

Research on Internal Control Strategy of Group Company under Financial Shared Service Center Model

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Abstract. The model of financial shared service center (FSSC) has been developed prosperously and obtained fruitful achievements in China. However, the introduction of this new model into the group company also brings with a variety of management risks. In this paper, the necessity for group company to introduce in FSSC model was proposed on one hand, and the detailed risks of internal control existing in FSSC were also analyzed on the other hand, so as the measures on preventing internal control risks.

1. Introduction

Early in 1980s, an American brand --- Ford Motor Company established the first financial shared service center (FSSC) in the world in order to lower the labor costs and solve a series of problems, including the financial data of the group company could not be shared in real time. Following that, more companies such as GM and IBM adopted this FSSC management model consecutively. Since then, foreign giant companies have gradually transformed from traditional financial model to FSSC model, which facilitated the rapid development of FSSC model.

2. FSSC Development in China

The Financial Shared Service Center is an institution to achieve integration of business data and finance, and standardize relative business management of large-scale group company by carrying out integrated information processing for business events transacted in business and financial management. It is the latest application of enterprise centralized management model in financial management, aiming at solving the repeated investment and low efficiency problems existing in financial functionality construction of large scale group company by one type of effective operating model. According to the Article 34 of *Regulations on Enterprise Accounting Informatization*, which was issued by the Ministry of Finance of P.R.C in December, 2013 "Large enterprises and group companies having a large number of branches and subsidiaries and wide distribution shall explore the concentration of financial work by using information technology, and gradually establish the financial shared service center."

The first financial shared service center in China was established by ZTE Group in 2005. Although we started financial shared service center model late in China, it has been developed prosperously and rapidly. According to the survey reports of Ernst & Young, Deloitte and CIMA in 2017, over 70% of large-scale enterprises in China had started their FSSC strategy.

3. Necessity of Promoting FSSC for Group Company Internal Control

Lower Operating Cost of Enterprise. The FSSC integrates the financial work of all subsidiaries and branches affiliated to the group into one center, thus to modularize and standardize the originally fussy and complicated accounting work. And the working model has also been transformed from financial personnel processing only their respective company business to a work group taking charge of businesses of multiple affiliated companies. In this way, it helps reduce huge amount of manpower cost and error rate of information processing. In addition, it allows enterprises

to sufficiently observe the office expenses and human resource cost of different regions while establishing the FSSC, thus to select the most proper place with lowest integrated costs to set up the FSSC, thereby further lowering the operating cost for the enterprise.

Enhance Financial Processing Efficiency of Enterprise. The establishment of FSSC unifies the financial processing system inside the group, abandons fussy and out-of-date steps, makes the data collecting, sorting, processing, and analyzing inside the group company more convenient, and facilitates the cross-region/department/company data processing and analyzing easier and faster.

On the other hand, the establishment of the FSSC has also facilitated the financial staff concentration in the group companies, which is more convenient to organize unified training and reduce relative training cost greatly than traditional model. This indicates that enterprises could invite more professional and authoritative personnel to provide systematic training to the financial personnel of the company, thereby enhancing quality of financial personnel without increasing relative expenses.

Strengthen Headquarters Leadership on Financial Institutions. Under the traditional financial model, the financial institutions and financial personnel of large enterprises are disperse. Since the leadership of the subordinate companies has the right to appoint or dismiss personnel, and make decisions on salary assessment, the local leaders can exert far more obvious influence on their financial personnel than headquarters of the group, which weakens the leadership of group headquarters on the financial institutions of the subsidiaries.

The establishment and optimization of FSSC provides powerful technical support for improving the overall control of the group headquarters on financial work. The management on financial staff has been transformed from a decentralization way to a more convenient concentration way. In addition, the concentration and sharing of financial data also enables the group headquarters to know and master the operating conditions and achievement of its subsidiaries in real time, thus to deal with any problem timely.

