

Problems and Countermeasures of Enterprise Internal Control System Construction

Wensheng Yang, Simeng Sun*

School of Dalian, Dalian University, Dalian, China

*Corresponding Author: Simeng Sun

Abstract

With the continuous development of market economy and the increasingly complex business environment, the construction of enterprise internal control system has become an important means to ensure enterprises to enhance their competitiveness. This paper aims to analyze the existing problems in the construction of enterprise internal control system, and put forward corresponding countermeasures and suggestions. Through the relevant literature and theoretical research at home and abroad and the analysis of enterprises in various industries, the theoretical basis and basic principles of internal control system are sorted out. On this basis, summarize the common problems in the process of enterprise internal control system construction and put forward countermeasures. The research in this paper not only provides theoretical guidance and practical reference for the construction of enterprise internal control system, but also provides decision support for relevant policy making and regulatory agencies. template explains and demonstrates how to prepare your camera-ready paper for Trans Tech Publications. The best is to read these instructions and follow the outline of this text. Please make the page settings of your word processor to A4 format (21 x 29,7 cm or 8 x 11 inches); with the margins: bottom 1.5 cm (0.59 in) and top 3 cm (1.18 in), right/left margins must be 2 cm (0.78 in). This template explains and demonstrates how to prepare your camera-ready paper for Trans Tech Publications. The best is to read these instructions and follow the outline of this text. Please make the page settings of your word processor to A4 format (21 x 29,7 cm or 8 x 11 inches); with the margins: bottom 1.5 cm (0.59 in) and top 3 cm (1.18 in), right/left margins must be 2 cm (0.78 in).

Keywords

Enterprise; Internal Control; Counterplanthe; Keywords Covered; In Your Paper.

1. Introduction

Under the background of globalization and informationization, in order to maintain competitive advantage and achieve sustainable development, enterprises must establish and perfect internal control system. Internal control system is not only related to the daily operation efficiency of enterprises, but also an important mechanism for enterprises to prevent risks and ensure asset safety. However, in the actual construction process, many enterprises have encountered a series of challenges and problems, which have seriously affected the effective implementation and function of the internal control system. In view of this, through the investigation and analysis of six enterprises with some common internal control problems in various industries, this paper learns that most enterprises have problems such as lack of internal control environment, insufficient implementation of internal control system, inadequate implementation of internal supervision, and insufficient awareness and training of employees. For example, the main problem in the lack of internal control environment is too concentrated ownership structure, which will lead to the abuse of control rights, low decision-

making efficiency, unsound governance structure and hinder the innovation and change of enterprises. Through in-depth analysis and research, it provides enterprises with a set of scientific and systematic internal control system construction scheme, so that they can better respond to market changes, ensure asset safety, improve operating efficiency, and achieve sustainable development.

2. The Internal Control System is Built in Accordance with Policies and Norms

In 2008, the Ministry of Finance and other five departments issued the "Basic Norms for Enterprise Internal Control" for enterprise internal control, which mainly clarified the objectives, principles and elements of internal control. The internal control objectives are defined in five aspects, namely, to reasonably ensure the legal compliance of enterprise operation and management, the safety of assets, the truthfulness and integrity of financial reports and related information, improve operation efficiency and effect, and promote the realization of enterprise development strategy; Five principles: First, the principle of comprehensiveness; Second, the principle of importance; Third, the principle of balance; Fourth, the principle of adaptability; Fifth, the cost-benefit principle; Five elements: internal environment, risk assessment, control activities, information and communication, and internal oversight. Foreign enterprises' theories on internal control mainly include the following aspects: The Turnbull report is a British guidance report on internal control, which puts forward the definition and principles of internal control, including risk assessment, setting of internal control objectives, implementation of internal control activities, flow of information and communication, and monitoring the effectiveness of the internal control system. SOX is a U.S. law enacted in 2002 to strengthen financial reporting and internal control requirements for public corporations in order to improve investor protection and market transparency. The Cadbury Report is an important report on corporate governance in the United Kingdom, which emphasizes the importance of internal control to corporate governance and puts forward the principles and best practices of internal control, including risk management, internal audit and the role of independent directors. The main contents of the internal control system construction of listed companies include following the principles of comprehensiveness, prudence, effectiveness and independence, formulating internal control systems in line with the Company Law, the Securities Law and other laws and regulations, and ensuring the compliance and effectiveness of corporate governance, risk management, financial management and other aspects. At the same time, internal audit needs to be strengthened to ensure the effective implementation of internal controls and risk management. In addition, the construction of the internal control system should consider the characteristics of the enterprise and the actual situation, is a continuous improvement proces.

