

Studies on internal control and financial management innovation in state-owned enterprise (SOE)

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Abstract. Internal control and financial management innovation in SOEs is key factor to improve China,s SOE self-management ability and avoid risks in SOE management operation. This article has analyzed the importance of internal control in SOE, discussed problems existing in financial management in China,s SOE and proposed some solution strategies, with the hope of providing reference for internal control and financial management innovation in state-owned enterprises.

Introduction

In recent years, China,s SOE has achieved rapid development and some enterprises have become world top 500 companies such as CNPC, ICBC, CCB, COFCO Group, CREC, etc. But some corruption problems have been exposed gradually. For example, original president of Shanghai Pharmaceuticals Holding Co., Ltd, Wu Jianwen, accepted 35 bribes, involved in cases of RMB 11.87 million. Former president of Zhuhai Sub branch of Guangdong Development Bank, Qu Jianguo, embezzled and accepted bribes of RMB 32 million. Similar cases include cases in CMCC, and CNPC. SOE have become the place where corruption occur frequently. Problems such as how well-running enterprise have become the hotbed of corruption, and how these competent and well-educated cadres step into the road of no return are worthy of reflection by departments concerned. If we view these phenomenon from the perspective of financial management and internal control, we can find out some clues. Although management system and is well established and standardized inside many SOEs, and internal control mechanism is well operated, the phenomenon that “top leader” is almost in charge of everything is prevailing. A lot of enterprises are not institution oriented management but man-ruled management dominant. Therefore, under the high pressure background of nationwide anti-corruption, it is of great realistic significance to do internal control well, promote financial management innovation and help SOEs achieve healthy and sustainable development.

Necessity of strengthen internal control in SOE

With the continuous development of China,s economy, SOEs are expanding and developing. Corruption issues accompanying have seriously impacted the healthy and benign development of SOE. Thus, how to do internal control management and risk management and control well in SOE is an urgent subject in front of state-owned property managers.

Objective requirement of financial risk prevention

In SOE management, effective risk management and control is an important work in enterprise production and operating activities. SOE concerns people,s daily life due to its special property, and concerns and determines important resources of the country and livelihood. Thus once problems happen, the consequence and impact will be huge. Meanwhile, SOE as the enterprise after all, its final objective of operation activities is to pursue profit maximization. Continuous profit is always the ultimate objective of SOE, as well as the precondition that SOE can achieve sustained-yield management. Above objective conditions have determined that SOE must conduct internal control very well, control the whole process of SOE production and operating activities with the help of comprehensive control and management mechanism, avoid and even completely eradicate risks of

production and operation, especially various risks caused by power out of control. This seems extremely important in nowadays social environment.

Practical requirement of guaranteeing authenticity and accuracy of financial management

Due to the special property of SOE, it must regularly issue its financial condition to related departments in charge of SOE and the society according to national laws and regulations. It is important to ensure the content of SOE financial statement to be complete, authentic and accurate as it is not only required by relevant laws and regulations, but also concerns the preserving and appreciation of state-owned capital, loss of state assets, and other big issues. In front of these issues, it requires SOE to use internal control mechanism for strict monitoring on financial information to guarantee that financial data can authentically and accurately reflect the practical financial condition and operation of SOE.

Realistic requirement of preventing loss of state assets

Assets of SOE for production and operating activities belong to the state, as well as assets of all citizens. Once not controlled, state assets will drain due to human factors, which is derelict of duty for people and even a crime. But for a long time, due to various reasons, loss of state assets in China is serious. Thus, internal control and financial management in SOE seems extremely important. In the current situation, only by continuously strengthening internal control and improving the level of financial management can prevent the loss of state assets. At least the measurement will have positive effect.

Requirement of avoiding corruption risk in SOE

This article has mentioned that corruption cases in Chinese SOEs are in extensively explosive period. Particularly some major cases, and important cases are unheard-of and distressful due to its involving a large amount of people and high severity. Corruption will heavily influence state and government image, cause huge damages to state assets and even seriously influence enterprise employees, confidence and cohesion. Meanwhile, we should realize that occurrence of corruption cases are closely related with poor implementation of internal control mechanism and financial control system. Thus, strengthening internal control and financial management in SOE is an important measurement to avoid corruption risk in SOE.

Pathway of SOE financial management innovation based on internal control theory

View from the practical condition of China, SOE financial management, enterprise are promoting standardization and systematism of financial management now and also implementing to a certain degree. Due to rapid development of social economy, enterprise internal operation and external market environment are both changing rapidly, which results in new problems emerging in SOE financial management. Thus, it is necessary to innovate internal control and financial management methods and keep in pace with the time so as to better meet the demands of social development.

