

Analysis and Improvement of YH Supermarket Inventory Internal Control Problems

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Abstract

For the retail industry, inventory serves as the foundation of business survival. The management and internal control of inventory directly impact the daily operations of supermarkets. Taking YH Supermarket as a case study, this research identifies three primary issues in its current inventory control system: delayed information transmission, flawed inventory counting procedures, and irrational procurement quantities. These problems stem from inadequate inventory information sharing mechanisms, incomplete inventory management systems, and insufficient control over material procurement budgets. Based on these findings, the study proposes measures including improving information sharing mechanisms, refining inventory management systems, strengthening budgetary control for material procurement, enhancing digitalization capabilities, and optimizing supervision and management effectiveness.

Keywords

Inventory; Internal Control; Information Level.

1. Introduction

With technological advancement and economic globalization, the rise of e-commerce platforms and multinational supermarket chains has created competitive pressures for domestic hypermarkets. As they enhance management systems and transform business models, these retailers must address challenges from foreign competitors and e-commerce disruptions. Effective inventory control mechanisms prove crucial in this context, requiring domestic supermarkets to strengthen internal controls while boosting competitiveness and sustainable operations [1]. YH Supermarket, a leading dual-champion in China's retail sector, serves as an industry benchmark. This study examines inventory control challenges and optimization strategies through the lens of internal control theory, offering actionable insights for enterprises seeking to refine their inventory management systems[2].

2. Analysis of Problems and Causes of Inventory Internal Control in YH Supermarket

2.1. Problems Existing in Inventory Internal Control

YH Supermarket's inventory counting process remains inadequate, lacking supervision from financial departments and other relevant units during the verification phase. This situation often leads warehouse staff to neglect proper inventory counting procedures in practice. Although YH Supermarket provides training for inventory personnel, some store employees lack sufficient expertise due to limited experience. The combination of numerous inventory

items and limited staff capacity creates excessive work pressure, resulting in perfunctory inspections that cause discrepancies between recorded and actual stock quantities. Consequently, the authenticity of financial data becomes questionable. Therefore, YH Supermarket's management's inability to timely and accurately obtain warehouse information will inevitably impact corporate interests and hinder business expansion.

2.2. Analysis of The Causes of Existing Problems in Inventory Internal Control

2.2.1. The Inventory Information Sharing Mechanism is Not Perfect

Internal communication barriers within enterprises hinder effective vertical information flow, resulting in limited interaction between management and frontline staff. Employees lack channels to report operational challenges, preventing management from understanding operational realities [3]. Supermarkets typically rely on top-down communication models that exclude two-way dialogue. Grassroots employees face multiple approval layers when submitting requests, which prevents management from receiving practical feedback on inventory control strategies or internal control implementation effectiveness. This fragmented approach creates information silos between management and frontline staff. Compounding these issues, outdated inventory management systems and incomplete internal control frameworks hinder data integration across departments. With departmental access restricted to authorized personnel and information being delayed, companies struggle to maintain real-time visibility into inventory dynamics, significantly impairing operational efficiency.

2.2.2. Incomplete Inventory Management System

Inventory management systems are vital for maintaining corporate operations and development. However, inadequate inventory management systems and insufficient oversight mechanisms often lead to poor inventory control, resulting in economic losses [4]. Although YH Supermarket has established some inventory management systems, practical implementation frequently falls short of standardized requirements due to deficiencies in specific regulations: unclear division of responsibilities and ambiguous inventory management processes. Inventory managers face complex duties that include not only managing stock intake and outflow, conducting inventory counts, inspecting quality, and ensuring safety, but also preparing inventory reports. The lack of standardization and disorder in inventory management has caused operational inconveniences, significantly reducing efficiency and disrupting normal business operations. For instance, during inventory supervision, warehouse staff often focus solely on quantity discrepancies while neglecting storage quality. This oversight frequently leads to delayed management actions, potentially causing unforeseen financial losses for the company.

2.2.3. Inadequate Control Over Material Procurement Budget

The supermarket lacks a robust procurement budget management system. With weak execution in cost budgeting, inadequate quality and price control over purchased goods, and ambiguous inventory budgeting scope, staff tend to over-purchase products, exacerbating stockpile pressure. Furthermore, YH Supermarket grants certain procurement autonomy to offline stores and online platforms while allowing inter-warehouse inventory transfers, yet fails to clarify role definitions. This results in blurred responsibilities, ineffective performance evaluation systems, and unscientific budget planning. Additionally, procurement personnel demonstrate insufficient budget control awareness. Strong budget consciousness is fundamental to ensuring effective inventory management, yet YH Supermarket's procurement team consists mainly of store managers from offline outlets, with minimal involvement from professional financial experts or dedicated budget controllers. Training programs focus primarily on market dynamics and business negotiations, while budget control and related

skills remain underdeveloped. This directly leads to procurement staff lacking budget control awareness.