3. Overview and Status Analysis of Enterprise Internal Control Problems

In the research on problems in the construction of enterprise internal control system, Wang Jing (2011) believes that there are problems in the internal control system of state-owned enterprises, which mainly include insufficient attention from management departments, extensive enterprise management, lack of independence and authority of internal audit, poor risk awareness of enterprises and imperfect internal control responsibility mechanism. Bai Wenjing (2016) believes that listed companies have problems in internal control, including excessively high credit limit, incomplete implementation of internal control system, and unsatisfactory control environment. Feng Hao and Feng Qianwen (2016) believe that domestic smes have problems in internal control, such as weak environment, inadequate control activities, weak internal supervision and lack of risk management system. Tang Zhengchun

(2018) believes that the failure of internal accounting control of state-owned enterprises is mainly due to the inherent drawbacks of the principal-agent relationship and the imperfect internal environment. Kuang Yushu (2020) believes that there are problems in the construction of internal control of chambers of commerce. Through empirical research, Hermanson (2000) found that the respondents highly recognized the importance of internal control and believed that internal control could provide a better guarantee for the long-term development of the company. In order to ensure the universality of the research results, the impact of different industry, different regional economic environment and local policies on the construction of internal control system. Six companies were selected to cover a wide range of business models and market environments. Through official websites, news reports, industry analysis reports and other open channels to collect the following data information, among which a forest Group has serious risk control problems, internal control confusion and finally delisted; A see shares due to six consecutive years of financial reports involving false records, triggered a major illegal forced delisting risk.

Table 1. The basic operating characteristics of the six enterprises Scheme comparing

	Location	Main business	Enterprise characteristics
Lin Group	Heilongjiang Province	commercial retail	focus on innovation
Motai Motor	Zhejiang Province	Automotive research and development, manufacturing and sales	Focus on the enrichment and improvement of product lines, strengthen brand building and actively develop overseas market expansion
Yiwei Stock	Jiangsu Province	food	Focus on diversified industrial structure, focus on brand building, industrial chain integration advantages and the development of network marketing and e-commerce
Certain stock	Sichuan Province	Supply chain management	Has a comprehensive business structure, technological innovation and digital transformation, customer needs to meet and service capabilities
Yuwo Stock	Hunan Province	Agriculture and food	Focus on brand building, industry-wide layout, leading technology, extensive cooperation
A news group	Guangdong Province	Power information system integration business	For electric power enterprises, it is engaged in the information construction service of electric power enterprises in the form of providing comprehensive overall solutions

After investigating the operation and management status of the above six enterprises, it is found that the senior managers of the enterprises do not pay enough attention to internal control, and the management decision-making is not transparent and the leadership power is too centralized, which indicates that there are problems in the internal control environment of the enterprises. Secondly, there are defects in system construction. For example, the internal control system has multiple policies, lacks foresight and systematicness, or the system cannot be effectively implemented. Employees generally report that the internal control process is complex and inefficient, all of which indicate that the implementation of internal control is insufficient. At the same time, the lack of independence of internal audit or supervision bodies, imperfect internal supervision mechanism, insufficient supervision, as well as the formality and

perfunctory responsibility in the supervision and evaluation of internal control may lead to inadequate implementation of internal supervision. The enterprise fails to establish a systematic internal control training and publicity mechanism, and employees often violate internal control regulations in actual work, or have insufficient understanding of the importance of internal control, and generally lack understanding of internal control knowledge and awareness, which indicates insufficient awareness and training of employees. In addition, the instructions of the decision-making level of the enterprise can not be accurately communicated to the executive level, the feedback and problems of the executive level can not be reported to the decision-making level in a timely manner, and the situation of mutual evasion and lack of coordination between departments means that there is a lack of effective communication mechanism. Through the above analysis, enterprises can take corresponding measures to improve, such as strengthening the cultivation of internal control awareness, improving the internal control system, strengthening internal supervision and execution, improving employees' internal control knowledge and awareness, and unblocking communication channels, so as to enhance the overall level of internal control. At the same time, enterprises should also pay attention to changes in external regulatory policies, timely adjust and optimize the internal control system to ensure compliance with regulatory requirements. Therefore, how to effectively solve these problems has become an urgent task for the construction of enterprise internal control system.