Enhance Scientific Development Planning and Decision-Making. Relying on advanced electronic information technology, FSSC can collect, process and analyze the group's financial data in real time, monitor the financial status of each subsidiary company in real time, and update the general financial status and direction of the group company. The management, according to the real-time data provided by FSSC, is allowed to timely adjust the long/short-term operating strategies of the company, master the market changes more accurately, and strengthen the power of the company confronting risks can share the financial services. At the occasion when the group conducts medium/long-term planning, the FSSC can be used to perform rapid retrieval or directional analysis on data inside the database, so that decision-maker could acquire the most useful information in shortest time and seize precious market opportunities.

Open New Channels for Enterprises to Increase Revenue. Not all enterprises are powerful and capable enough to establish their own FSSC. Being restricted by various types of factors like corporate capital status, financial personnel level, and leadership vision, many companies in China have no FSSC of their own. In this case, large-scale group companies that have already established and mastered the FSSC model can provide paid services for these small and medium-sized enterprises, thus to not only create revenue for themselves but also promote the development of small and medium-sized enterprises.

4. Analysis on Internal Control Risks of Group Companies under FSSC Model

Opportunities are always coexisted with challenges. Although the establishment of FSSC brings lots of benefits to enterprises, it also proposes new challenges to internal control of the enterprises.

Risk of Network Information Security. Although the advanced electronic information technology of the FSSC can accomplish the original financial work with high quality and high efficiency in a way greatly saving labor costs, the current environment of network information

security at home and abroad is actually not optimistic. Hundreds of millions hacking incidents occur every day in the world. Traditional Internet giants such as Yahoo and Microsoft have been hacked and suffered devastated loss. Once the FSSC network encounters any security problems, it will possibly result in disclosure of key financial data, or situation that can't be resumed in a short period of time. In this case, the group company may suffer dramatic loss as a result.

Risk of Financial Personnel Turnover. Under the traditional financial model, the financial personnel needs to master the overall financial process, while under the FSSC model, the financial work is subdivided into different positions, which makes a certain financial personnel only take charge of a tiny part of work on the whole financial business flow. Long-term being trapped in fussy and boring work would possibly deprive the enthusiasm of the financial personnel and implant fixed way of thinking in their mind. Besides, different posts have different work intensity. Any insufficient consideration on work allocation may incur negative mood of workers. Compared with traditional financial model, staff in FSSC are mostly engaged in fundamental work, so that they can hardly get any promotion. Moreover, because of the boring work, internal workers of FSSC could have high turnover rate, which affects the continuity of financial work to some certain extent.

Risk of Financial Data Distortion. In the traditional financial mode, the financial information is passed up level by level, so that the information can be reviewed multiple times in order to correct the wrong information in time, and strive to eliminate the mistake in the bud. However, under the FSSC model, the financial data collecting, processing and analysis of the Group are concentrated in the center, and the workflow is highly concentrated. A small mistake may incur serious consequences. On the other hand, the FSSC and the various subsidiaries and branches may even be far apart from the group headquarters. This geographical distance makes it impossible to verify the original vouchers of business on site, which leaves opportunity to be taken use of by persons with ulterior motives. In this case, possibility of financial data distortion is greatly enhanced, which further results in financial risk increase in enterprises.

Risk of Business Communication Delay. Under the FSSC model, the geographical dispersion between departments makes the original vouchers be handed over mainly by postal delivery, for which, the timeliness and security, as well as the cost of postal delivery should be taken into account. More importantly, financial staff is far away from the actual business site, and different businesses vary greatly, financial personnel have little opportunity to communicate with front-line business personnel so that it is hard for them to have a general idea about the actual business, and easy to make mistake on integrity and authenticity of financial data. As for the front-line business personnel, since they have little knowledge about financial system, their applied bills and materials may easily be inconsistent with what are required by the financial system. This also increases workload of the business personnel while affecting the timeliness of financial work on the other hand.

