

Research on Financial Internal Control of W Company

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Abstract

This paper mainly adopts the method of qualitative research, combined with international and domestic literature, W company was selected as the object for field investigation, combined with the basic situation and industry characteristics of W company, this paper studies the current situation of financial internal control and existing problems of W company. The research process theoretically uses the COSO framework to study the financial internal control of W company. It is found that the internal control problems of W company mainly focus on: The control environment is not ideal; weak risk management ability; financial control activities need to be improved; the level of financial internal control information and communication needs to be improved; lack of financial internal control and supervision. These problems affect the development of W company to a certain extent. Therefore, financial internal control is an important component of enterprise development, and enterprises must pay attention to it.

Keywords: Financial management, Internal control, COSO, Financial internal control, Existing problems

Introduction

The risks faced by enterprises in the competitive market are complex. Han (2008) put forward Internal control can be used as a management tool to ensure the effectiveness of organizational strategy, better achieve the enterprise business objectives, therefore, in recent years, internal control has become a management activity of concern to various enterprises, government organizations and social groups. The development of the enterprise puts higher requirements for the financial management of the company. Chen (2016) pointed out that financial control plays a very important role in the process of enterprise financial work optimization. It has an important support role in optimizing the financial work.

Yang (2013) believes that the internal financial control system of enterprises is based on the financial management system and aims at risk prevention and effective supervision, management norms formed to meet the needs of production and operation management. Therefore, the construction of financial internal control system is of great significance and value to improve the economic and social benefits of enterprises, reduce capital risks, achieve management objectives, and promote the healthy development of enterprises.

This paper mainly studies the internal control theory, understand the development achievements of internal control theory in China and internationally, based on the COSO internal control frame work, W company is selected as the research object. The reason why W company is selected is that its company is a company with chemical products as its main products, and the degree of petrochemical development is an important index to measure the degree of national economic development, fully integrate the internal control theory with the construction of financial internal control system of W company. analyze the main nodes to be controlled in the financial operation, and combine the academic with the management status of real enterprises. In this process, it will bring higher value to the theoretical research of enterprise financial internal control.

This paper takes the financial internal control of W company as the research goal, investigates and analyzes the existing economic activities of W company, finds the problems existing in the financial internal control of W company, and lays a foundation for improving the financial internal control

efficiency and management level of W company. At the same time, it also hopes to provide useful reference cases for the construction of financial internal control of state-owned enterprises engaged in similar industries. Reduce enterprise financial management risk, increase enterprise trust, reduce employee turnover rate, and encourage employees to better serve the enterprise.

Literature review

Internal control theory is the main theoretical basis of this paper. The audit procedure Committee of the American Institute of Accountants (1949) made an authoritative definition of internal control for the first time in its report “internal control: An element of a coordinated system and its importance to management and independent certified public accountants”. Internal control includes the design of the organization and all the coordinated methods and measures taken within the enterprise. These methods and measures are used to protect the property of enterprises, check the accuracy of accounting information, improve operational efficiency, and promote enterprises to adhere to the implementation of established management policies. In 1992, COSO published a report called “internal control - overall framework”, which put forward the concept of 5 elements of internal control. During the period from the end of 1980s to the beginning of 1990s, AICPA issued audit standards Announcement No. 55. The concept of “internal control structure” came into the vision of enterprise managers for the first time. Since then, the control environment has been included in the scope of internal control. Pira (2003) thinks that the report issued by COSO committee is a redefinition of internal control theory. This report combines internal control and risk management, and once again promotes the development of enterprise management theory, which helps companies to be better governed. The theory of internal control has been put forward and developed to maturity. In May 2013, COSO issued the overall framework of internal control in 2013 and its supporting guidelines. The new version of the overall framework is the same as the original version in terms of the basic concept, content and structure, as well as the definition and 5 elements of internal control, and the standards for evaluating the effectiveness of the internal control system. The changes are the relevant internal control management measures made according to the specific situation. The overall framework clearly lists 17 principles, and each principle is connected with one of them. These basic concepts are associated with the 5 elements of internal control, which is called an upgrade by people in the industry.

