may increase transaction risks in order to maximize profits and reduce costs. Once the operation is not compliant, it may lead to issues such as fund freezing, slow payment collection time, and high service fees. Therefore, the internal audit of cross-border e-commerce enterprises can prioritize starting from the product chain, focusing on the product warehousing system, reviewing the production situation of products while improving the matching with cross-border market demand, exploring changes in the international market and exchange rate fluctuations, and continuously urging and helping enterprises improve management to promote the healthy and sustainable development of e-commerce enterprises.

3.2. Operational risks centered around logistics and customs clearance

The logistics and transportation process of cross-border e-commerce enterprises is an important stage in achieving transactions, but it can also become a significant risk point. Nowadays, enterprises often adopt two modes of transportation. One is the postal delivery of small packages, which increases

operating costs and risks due to long-distance transportation, loss, quality returns, and other reasons. This leads to high praise and return rates among consumers, gradually losing their market position. The second is to entrust to the third-party logistics platform. No matter how the goods are sent, it is only necessary to ensure the timely delivery of goods, which greatly reduces the investment in logistics. However, the operation of third-party cross-border logistics transportation enterprises is also lack of guarantee in terms of pursuing the maximization of their own interests with the lowest cost investment, and the safety and speed of commodity transportation, Common uncontrollable factors such as the current customs management system, clearance efficiency, and tax refund policies, which are closely related to commodity turnover and cannot be ignored, will increase the probability of product returns and exchanges, affect consumer shopping experience, and to some extent, have a negative impact on the business expansion and hard-earned image building of cross-border e-commerce enterprises.

The key to the development of third-party cross-border logistics and transportation enterprises is to solve customs clearance issues. Internal auditors should strengthen their understanding of the regulatory conditions of the importing country, examine customs clearance regulations, grasp customs clearance rules, actively respond to customs inspections, strictly control every aspect of logistics, enhance the stability of the logistics process, reduce operating costs, improve consumer satisfaction, and increase the economic benefits of the enterprise.

3.3. Financial management risks centered around capital flow

The financial activities of cross-border e-commerce enterprises face risks that are dependent on internal financial management systems, involving currency flow, accounts payable, cost control, and other aspects. The degree of risk is reflected in various items in the financial statements. If the flow of monetary funds is not smooth, it is mostly due to inventory accumulation issues, which requires accurate financial data analysis and efficient financial management. However, most companies have differences in financial data and actual business activity data, and have not done a good job in financial budgeting and risk warning. If the analysis loses practical basis, the unreasonable inventory structure will inevitably become a stumbling block for the development of cross-border enterprises. In financial management, inventory is another manifestation of working capital. If long-term inventory accumulation is caused by unsold goods, it not only reduces the value of the goods themselves, but also incurs more costs for the enterprise, such as storage fees. Therefore, the enterprise also needs to bear the risk of inventory loss and fund breakage caused by market price decline.

Cross border e-commerce enterprises need to improve their internal financial supervision mechanism, improve the accuracy of financial data, conduct in-depth data mining, and establish enterprise databases, especially in terms of fund flow, inventory turnover, payment receipts and expenses, and cost expenses, which need to truly reflect the internal situation of the enterprise. In daily business activities, regular comprehensive reviews and evaluations of internal controls are carried out to promptly identify the issue of excessive debt to total funds caused by inventory accumulation and propose effective measures to solve it. Accelerating capital turnover, clarifying inventory structure, and minimizing operational risks are urgently needed to avoid situations where the enterprise cannot continue operating.

3.4. Credit risk centered around contract formulation and execution

When enterprises sign contracts, they involve subjects, transaction content, prices, payment methods, etc., without clear definitions of various terms and legal support and protection. Once credit risks occur, the consequences for the enterprise are incalculable. As is well known, cross-border e-commerce enterprises conduct transactions on the Internet, and the formulation and implementation of contracts are dependent on the Internet. It is difficult to determine the subject information of transactions and the determination and accountability of breach of contract liabilities.

For cross-border e-commerce enterprises, payment for goods is of utmost importance, and payment for goods is mostly achieved through third-party payment platforms. Therefore, the issue of credit risk is becoming increasingly prominent, mainly manifested in the breach of trust between the buyer and the seller. For the buyer, the inability to make technical payments and the inability to hand those over to a third-party payment platform after payment is completed do not transfer them to the seller in a timely manner. Only after the buyer confirms receipt of the goods can the payment be received. Long transaction cycles can affect the complete financial chain of the enterprise. For the seller, not knowing the actual information of the buyer and not being able to grasp their motives are highly likely to violate the principle of integrity, such as returning after sales and use, falsely claiming quality issues, etc. Of course, there are also seller's own problems: false advertising, false links, false promises, and other false issues. In addition, the excessive reliance on third-party platforms in connecting transactions between both parties, taking into account the maximization of their own interests, extends the payment time for buyers and the time for enterprises to receive cash, affecting the adjustment of cross-border e-commerce funds and subtly increasing credit risks.

The credit crisis requires cross-border e-commerce enterprises to strengthen internal auditing. Before signing a contract, it is necessary to conduct a formal review of the credit of the buyer and seller entities, and provide detailed annotations of the detailed terms and conditions in the contract. It is also necessary to supervise the execution of the contract and provide decision-making suggestions when credit risk warnings appear, in order to quickly and efficiently reduce the crisis and minimize economic losses to the greatest extent possible.