Table 2. Enterprise internal control problem statistics table

Existing problem firm	Lack of internal control environment	Internal control execution is insufficient	Internal supervision is not in place	Staff awareness and training are inadequate	Lack of effective communication mechanism
Lin Group	√		√	√	√
Motai Motor	√	√	√	√	
Yiwei Stock	√	√	√		
Certain stock	√	√	√		
Yuwo Stock	√		√	√	
A news group	√		√	√	

3.1. Lack of Internal Control Environment

The ownership structure is too concentrated, which seriously affects the internal control environment. The frequency of this problem in the seven enterprises is 100%, indicating that most enterprises currently have the problem of imperfect internal control environment. For example, the former major shareholders of Lin Group, Bongma Investment, Jiayi Industry, and Yihe Gold, are concerted actors. In 2020, the three hold 49.68% of the shares of the company, resulting in the actual controlling shareholders having absolute control over the company, the degree of equity checks and balances is weakened, and it is easy to have the behavior of major shareholders. A group of two major shareholders of the couple each hold 29.99%, a total of 59.98% of the shares, is the largest shareholder of the company, resulting in two people have the greatest rights, the board of directors is suspended, the couple actually control the company. In addition, the responsibilities of the organization are unclear, and people at all levels lack a clear understanding of their powers and responsibilities. In this case, it is difficult for management to find and solve problems in a timely manner, and after problems arise, they

often blame each other, resulting in the existence of internal control only in form and cannot play a practical role.

3.2. The Implementation of Internal Control System is Insufficient

In the process of implementing the internal control system, the implementation intensity is uneven, unable to form an effective internal control management mechanism. The frequency of the seven enterprises with this problem is 57%, indicating that more than half of the enterprises have this internal control problem. Due to inadequate publicity of the system, it will lead to wrong implementation, and the lack of supervision of the system implementation will also lead to unreasonable continuous implementation of the system. These problems make the system sometimes only stay on paper. At the same time, due to the differences in background and management basis, different enterprises have different cognition and understanding of internal control. In addition, some departments are old-fashioned and unwilling to change the current internal control system, believing that adjusting the internal control system will increase the workload, which undoubtedly increases the risk to the development of enterprises. Due to the ever-changing survival and development environment faced by enterprises, the internal control system of enterprises also needs to be constantly adjusted to adapt to the changes of internal and external environment

3.3. Internal Supervision is Not in Place

The lack of internal control supervision mechanism leads to the failure of the enterprise's internal control system to play its due role. The frequency of this problem in the seven enterprises is 100%, indicating that most enterprises have the problem of inadequate internal supervision in the construction of internal control system. Under normal circumstances, the internal supervision is mainly responsible for the internal audit department, but many enterprises entrust the internal audit work to the financial department. However, the finance department is often too busy with daily accounting tasks to sort out and resolve internal control issues in a timely manner. Due to this situation, the internal supervision work of many enterprises only stays in form, and the substantive supervision of potential risk links is lacking. The lack of a dedicated internal audit unit to carry out oversight further exacerbates the problem. Enterprises can not find and solve possible problems in time, and can not effectively improve internal control.