In China, due to many reasons such as the level of economic development and the activity of enterprises, compared with the developed countries in Europe and the United States, the start of internal control theory is later than the international, so in the early stage of research, there have been international research results for China to learn from, on this basis, Chinese scholars began to study the internal control theory. Li (1998) studied financial internal control from the perspective of risk management. Similarly, he also pointed out that a sound internal control system is essential for enterprises to avoid various operational risks. Cao (2019) published the article “Research on internal control under the mode of financial sharing”, which discusses from a practical point of view. The enterprise management activity of internal control requires the joint efforts of the board of directors and other decision-making bodies, enterprise managers and employees. It is precisely because of the joint efforts of these members, the accounting information and assets of the enterprise, as well as the predetermined business policy, it can be guaranteed and implemented, and ultimately achieve the basic objectives of the enterprise. External supervision has reatlimitations. The self-adjustment and self-planning of enterprises in the construction of internal control can guarantee the effective results of enterprise operation. Wang (2019) published the article “Discussion on financial management and internal control of enterprise accounting”, which focuses on the relationship between financial management and internal control. He proposed that modern financial accounting should combine management and control closely, strengthen internal control, and analyze the financial situation of enterprises in time investors’ decision-making provides effective information support.

Through the collection, understanding and sorting of articles, clarify the research direction of W company’s financial management, apply the theory to practical work, and analyze the weak points and risk points of W company in internal control. According to the research conclusions of scholars, learn

from excellent theories, and find out the problems of financial internal control of W company by analyzing the internal environment and internal supervision of W company.

COSO internal control-integrated framework

In May 2013, COSO issued the overall framework of internal control in 2013 and its supporting guidelines. It describes in detail the definition, objectives and 5 elements of internal control etc.

Definition

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

Components of internal control

1)Control environment- the control environment is the basis for enterprises to implement internal control, generally including governance structure, institutional setting and distribution of rights and responsibilities, internal audit, human resources policy, corporate culture, etc.

2)Risk assessment - risk assessment is to timely identify and systematically analyze the risks related to the realization of internal control objectives in business activities, and reasonably determine the risk response strategies.

3)Control activities- the control activity is that the enterprise adopts corresponding control measures according to the risk assessment results to control the risk within the tolerable degree.

4)Information and communication- information and communication is the enterprise's timely and accurate collection and transmission of information related to internal control to ensure effective communication within the enterprise and between the enterprise and the outside.

5)Monitoring activities- monitoring activities refer to the supervision and inspection of the establishment and implementation of internal control, the evaluation of the effectiveness of internal control, and the timely improvement of internal control defects found.

Objectives of internal control

1)these pertain to the effectiveness and efficiency of the entity's operations, including operational and financial performance goals and safeguarding assets against loss.

2) Reporting objectives- these pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters or the entity's policies.

3)Compliance objectives- these pertain to adherence to laws and regulations to which the entity is subject.

A direct relationship exists between objectives, which are what an entity strives to achieve, components, which represent what is required to achieve the objectives and the organizational structure of the entity. The relationship can be depicted in the form of a cube. The 3 categories of objectives- operations, reporting, and compliance are represented by the columns. The 5 components are represented by the rows. An entity's organizational structure is represented by the third dimension. As shown in the **Figure 1** below;



Figure 1 Three dimensional internal control diagram

Elements of internal control

The Framework sets out 17 principles representing the fundamental concepts associated with each component. All principles apply to operations, reporting, and compliance objectives. The principles supporting the components of internal control are listed below;

Control environment

1) The organization demonstrates a commitment to integrity and ethical values. 2) The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control. 3) Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives. 4) The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives. 5) The organization holds individuals accountable for their internal control responsibilities in the pursuit of objectives.

Risk assessment

6) The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives. 7) The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed. 8) The organization considers the potential for fraud in assessing risks to the achievement of objectives. 9) The organization identifies and assesses changes that could significantly impact the system of internal control.

Control activities

10) The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels. 11) The organization selects and develops general control activities over technology to support the achievement of objectives. 12) The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

Information and communication

13) The organization obtains or generates and uses relevant, quality information to support the functioning of internal control. 14) The organization internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control. 15) The organization communicates with external parties regarding matters affecting the functioning of internal control.

Monitoring activities

16) The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. 17) The organization 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.