Innovate internal control management concept

Internal control in SOE is a complicated systematic management project involving wide range and contents and concerning different aspects of enterprise internal operation activities. Establishment of SOE internal control system requires to regulate routine matters of SOE operation activities, and requires SOE to set specific standards according to the practical condition in different development stages so as to make relevant policies and regulations more purposeful. This requires for relevant management staffs in SOE and related departments to improve and innovate internal control mechanism and financial management mechanism so as to really infuse the internal control management concept into different enterprise management work.

Establish advanced management concepts.

A lot of enterprises still have backward management concepts and there still exist problems of after-event management, neglecting issues until problem occurrence, and remedy until detecting

problems. This kind of management method cannot adapt to requirements of nowadays social development. In information society, SOE should keep pace with the time, actively promote information construction, use network technology to manage and control enterprise operation and management procedures and details, make sure every tiny thing should be focused and managed, timely prewar and control risks existing in operation activities, and formulate prevention measurements. For example, use office network for network working during contract approval process, review and examine related departments concerned, legal, and financial departments in office platform, and propose own opinions. This can avoid “black box” operation during the examination by single department and risks brought by incomprehensive evaluation.

Combine internal control of SOE with enterprise operation activities.

Ordinary enterprises, operation activities require for planning, organization, implementation and ending and other procedures. When conducting internal control, SOE should regulate each stage and procedure and form a closed loop in financial management.

Innovate financial management methods

SOE should formulate perfect and suitable financial management system according the industry and development stage of the enterprise. SOE should particularly set strict regulation in investment asset management, investment and financing, procurement, cost control, guarantee and high-risk business sectors, and carefully put into practice. For example, for capital utilization and management, it requires for strict approval procedures and fulfill duties to each individual, and guarantee secure use of state assets. Regarding state asset management, conduct asset management work post responsibility and leader lifelong responsibility system, and make inventory examination regularly, investigate and clam the responsibility so as to avoid the drainage of physical assets due to vague responsible person and poor management. Meanwhile, SOE should establish and consummate information management mechanism, establish enterprise interior information communication platform so that different information can be expressed, communicated and approved through information platform. Financial department can timely know the progress of each business and handle problems once detected. Other department can also know the work progress and problems through information platform. This can help better communication and understanding between financial department and specific business department so as to create harmonious working atmosphere.

In addition, financial management system establishment in SOE should be based on its practical condition, the industry, location, and its scale and level and other factors. It should be continuously revised and perfected through practical operation. In specific implementation process, it should be under supervision through internal control management so as to truly put financial system into practice. In addition, SOE can establish effective incentive mechanism so that each employee in the enterprise can actively promote and implement the system and find out problems in the system.

Establish financial risk pre-warning system for internal control

In internal control management work of SOE, financial innovation can well improve SOE ability to resist financial risk and prevent corruption. But due to too many risk factors influencing SOE, each factor may bring serious impact and damage to SOE. Thus it is necessary to establish pre-warning system and measurement for potential risk. Once finding any symptom of risk factors through pre-warning system, timely intervene and handle through relevant pre-arranged planning so that risks can be controlled and eliminated in bud.

Strengthen the construction of financial management supervision system

SOE should also establish special auditing department for enterprise internal control system, financial management system supervision and inspection, and audit the implementation and process of business in each department so as to make sure that departments and staffs in SOE can carry out their work in strict accordance with regulations. Through routine auditing work, report and handle potential problems so as to incorporate enterprise internal management and financial management into standardized and strict track. In addition, when carrying out internal auditing, it is necessary to

bring in the third-party professional auditing organization, and use its professional, independent and authoritative advantages to take a comprehensive auditing on SOE and obtain authoritative and scientific auditing conclusions. Meanwhile, propose professional auditing comments and improvement suggestions for confusing responsibilities, system deficiencies, poor management, and other problems so as to promote the perfection of internal control and financial management in state-owned enterprise and improve the working level.

Conclusion

To sum up, internal control and financial management in state-owned enterprise is a key factor concerning whether SOE can have a healthy and benign development. If these management systems are not strictly formulated or poorly implemented, state-owned assets will drain. Meanwhile, some corruption, waste and abuse of power will occur. Thus SOE should keep strengthening internal control and financial management, keep innovating working methods and transform working concepts, change from passive to active, and actively take pre-warning measures. By doing so, problems existing in SOE can be effectively solved so as to promote its fast and better development.

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