

**Thoughts and Suggestions on the Construction of Enterprise Internal Control System
——Taking China Tobacco Zhejiang Company as an example**

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Abstract: Though some enterprises in China have made great progress in internal control, the overall enterprise internal control in China is still relatively weak. In recent years, China Tobacco Zhejiang Company has developed steadily, and its product sales and market value are in good condition, which has made great contributions to the country's overall income. In order to further improve the internal control and management of China Tobacco Zhejiang Company, improve the self-restraint mechanism, strengthen the risk prevention capability in the operation process, and promote the healthy and sustainable development of the company, China Tobacco Zhejiang Company started to explore the establishment of an internal control system, and summarized the experience obtained.

Keywords: Tobacco industry; Internal control construction; Summary of experience

Along with the evolution of world economic development and business management, the development of internal control has undergone a long-term process, and a series of theories have been formed. National regulatory agencies have also introduced a number of regulations and policies to provide operational control for internal control practices. Internal control is a kind of management and control of risk; it is a control process requires the involvement of all employees. It requires the participation of the board of directors, the board of supervisors, management, and employees to achieve legal compliance, safe and complete assets, true and reliable financial reports so as to improve operational efficiency, and ultimately enable enterprises to achieve strategic goals.

1. Analysis of internal control problems of tobacco companies in China

Though some enterprises in China have made great progress in internal control, the overall enterprise internal control in China is still relatively weak. At present, the organizational structure of China's tobacco enterprises has undergone great changes. The overall scale of the enterprise has been expanding, the accumulation of funds has increased substantially, and the complexity and uncertainty of the domestic and international environment have also increased. In consequences, activity risks, business risks, and decision-making risks are also increasing. Large enterprise disease inevitably exists in some enterprises. For example, there may exist many systems and sub-systems. The development of information systems and the incompatibility, duplication, and waste of resources between various systems have led to the development of various systems in various industries, which indirectly increase costs. On the other hand, risk assessment is an important means and method for internal control of enterprises. At present, most enterprises in the tobacco industry do not have a sound and effective risk warning system. They lack the proper risk assessment system and their internal control is still in the exploration stage.

2. How to build an internal control system for enterprises——Taking China Tobacco Zhejiang Company as an example

On June 28, 2008, the Ministry of Finance and the Securities Regulatory Commission, the National Audit Office, the China Banking Regulatory Commission, and the China Insurance Regulatory Commission jointly formulated and issued the “Basic Standards for Internal Control of

Enterprises”; on April 26, 2010, the “Guidelines for Internal Control of Enterprises” was released, including enterprises internal control application guidelines, evaluation guidelines and audit guidelines. The guidelines further clarify how to guide enterprises and accounting firms to implement the guidelines.

In 2012, the State-owned Assets Supervision and Administration Commission and the Ministry of Finance issued the Notice on Accelerating the Construction of the Internal Control System of Central Enterprises (SASAC [2012] No. 68). The notice requires all central enterprises to attach great importance to internal control and strengthen the deployment and implement of internal control, take effective measures to ensure the effective implementation of internal control, and promote the continuous improvement of business management.

In recent years, the internal and external environment of the tobacco industry has undergone extensive and profound changes. In order to accelerate the adaptation to the new normal of economic development, the industry is firmly grasping the principle of “planning on major issues and improving images” and proposing higher requirements on fine management and regulatory management. In order to keep up with the pace of the industry, the management of China Tobacco Zhejiang Company has been standardized and refined in recent years. Although the remarkable progress has been made, there is still room for improvement in internal operational efficiency and control of operational risks. In this critical period where opportunities and risks coexist, strengthening management and striving to achieve cost-effectiveness is the only way to maintain and expand our competitiveness in the industry. The construction and implementation of an internal control system is not only the requirements of government regulatory department and industry management, but also the endogenous needs for the company's sustained and healthy development.

In this context, in order to further improve the internal control and operation management of China Tobacco Zhejiang Company, improve the self-restraint mechanism, strengthen the risk prevention capability in the business process, and promote the healthy and sustainable development of the company, the company started the internal control system construction project in early 2015 according to the goal of the five-year development plan of government regulatory departments, industries and companies. It has taken more than 3 years since the release of the “Implementation Plan of China Tobacco Zhejiang Company Internal Control System Construction”. After more than three years of efforts, the first draft of the Internal Control Manual of China Tobacco Zhejiang Company has been completed, which initially established an internal control system based on the actual situation of Zhejiang Company to reasonably guarantees the legality and compliance of the company's operation and management, asset security, financial reports and related information.

2.1 Full participation, top-down approach- start of internal control system construction

Internal control is more like an idea and a consciousness rather than a system, a set of documents or a series of procedures. Only when the senior management staff and all employees of the company have a deep understanding on internal control, and when the concept and awareness of internal control are embedded in the corporate culture, the internal control system can be effective for a long time. The construction of the internal control system in China Tabaco Zhejiang Company follows the original purpose to invite full participation and implement it from the top to bottom.