Financial internal control

1) Definition of financial internal control

According to the definition of financial internal control in accounting Ci Hai, the essence of financial control is to implement management control from the standpoint of financial management. By formulating a series of systems, planning work organization, arranging procedures and taking appropriate and effective measures to ensure the effective use, safety and integrity of the property and resources of the accounting entity, ensure the authenticity, reliability and integrity of accounting information, and provide timely, accurate and reliable financial information, ensure the implementation of national policies, laws and regulations and internal management system. It refers to the operation of the enterprise, in order to achieve sustainable development and continuously improve its market competitiveness, ensure the accuracy of financial information, security of company property, feasibility of company policy and competitiveness of corporate benefits then a series of methods and measures such as internal control, management, planning and evaluation of finance.

2) The importance of financial internal control

Wu (2012) elaborated the importance of financial internal control in the research on financial internal control of enterprise groups.

(1) To ensure the safety of the company's assets, it is necessary for the company to prevent major errors and fraud, and the financial internal control has the role of prevention and supervision.

(2) The financial internal control system is an important part of the enterprise internal control system, which is an important means to improve the efficiency of enterprise management and avoid financial risks. Internal control system design and implementation is not in place, are likely to lead to business management problems. Therefore, the optimization of financial internal control system is particularly important.

3) Basic content of financial internal control

Wang (2019) mentioned in the discussion on financial management and internal control of enterprise accounting that the basic content of financial internal control is divided into 4 points.

(1) Monetary money control

Management and control of monetary funds, to ensure the safety of funds is an important part of enterprise financial management and even enterprise management. The accounting standards make it clear that cash, bank deposits and other monetary funds belong to the category of monetary funds. When the funds are in a hurry, the production and operation activities of enterprises cannot be maintained. Because of the characteristics of strong liquidity, it is the most difficult in the financial management of enterprises, and loopholes may occur at any time.

(2) Fixed assets control

Fixed assets as non-current assets of enterprises, its integrity and safety control is also included in the key link of financial internal control. A slight error will directly lead to the inability of the enterprise to continue its normal production and operation activities. Although its liquidity is not as good as the liquidity of monetary funds, but also because of its realizable characteristics, it needs to arouse the attention of enterprise managers in internal control.

(3) Accounts receivable control

Accounts receivable is an important item of enterprise current assets, which usually accounts for a large proportion of the assets. The turnover rate of accounts receivable reflects the company's financial situation, so the turnover of accounts receivable is the main indicator of enterprise operating benefit

analysis, and also reflects the management effect of enterprise financial internal control to a certain extent.

(4) Tax management control

Tax is the most important government led economic system in a country. International theory indicates that tax management control requires enterprises to make reasonable arrangements for production and operation activities. The bottom line is to ensure that it is reasonable and legal, abide by the tax rules, and then make reasonable planning, and finally achieve the goal of reducing the tax burden.

4) Basic methods of financial internal control

According to the article “the importance of internal control in enterprise financial management” by Yang (2013), the basic methods of financial internal control are summarized;

(1) Separation control of incompatible posts

First of all, we need to summarize and sort out the positions designed in the business activities of the enterprise, sort out the incompatible positions, and try to avoid them in the physical position. The incompatible job separation control in financial internal control is closely related to enterprise property safety and process specification.

(2) Accounting system control

As for the accounting rules, in principle, we only need to deal with the accounting documents, keep the accounting files, and disclose the financial reports in accordance with the national clear accounting standards. Enterprises must comply with them and take the legal compliance of accounting work as the most basic requirement of financial internal control.

(3) Budget control

Enterprises need to implement the way of comprehensive budget management. Comprehensive budget management has become an important link in the financial management of enterprises because of its advantages. Standardizing this link will implement the constraint on financial activities.

(4) Internal audit control

The function of internal audit is undertaken by the internal audit department set up by the company. From the perspective of organizational structure, the internal audit department is independent of the financial department of the enterprise, directly under the leadership of the board of directors or the general manager, exercising supervision power, and not interfered by other personnel of other departments. The full-time auditors are allocated to make the internal audit give full play to the supervisory role of internal audit control.