3.4. Staff Awareness and Training are Inadequate

Staff quality and professional ability is not high seriously restricted the development of enterprises. The frequency of the seven enterprises with this problem is 57%, indicating that more than half of the enterprises have this internal control problem. For example, the employees of Yilin Group are not highly educated. Only 16.4% of the employees have received higher education, and only 3.5% are professional and technical personnel. This leads to the shortage of talent reserve and professional ability of the Group, which seriously affects its development potential. Among the 9 senior managers in a group, only 1 is a master's degree, 1 is a bachelor's degree, the other 6 are a junior college degree, and 1 is a high school degree, with a low education level, resulting in the lack of professional knowledge and management ability, which makes it impossible to better manage the company's businesses. As a result, many employees lack sufficient awareness and understanding of the importance and role of internal control to accurately identify and assess potential risks. This may lead to the lack of sufficient attention to risk factors in their daily work, resulting in a lack of initiative and consciousness, the implementation of the internal control system is not active enough, there are ignoring or perfunctory behavior of internal control regulations, reducing the effectiveness of the internal control system. In addition, the company does not carry out adequate internal control training, resulting in the lack of necessary knowledge to understand and implement internal control.

Based on the problems of the above enterprises, the following countermeasures and suggestions are put forward:

3.4.1. Improve the Internal Control Environment

First, we need to strengthen the governance structure and organizational structure. Enterprises should constantly improve the corporate governance structure and organizational structure, implement the requirement of separating incompatible positions, check and supervise each other among positions, reduce the possibility of risk occurrence through regular rotation of important positions, clarify the responsibilities and authority of management at all levels, and establish a corresponding power balance mechanism to avoid too much concentration of power. It makes the supervision and restraint mechanism more sound, and promotes the enthusiasm through the corresponding reward mechanism. At the same time, training and education are conducted to help employees understand their own rights and responsibilities, and enhance their awareness and attention to internal control. Second, managers need to realize the importance of internal control to the long-term and stable development of the enterprise and incorporate it into the enterprise development strategy and business plan. Managers should promote risk sensitivity and awareness throughout the enterprise, and develop a clear internal control policy that clearly defines the principles, objectives and responsibilities of internal control. These policies should be widely communicated to all employees to ensure that they understand internal control requirements and expectations and are able to comply with and enforce them in their daily work. Periodically evaluate and review the effectiveness of internal controls and take necessary corrective actions based on the evaluation results. Third, to build a unique business philosophy of the enterprise culture, determine the core values and business philosophy of the enterprise, and integrate them into the construction of corporate culture. Strengthen internal communication and exchange. In the process of communicating with grass-roots employees, such as daily meetings, enterprise management needs to pass on the corporate culture of internal control to grass-roots employees, so that employees can understand the policies related to internal control and the business philosophy and development plan of the enterprise.

3.4.2. Optimize the Internal Control Process

First, evaluate and analyze the existing internal control process to understand its existing problems and bottlenecks. This can be done through risk assessment and internal audits. Identify steps that are cumbersome, repetitive, or inefficient. Then, based on the evaluation results, identify process steps that can be simplified. The goal of optimizing internal control processes is to ensure effective risk control while increasing efficiency and flexibility. By reducing redundant steps, streamlining approval procedures and optimizing workflows, the efficiency of the process can be improved. In addition, information technology tools are used to automate and digitize internal control processes. For example, the use of electronic approval systems and risk management tools can reduce manual operations and paper documentation, and improve the traceability and monitoring of processes. At the same time, ensure that the internal control responsibilities of each position and responsibility are clear and that appropriate authorization and approval procedures are in place. Clarifying responsibility can reduce duplication of work and ambiguity of responsibility, thus improving the execution effect of internal control.

3.4.3. Strengthen Internal Supervision

Enterprise internal control is a dynamic optimization process. As the company grows, internal controls may gradually become ineffective. In order to ensure the effective implementation of the internal control system, enterprises need to establish an effective supervision mechanism to supervise the internal control. By optimizing the internal supervision mechanism, enterprises can find the problems existing in the implementation of internal control and take

appropriate ways to improve. First, establish an independent internal audit department, responsible for the internal supervision of the enterprise. The department should have professional audit knowledge and skills to independently and objectively assess the effectiveness of internal controls and make recommendations for improvement. And formulate clear internal supervision policies and procedures to ensure the standardization and consistency of internal supervision work and the independence and objectivity of the internal audit department to avoid conflicts of interest with the audited department. Secondly, promote communication and cooperation among various departments to ensure the effective implementation of internal supervision. The internal audit department should maintain close contact with other departments to understand business processes and risk points in order to better sort out and solve internal control problems. Finally, periodically review and evaluate the effectiveness of the internal control system to identify and address existing problems and vulnerabilities. Make improvement suggestions based on audit results, and track the implementation of improvement measures to ensure that problems are resolved and improved in a timely manner.