At the beginning of 2015, based on the internal and external management requirements of the

company, after passing the feasibility analysis, the company's finance department, as the lead department of the company's internal control system construction, convened the company's audit department, supervision department, office and other major system related departments, and established the internal control system construction office to discuss and formulate the internal control system construction plan. After several revisions and improvement, system construction plan has finally been formulated. The plan clarified the objectives, principles, work procedures, business scope, and work forms of China Tobacco Zhejiang Company internal control system construction.

In the plan, the scope and tasks of the Internal Control Office were clarified. According to the specific content of the enterprise internal control application guidelines, combined with the main business areas of the company, the business scope of internal control construction is determined, including capital activities, procurement business, asset management, sales business, engineering projects, research and development, business outsourcing, comprehensive budget, contract management and financial reporting. According to the ten business scopes, an implementation team was set up, the responsible persons and relevant administrators of each team were determined, and the responsibilities and tasks of the team leaders, administrators and internal control officers of each group were clearly defined. The division of labor and responsibilities were clear, and communication at all levels was smooth. In addition, the plan clarified the content, procedures and time schedule of the internal control system construction, the detailed phased results and requirements to ensure the smooth development of the internal control system.

2.2 Step by step, in an orderly manner - the development of internal control system

With the release of the internal control system plan, the follow-up procedures must be strictly in accordance with the internal control implementation plan. In 2015, the company's internal control management office convened the internal control team leader, administrator and internal control commissioner, and held the start-up meeting for internal control system construction. In the meeting, the background, objectives and working steps of the internal control system construction were introduced in detail. The "fund management" business activities were taken as examples to introduce the details of the internal control risks of fund management, the drawing of business flow charts, the investigation of control measures, and the improvement of system in detail. Till then, the construction of the company's internal control system was officially launched.

In the program, all work is carried out step by step, in an orderly manner. According to the plan, the internal control system construction is divided into the preparatory phase, the implementation phase and the improvement phase.

In the preparatory stage, the staffs involved are from the internal control system construction office and a leading group. The main tasks are the collection of data, the training of internal control and the establishment of the framework. The internal control construction office collects and reads the domestic and foreign literatures, relevant internal and internal control documents released by the Ministry of Finance within and outside the industry in accordance with the actual situation of the company, clarifies the objectives, significance, principles, basic methods and main content of the company's internal control following the requirements of the basic norms of internal control of the Ministry of Finance, and organize the basic framework of the company's internal control manual in accordance with the five internal control elements proposed by the internal control COSO Committee.

By collecting and sorting out the documents in the company's standardized management

system and document system, and classifying them into various business links, the Office of Internal Control System initially determined the scope of business involved in the project.

On this basis, the preliminary analysis of the business activities is conducted by the internal control system construction office and the implementation teams through several discussions. According to the "internal control system construction implementation plan", they basically completed the control objectives determination, process analysis, identification of key risk points, etc., and proposed corresponding control measures.

The second stage is the implementation stage of the internal control system construction, which is also the key stage. The personnel included are the implementation team, relevant financial personnel, and the internal control system construction office.

1. Determine the control objectives. The members from internal control system construction office shall confirm the risk control objectives of the control activities item by item according to the business links confirmed in the previous period to ensure that the risk control of the business links is within a reasonable range.
2. Initially identify the risk. The financial personnel related to the business will preliminarily speculate on the possible risk points based on their own experience and professional judgment.
3. Identify the business process. The team leaders of each department shall take the lead and cooperate with the relevant departments to draw a flow chart for each business.
4. Re-examine the risks. The relevant personnel of the implementation team will further discuss with the financial personnel to find out the possible risk points in each business link. In this process, the implementation teams can use different methods. According to the risk points of the business links discussed, these risk points are analyzed and evaluated point by point, and the degree of impact of the risks on the production management of the enterprise is determined, and some risk points with little impact are removed, and key risk points are determined. The team leader of the implementation team will lead the team members, personnel of financial and business departments to have a discussion or brainstorming and solicit opinions and suggestions from various channels so as to formulate measures to prevent key risks.
5. Supervise and inspect. Supplement the contents according to the template of the internal control guideline of the Ministry of Finance, and check whether the risks in the control activities are effectively controlled. Improve institutional support. The implementation teams collect and sort out the institutions related to their business activities. If there are any missing institutions or clauses involved in the key risk control points, the responsible department of the business will take the lead to supplement and improve the relevant institution.
7. Sort out and perfect it. The internal control system construction office sorts out the results of the discussion of each implementation group, and summarize the specific content of each control activity in a systematic way.
8. Draft the manual. Further sorting out the work results and data obtained at this stage, drafting the "China Tobacco Zhejiang Industrial Co., Ltd. Internal Control Manual (Preliminary Draft)"; finish the release, training and implementation of the manual.