Methods

Based on the above theory and related literature, this paper will use the method of qualitative analysis. Starting with the identified research questions, carry out literature review, select the research object, design the research method and finally get the results. Data collection is mainly through semi-structured interviews. In the interview process, if you encounter problems that need further investigation, adjust and add problems in time and deal with them flexibly. After the interview, classify the interview data and draw the analysis conclusion. Since W company implements the subordination system, the subsidiary shall implement the system with reference to the standards of the head office, Therefore, in order to study the financial staffing, financial status, financial internal control status and problems of W company, Through purposeful sampling, one HR manager is selected from the employees of the headquarters to understand the basic information of the financial personnel of W company, including age and professional experience, so as to provide a data basis for the analysis of personnel allocation. One financial manager to understand the enterprise's financial management system. One budget specialist understands the budget situation of W company, collects budget data and compares the budget base and actual expenditure of W company. Five accounting accountants to understand the daily business accounting work of the company. Six non-financial Department staff to understand the understanding of W company's personnel on financial internal control and degree of attention.

Research finding

Under the COSO framework, it is found that W company has the following problems in financial internal control;

Insufficient attention to financial internal control

When the target sample was asked, “Do you know the company’s internal financial control system?” Only a few people said they didn’t know, but asked “Can you understand the company’s internal financial control system?” Most people said they didn’t understand. The author temporarily asked the question, “Do you think the company’s internal financial control has something to do with yourself?” Through the conversation with the employees of W company, the conclusions are shown in the table below;

Table 1 Understanding of financial internal control.

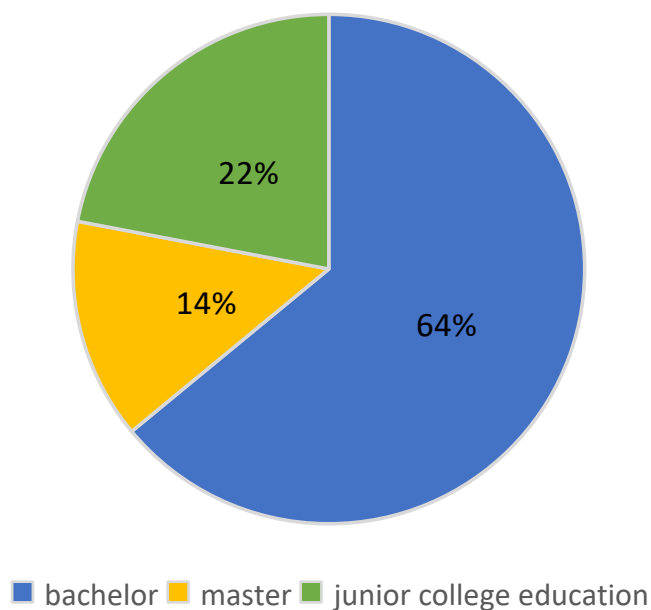
Know financial internal control	Related to me	It has nothing to do with me
90%	25%	75%

The management and employees of W company lack understanding of financial internal control, largely because the company does not widely publicize the awareness of financial internal control. Most people know that the company has internal control over finance, but they know little, so it is difficult to realize that this is a link closely related to themselves.

Lack of financial management professionals

The author asked the HR Manager “What is the educational background of the personnel in the Finance Department of W company?” Through the answer, the data obtained are shown in the figure below;

Table 2 Distribution of financial personnel’s academic qualifications.



Then ask the established question “Is there a large number of financial personnel in W company majoring in accounting?” The answer is less than 50%, and then temporarily ask a new question, “what are the majors of financial personnel in W company in school?” The statistics are shown in the table below;

Table 3 The proportion of financial background of financial staff.

Gender	Educational background	Major	Is it related to finance
female	bachelor	Finance	Yes
female	bachelor	Accounting	Yes
female	junior college education	computer management	No
female	bachelor	English language and Literature	No
female	master	Accounting	Yes
female	master	Accounting	Yes
female	bachelor	international trade	No
male	bachelor	financial management	Yes
female	bachelor	Electronic Commerce	No
female	junior college education	numerical control	No
female	bachelor	Chinese language and Literature	No
male	bachelor	Accounting	Yes
male	bachelor	computer management	No
male	junior college education	Chinese language and Literature	No

The educational background of the financial management personnel of W company needs to be improved, the number of professionals is small, and there is no professional risk staffing, no professional risk management knowledge, and no special risk management post. In most cases, the identification of risks is based on the subjective judgment of the management or experienced people, and only some basic common risks can be judged, For example, the risk of accounting information errors. While the financial work of W company was carried out, it did not predict the risk points in real time.