Risk of Management Functionality Imbalance. Under the FSSC model, most financial work of the group company is concentrated in the center, which results in over-concentrated power of financial responsible person and can easily incur corruption. If the FSSC is far away from group headquarters in geographical locations, the influence of the group headquarters on FSSC would be further weakened. And if so, the possibility of risk will be further increased. Besides, auditing departments of lots of group companies now lack of independence, even the remuneration, welfare, appointment and dismissal of the auditors are determined by group responsible person, therefore, auditors always work under great stress, which is not good for guaranteeing fair and justice auditing results.

5. Prevention to Internal Control Risk of Group Companies under FSSC Model

Network Information Security. First of all, the network security must be carefully considered while establishing FSSC. Financial personnel, together with professional talents of network security shall be organized to co-build the network firewall that is advanced, firm, and able to satisfy special

requirements of the enterprise according to the practical development demands timely, thus to find out and prevent problems in an early manner. Secondly, special network security department must be set up in the enterprises. And relative personnel shall be organized to accept relative training periodically in order to update protection measures and achieve real-time monitoring and solving of external attack. Besides, special data service center shall be set within the FSSC to periodically carry out data dual-backup in different places or offline backup, thus to guarantee timely data resuming and minimize relative losses.

Personnel Management. The job rotation system needs to be implemented in the FSSC, so that personnel of the FSSC can have the opportunity working at different posts in order to understand and adapt to the overall work of the FSSC, and practice working ability, and avoid negative mood caused by simple and repeated work. Moreover, this system is helpful in facilitating fair and justice assessment on staff performance in work, thereby selecting and offer promotion opportunities to high quality talents. As for the workload, it shall fully consider the difference of workload between different posts to guarantee rational allocation of workload or rational distributing of remuneration, vocation, and other welfare, thus to avoid unequal pay for equal work, or equal pay for different work, thereby enhancing working enthusiasm of staff.

Financial Data Authenticity. A multi-audit model shall be set up within the FSSC in order arrange different auditors to carry out initial review, review and final review for a specific auditing business, thereby preventing financial data distortion due to individual factors. Meanwhile, detailed and strict financial system must be set up within the group, responsibility system shall be optimized and strengthened to clarify responsibilities of specific posts, avoid problems having no responsible persons or problems of unclear responsibility division. Only by this way can the system credibility be improved. Besides, as for the accounts and original vouchers of the subsidiary and branch, personnel shall be assigned to check irregularly to guarantee the consistency of accounts and vouchers and consistency of accounts and facts.

Business Communication and Exchange. In order to closely relate finance with business, financial personnel shall be, periodically and occasionally, organized to visit and learn from the front-line work of relative business, strengthen the communication and exchange with business personnel, and get to know the whole business process, thus to enhance the ability of financial personnel in processing and auditing, and guarantee the authenticity of financial data. At the same time, information desk, hotline, and policy introduction website shall be set up in FSSC, so that staff could get to know the financial policies of the group company by convenient, efficient and diverse forms, prepare a complete set of materials required for certain financial business, and reduce unnecessary waste of time and effort.

Leadership Functionality. Checks and balances shall be sufficiently considered when setting up leadership posts of the FSSC. It is recommended that powers of the administration, personnel appointment and dismissal, and auditing rights could be rationally separated, thereby different posts may exert supervision on each other to prevent corruption caused by too much power of a specific post. Meanwhile, independent auditing institution must be set up in the group company, for which, the personnel appointment and dismissal, as well as remuneration assessment, should be distinguished from other departments, not subject to the restrictions of the group leader, thereby reducing the impact of non-essential factors on the audit results, and guaranteeing the authenticity of the audit results.

In summary, the some certain key problems that might exist in FSSC enterprises were proposed in this paper from the perspective of enterprise internal control, so as relevant countermeasures, hoping to enhance the internal control level of the enterprises, take better use of FSSC model, and create more economic benefits for enterprises.

6. References

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