3. Countermeasures and Suggestions for Improving The Internal Control of Enterprise Inventory

3.1. Open Channels for Information Communication and Docking

With the rapid advancement of information systems, leveraging modern IT to support corporate management has become an industry trend. Enhancing digital infrastructure and establishing seamless communication platforms can significantly improve internal control efficiency [5]. Frontline employees are best positioned to identify operational issues, necessitating close coordination between departments and colleagues to ensure efficient vertical and horizontal information flow. Management should implement top-down communication channels to guarantee accurate and timely information transmission, ensuring clear understanding of directives while minimizing communication barriers. Furthermore, strengthening horizontal communication mechanisms and implementing parallel oversight controls will enable departments to provide prompt feedback and effectively identify operational risks[6].

The evolution of information technology and office software significantly impacts operational efficiency. YH leverages digital solutions like Yonyou NC, Kingdee, Access, and OA systems to enable data sharing. For instance, OA integrates real-time inventory tracking through shared inventory flow, helping departments align with corporate objectives. Data synchronization between sales and procurement teams, as well as warehouse and purchasing operations, enhances operational efficiency. Companies should establish dedicated IT departments responsible for system development and maintenance, prioritize software proficiency training, and comprehensively upgrade IT infrastructure to fully harness the potential of digital solutions.

3.2. Strengthen The Improvement of Inventory Management System

The core focus of YH Supermarket's inventory management system improvement lies in optimizing inventory counting procedures. Previously managed by the supermarket department manager, the process now requires participation from all inventory management departments to enhance communication and promptly identify issues. Whether dealing with inventory surpluses or shortages, all changes must be immediately reported to the warehouse department and critical data submitted to management. This streamlined approach improves inventory efficiency while ensuring asset security and smooth operations. The revamped process delivers three key benefits: First, detailed workflow diagrams clarify steps for staff understanding and execution. Second, the warehouse department defines scope and methods for counting, with financial department-approved supervisors conducting joint audits to ensure accountability. Third, a new inventory plan formulation phase specifies verification requirements for physical vs. recorded inventory. When discrepancies occur, the warehouse department investigates causes and proposes solutions, which must be approved by management before implementation. All financial processing is handled by the accounting department until the inventory cycle concludes[7].

3.3. Ensure The Effective Control of Inventory Budget From Multiple Perspectives

YH Supermarket should enhance the accuracy of sales forecasting by formulating procurement plans based on remaining merchandise in stores, current warehouse inventories, and product sales performance to determine optimal purchasing timing and quantities. Procurement plans

developed by the purchasing department must be submitted for approval by the store general manager and financial director, with any unreasonable plans requiring prompt corrections. During inventory procurement, the company should not only strengthen budget management but also achieve optimal stock purchasing quantities. The purchasing department must minimize the combined costs of ordering and warehousing while carefully considering how order quantities and frequency affect storage and transportation expenses. Small-batch purchases may increase ordering frequency and transportation costs, thereby reducing overall warehousing expenses. Conversely, bulk purchases can be implemented when material consumption is high and customers require strict delivery timelines, effectively minimizing procurement frequency[8].

To ensure quality in supermarket procurement, it is crucial to strengthen budget awareness and ensure proper handling of procurement issues[9]. First, enhance budget promotion efforts within the company to improve cultural communication standards. This includes raising staff procurement consciousness, fostering a culture of collective participation, mutual control, and supervision among employees. By encouraging all staff to contribute, we create an environment where everyone actively engages in the process. Additionally, regular budget training sessions should be conducted, leveraging advanced domestic budget control management practices while adapting them to the company's specific circumstances. This approach ensures the effectiveness of procurement plans. Employees will master budgeting methodologies, gradually develop procurement awareness through practical application, and ultimately achieve smooth implementation of procurement strategies.

4. Conclusion

YH Supermarket's inventory management faces multiple challenges. Inadequate inventory monitoring, inexperienced staff, and high work pressure have led to discrepancies between records and physical stock. Unscientific forecasting in procurement has caused inventory overstocking, particularly with perishable fresh products that increase costs. Root causes include imperfect information sharing mechanisms, inadequate management systems, and insufficient budget control for procurement. To improve the situation, we should streamline communication channels and utilize modern information technology for data sharing. We need to optimize inventory counting procedures, clarify responsibilities at each stage, and strengthen supervision and performance evaluation. Simultaneously, we should ensure budget control from multiple angles, enhance sales forecasting accuracy, develop reasonable procurement plans, and reinforce budget awareness training. Only through systematic improvements can we enhance inventory management efficiency, ensure financial data authenticity, and provide robust support for corporate interests and business expansion.

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