3.4.4. Strengthen Employee Awareness and Training

The first step is to establish a clear internal control policy and communicate it to all employees. Communicate the importance, goals and expected results of internal control to employees through internal communications, training meetings, company websites and internal cultural events. And carry out internal control training courses to make employees understand the basic concepts, principles and operation methods of internal control. Training can include knowledge of internal control processes, risk management, information security, etc. Ensure that the training content is in line with the employee's job responsibilities and actual situation. Secondly, establish internal control evaluation indicators and performance evaluation system, and incorporate internal control performance into one of the factors considered in employee performance evaluation. Encourage employees to actively participate in the construction of internal control system and comply with internal control requirements through the reward and recognition system. Also maintain regular communication with employees to understand their understanding of internal controls and problems they encounter. Encourage employees to provide improvement suggestions and give timely feedback. Finally, establish internal control knowledge base or internal social platform for employees to exchange and share internal control knowledge and experience. Encourage employees to learn from each other and promote the formation and spread of internal control culture. Internal control training should be a continuous process, with the development of the enterprise and business changes, constantly update the training content. Evaluate training effectiveness regularly and make adjustments as needed.

4. Conclusion

Enterprise internal control system plays an active role in enterprise management. In the construction of internal control, enterprises should formulate appropriate internal control systems according to their own characteristics and development conditions. Through the establishment of a scientific and reasonable internal control system, it can better guide, standardize and improve the internal control and risk management of enterprises, ensure that enterprises comply with relevant regulatory provisions, and reasonably ensure the authenticity and integrity of financial reports. At the same time, in the operation process of the internal control system, enterprises should adopt scientific management methods, constantly explore and optimize the internal control process, in order to help enterprises achieve faster and better development. Through the above countermeasures and suggestions, enterprises can effectively solve the problems existing in the construction of internal control system, and improve the

effectiveness and sustainability of internal control. This will help companies better manage risk, improve operational efficiency and achieve sustainability goals. However, the construction of internal control system is a long-term process, which requires continuous attention and continuous updating and improvement. Enterprises should constantly sum up experience, adjust and improve internal control measures in time to adapt to the changing internal and external environment, and ensure that enterprises maintain competitiveness and long-term development in the highly competitive market.

Acknowledgments

Natural Science Foundation.

References

- [1] Chen Rui. Discussion on difficulties and Countermeasures of Enterprise Internal control System Construction [J]. Enterprise Reform and Management,(2024)No.5,p. 120-122.
- [2] Ma Jin. Thinking on the Construction of Enterprise Internal Control System [J]. Modern Business, (2023)No.60,p. 116-119.
- [3] Xiao Fan. Thoughts on the Construction of Enterprise Internal control System [J]. China Small and Medium-sized Enterprises, (2023)No.6,p. 93-95.
- [4] Wen Huabin. Thinking on the construction of Enterprise Internal Control System [J]. China Small and Medium-sized Enterprises, (2023)No.4,p. 90-92.
- [5] Kuang Yushu. Problems and Countermeasures of Internal control construction of Chamber of Commerce [J]. Finance and Accounting Monthly,(2020)No.15,p. 124-128.DOI: 10.19641 / j.carol carroll nki. 42-1290 / f 2020.15.019.
- [6] Tang Zhengchun. Research on Internal Accounting control system of State-owned Enterprises [J]. Friends of Accounting,(2018)No.4,p. 93-97.
- [7] Bai Wenjing. Case Study on Internal Control of Listed Companies [J]. Caihui Communication, (2016)No.8,p. 116-118.DOI: 10.16144 / j.carol carroll nki issn1002-8072.2016.08.041.
- [8] Feng Hao, Feng Qianwen. Internal control problems and countermeasures of small and medium-sized enterprises [J]. Finance and Accounting Communication,(2016)No.22,p. 125-126.DOI: 10.16144 / j.carol carroll nki issn1002-8072.2016.22.043.