Lack of financial workflow

Monetary capital control

Without establishing a comprehensive budget system, W company lacks the process of financial management in budget management, and the finance department has only 1 budget specialist. In the specific links of budget, other departments will passively and freely submit budget figures. Due to various factors, the financial budget personnel can not reasonably analyze and strictly control the budget figures of various departments and projects, and can not ensure the quality of the process, resulting in the lag of financial information requiring important nodes, and the financial internal control has lost many opportunities to control risks in an all-round way. Failed to provide timely and effective information for management’s decision-making. Therefore, there is a large difference between the budget and actual expenditure at the beginning of this year, as shown in the table below;

Table 4 Statistical table of budget completion.

Project	Merge		
	Annual budget	Accumulated in 2020	Completion rate
Travel expenses	289.80	388.99	134.23%
Conference expenses	20.26	28.58	141.08%
Vehicle expenses	181.60	232.34	127.94%
Repair expenses	74.00	344.19	465.13%
Consultation expenses	262.00	689.97	263.35%
Freight	20.00	2.73	13.65%
Water and electricity property fee	105.00	330.30	314.58%
Rental fee	436.33	566.57	129.85%

Fixed assets control

1) The management and control of fixed assets are not standardized, and there is a lack of awareness of asset management. Employees of the company have limited knowledge of asset consumption. In many unnecessary cases, public property is wasted, resulting in frequent damage to assets and serious waste.

2) The system is not perfect. When the author asked the accounting supervisor about the relevant regulations on the management of fixed assets, the author found that so far, the company has not issued systems or management specifications related to fixed assets, which makes the control measures impossible to implement.

3) Information asymmetry between the asset user department and the financial accounting end. Fixed assets have been scrapped, but the book has not been disposed of, and the actual number of fixed assets is inconsistent with the book.

Accounts receivable control

The management of sales collection is poor, and it is difficult to collect accounts receivable. Due to the special relationship between internal enterprises and brother units, the speed of sales collection needs a lot of communication and coordination. The effect of W company's management of accounts receivable is not satisfactory. Generally, it has not had a significant impact on the capital chain of W company, but the phenomenon of arrears of collection still occurs from time to time.

Tax management control

The concept of whole process tax control has not been established. W company's internal control management on tax is limited to compliance with tax policies and reasonable tax planning, but it only controls when the tax accountant handles tax matters. However, there is no prevention against the later tax risk.

Lack of modernization of financial internal control information and communication

At present, the SAP system applied by W company only has the financial module running, and the other modules are still under development and commissioning. The advantages of enterprise ERP management system failed to appear. Compared with traditional financial software, the application of sap is a new system. For the financial personnel who have been engaged in accounting for many years and have adapted to the original model, they need to overturn the previous working habits and adapt to the new system, but W company does not pay attention to the system training, resulting in many problems in the use of each member unit after the system goes online. In addition, the smooth operation of the system also needs the strong support of hardware. Since the SAP system went online, it often collapsed due to network problems or frequent restart of the server, constantly breaking the internal control process. The

hardware update demand is also an important condition for the financial internal control information construction of W company.

Weak awareness of supervision

From the perspective of internal organizational structure, the internal audit department, which highlights the elements of financial internal control and supervision, has not been established, indicating that the supervision awareness of the management of W company needs to be improved. On the other hand, in recent years, W company has not carried out any type of special audit on its subordinate business entities, and only relies on the annual group routine audit and external annual audit to obtain the business status information of its subsidiaries. These phenomena show that the supervision consciousness of enterprise managers of W company has not been established.

Suggestion

Financial internal control is an important part of enterprise internal control. It is an important means to improve enterprise management efficiency and avoid financial risks. The design and implementation of internal control system are not in place, which may lead to great problems in enterprise operation and management. Therefore, the author suggests that under the guidance of COSO framework and grasping the 17 principles, enterprises should optimize the financial control environment, strengthen financial risk management, strengthen the management of financial control activities, improve the level of financial information communication and strengthen internal financial supervision. Promote the good operation of enterprises.

Conclusions

By studying the financial and economic activities of W company, this paper analyzes the financial internal control of W company. From the analysis results, the financial control environment of W company is not ideal, the financial risk management ability is not strong, the financial control activities are not perfect, the level of financial internal control information and communication needs to be improved, and there is a lack of financial internal control supervision. This paper defines the problems existing in the financial internal control of W company, which affect the development of W company to a certain extent. Therefore, the financial internal control is an important factor in the development of the enterprise.

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