The third stage is the continuous improvement phase of the internal control system construction. According to the company's development requirements, expand the coverage of the internal control system, continuously update and adjust the risk investigation methods on the basis of continuous improvement of various business control processes, and support them with information technology to form a complete internal control manual and maintain its effectiveness.

2.3 Group efforts, propose advices and suggestions – guarantee of the construction of internal control system

The construction of the internal control system relies on group efforts and full participation. Key personnel in key positions of each business link need to work together to provide suggestions so as to control the main risks and achieve the effect of internal control.

After more than one year's process review and risk investigation, each implementation team initially achieved some progress on their respective control activities. The internal control construction office took the lead in demonstrating the processes, key control points and risk control measures based on the results of each implementation group and checking for leaks.

In addition, the flow chart and key risk points of risk investigation was designed through the discussion of multiple financial business collections. At the seminar, the administrators of each group introduced the flow chart and control method of the activity; the business-related personnel initially judged the accuracy and completeness of the flow chart of each business control activity; and the "brainstorming method" was adopted to further propose the risks existed in business control activities.

In 2017, after more than two years of concerted efforts by nearly ten departments across the company, the "China Tobacco Zhejiang Company Internal Control Manual" was initially formed in line with the actual situation of China Tobacco Zhejiang Company. However, the internal control work is far from over. According to the company's development requirement, it is required to expand the coverage of the internal control system, continuously update and adjust the risk investigation methods on the basis of continuous improvement of various business control processes, and support them with information technology to form a complete internal control manual and maintain its effectiveness.

3. Summary of internal control system construction experience

Under the new situation, building an internal control system is undoubtedly a good choice for companies to increase their competitiveness. However, it is well known that a good developing enterprise works under the existing systems and rules is difficult to adapt to a new internal control system. Therefore, large companies often have certain difficulties in promoting internal control. Although the internal control construction in China Tobacco Zhejiang Company Zhongyan was not always smooth, with the unremitting efforts of all the implementers, the internal control system manual was finally completed, and the follow-up internal control implementation and evaluation would continue to advance. In summary, the construction of the internal control system needs to pay attention to the following key points:

3.1 The internal control system should be valued from top to bottom, with full participation.

Internal control is a kind of management and control of risk with full participation. If the leadership still has prejudice and believes that internal control is only a financial matter, it will not be able to fully construct a comprehensive internal control system, and it will only become a financial internal control system. Improving the understanding of internal control by enterprises and their personnel is an important measure to improve the internal control capability of enterprises. It is necessary to strengthen the propaganda of internal control. When the new accounting standards and the new tax law are just popularized, the state will increase its publicity efforts so that people can better understand it and contribute to the specific implementation process. Internal control is no exception. Strengthening publicity is to enable the management and employees of the company to recognize that internal control is at every stage of the business activities. Of course, only by raising the awareness of the internal control of enterprises and their personnel can the standardization of internal control be facilitated.

3.2 Internal control is dynamic management, and it requires constant adjustment and optimization.

The internal control system should be effective in the long-term and be adjusted with the changes in relevant business conditions, so as to continuously update, improve and adjust the risk investigation methods, and continuously innovate to play a continuous and effective role. The internal control system should be dynamic management, rather than merely a manual. For example, if the business process of the enterprise changes, the new system is launched, and new employees are in place, the internal control system should be updated and adjusted. The manuals and systems should be adjusted for the problems found.

3.3 The key of the internal control system is implementation and inspection, otherwise it will be invalid.

Although many listed companies and state-owned enterprises have established internal control systems, they've not been fully implemented the system. The weakest link in the internal control of Chinese enterprises is the unsound assessment, reward and punishment mechanism. The plan may be good, but since no one is going to check and review it, then the implementation effect will be greatly impacted. No matter how sound the system is, it is difficult to play its due role.

Under the development trend of the market economy, promoting the construction and improvement of the internal control system of enterprises is an inevitable choice. Although the internal control of Chinese enterprises has made some achievements, the reality is that China's national conditions result in the long-term construction process of the internal control system of enterprises. In view of the problems existing in Chinese enterprises, it is necessary to establish an internal control system of enterprises based on the market economy characteristics and the actual situation in China. For most companies, internal control is more like an idea and a consciousness rather than a system, a set of documents or a series of procedures. Only when the senior management staff and all employees of the company have a deep understanding on internal control, and when the concept and awareness of internal control are embedded in the corporate culture, the internal control system can be effective for a long time. In view of this, we must acknowledge that the road to internal control of tobacco companies is still very long and full of difficulty. China's tobacco enterprises are paying more and more attention to internal control, and the internal control system is gradually established and improved, which plays a great role in improving the management of enterprises, strengthening internal control and preventing internal control risks.

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