3.5. Regulatory risks centered around policies and laws

The legal risks arising from cross-border e-commerce transactions come from relationships with cross-border e-commerce enterprises, consumers, and relevant departments. For cross-border e-commerce enterprises themselves, the main issues include: unqualified sales qualification review, substandard or counterfeit sales of goods, breach of contract between enterprises, etc; For consumers, it is mostly due to product issues that cause harm to their rights or the leakage of personal receiving information; For market supervision and management departments, tax authorities, customs and other departments, cross-border e-commerce enterprise platforms that fail to register, operate, pay taxes, and export in accordance with regulations must bear legal responsibility, resulting in operational risks. At present, the legal system of China's cross-border e-commerce industry is not yet sound, mainly including various legal responsibilities stipulated in the "E-commerce Law of the People's Republic of China", the "Notice on Improving the Supervision of Cross border E-commerce Retail Import" (Shang Cai Fa [2018] No. 486), and the "Notice on the Supervision of Cross border E-commerce Retail Import and Export Commodities" (Announcement No. 194 of the General Administration of Customs in 2018). When expanding cross-border trade, various business entities have weak awareness of standardized operations, lack legal systems and trade policies for transactions in various countries, and are highly likely to bear legal risks and face litigation threats, resulting in significant losses. Strengthen the internal audit of cross-border e-commerce enterprises, enhance legal risk awareness, and promote policies, laws and regulations in different trading regions, in order to continuously supervise and help enterprises improve management and promote the healthy and sustainable development of e-commerce enterprises.

4. Internal Audit Control Strategies for Cross border E-commerce Enterprises

4.1. Internal audit runs through the entire process of risk control in cross-border e-commerce

Cross border e-commerce carries more complex operational risks, which are also comprehensive and three-dimensional. Therefore, it is not only necessary to prevent and regulate in advance, but also to conduct self-inspection and self-correction afterwards. Internal audit should be based on standards from the beginning, carefully verifying the identity information of the trading party to ensure the authenticity of the identity information; Carefully verify the authenticity of materials and information

such as logistics, cash flow and information flow, and verify the actual situation of cross-border import and export goods declared to the customs; Carefully verify the authenticity of companies and products entering commercial platforms to prevent the occurrence of inferior products and infringing and pirated products. Risk issues related to payment, exchange rate, receipt and payment that arise after verification should be promptly assessed and reasonable suggestions should be provided for correction.

4.2. Properly controlling financial management risks

Due to the fact that cross-border e-commerce payments are mainly conducted on third-party payment platforms, third-party financial services mainly focus on cash foreign exchange risk management, reducing foreign exchange losses by providing locked exchange rates. Internal audit should always pay attention to exchange rate fluctuations and provide appropriate recommendations to the financial services department. Audit work should focus on forward exchange rate contracts, local currency buying and selling, and payment matching. At the same time, fully consider optimizing the capital structure and comprehensively design financing, investment, capital costs, and debt. In order to strengthen cost control, avoid inventory risks, and avoid inventory hazards, the foundation is to find stable and reliable suppliers to ensure product quality and stable supply. We need to strengthen internal audit work and implement fund warning: based on the cash flow statement data, combined with the fund budget table, clarify the company's daily remaining funds, assist the company in managing projects and accounts receivable, including managing funds returned to the company's bank account, managing carried forward deposits, and managing funds not deposited into the account.

4.3. Highlight the credit audit of cross-border e-commerce

It is very important to introduce a credit construction system in cross-border e-commerce, and credit auditing is an important component of this system. The focus of the audit is to review whether the content and form of the contract comply with laws and regulations with the consent of both parties, and verify whether all parties to the transaction have complied with the contract or agreement. Audit should focus on studying cross-border e-commerce market access rules, including registration of various entities, separation of rights and obligations, letters of credit, relevant laws, etc. All of these must be included in the audit scope. Secondly, revise the business rules of cross-border e-commerce operators, with a focus on studying import and export customs clearance rules, including true and complete goods customs declaration, true import and export customs declaration, verifying the legal status of cross-border goods, and ensuring the authenticity and consistency of "orders". Payment documents and transportation documents to avoid credit risks related to transactions.

4.4. Establish an independent functional led internal audit organizational structure

Given the increasingly complex commercial risks brought by cross-border e-commerce, special attention should be paid to the independence and credibility of risk management audits. Internal audit should clarify its functional positioning on organizational "ownership" issues and distinguish it from other departments. The audit department actively assists the organization in implementing risk management, but it is not equivalent to comprehensive management. Auditors should report risks to decision-makers and provide recommendations. Enterprises should establish a reasonable internal audit institution to ensure the independence and credibility of internal audit, and fully play its role.

5. Summary

Generally speaking, internal auditors must identify, evaluate, and address risk management issues from aspects such as the cross-border e-commerce market environment, strategic goals to be achieved by enterprises, and the effectiveness of internal control processes, in order to determine measures that can reduce risks to an acceptable level. Audit work should enable enterprises to have a more objective understanding of risks and control them within an acceptable range.

Countries around the world are facing unprecedented changes. Faced with the complex international situation, more and more foreign trade enterprises are seeking transformation. With the expansion of cross-border e-commerce and the intensification of competition, the commercial risks faced by enterprises have also increased. Therefore, using the internal Audit risk management function to identify, assess and effectively respond to risks can ensure the high-quality development of cross-border e-commerce enterprises and make Chinese products famous in the world.

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