

Internal Control Problems and Improvement Measures of Manufacturing Enterprises

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Abstract

Since the reform and opening up, the market economy system has become more and more perfect, the development of enterprises is in full swing, and the manufacturing level is also improving, but at the same time, the drawbacks are highlighted, among which the problem of unsound internal control is more prominent. Based on the COSO internal control framework, this paper analyzes the current status of the internal control system of manufacturing enterprises from the five elements of internal control, finds the problems that still exist in the governance structure, internal audit, cultural construction and risk management of manufacturing enterprises in the internal control ring, and proposes effective methods and solutions to strengthen internal control and optimize the internal control environment.

Keywords

Manufacturing Enterprises; Internal Control; Problems; Improvement Measures.

1. Introduction

The world today is under the development background of economic globalization, along with the Internet of everything and technological innovation, various new enterprises are emerging and competition is becoming more and more intense. After Premier Li Keqiang put forward "Made in China 2025", China's manufacturing enterprises should take a long-term view, actively adapt to the new requirements of the market environment, and fully grasp the good opportunities brought by it.

Modern companies face such great opportunities that they are required not only to be flexible and fast to adapt, but in this environment strengthening internal control and risk management has been put into focus again and again, and it is an important initiative to regulate group governance. More and more companies are realizing the importance of improving their own internal controls, and the role that effective internal controls play in their own growth cannot be overstated. Especially for manufacturing companies, when the scale of the company grows to a certain level, the problems exposed and caused by imperfect internal control will inevitably hamper the development of the company. If companies want to maintain their value and continue to maintain a place in the flood of fierce competition, in addition to having the independent creation of technology, companies must further study corporate governance measures, enhance the awareness of internal control management, find the shortcomings of the enterprise itself, and take timely and effective measures to improve.

2. Overview of Theories Related to Corporate Internal Control

2.1. Sinternal Control Theory

It is a set of norms and systems that control and supervise each other and are closely linked within the enterprise in order to achieve its business objectives, protect the good condition of the enterprise's property, ensure the accuracy and reliability of financial information, ensure

the implementation of business policies, not to violate relevant laws and regulations, and ensure the economy, efficiency and effectiveness of business activities.

2.2. COSO Internal Control Framework

The framework contains the following five main elements. The internal environment, which is the key element that makes up the internal control environment and is the core of the other elements. It includes all aspects of the group from top to bottom, from the board of directors, management to employees, corporate authority and responsibility control and talent management, and will also serve as a reference for the audit department in terms of the degree of supervision and management; risk assessment, every group is exposed to many risks of external and internal origin that may pose a danger to the company, and its essence is a mechanism to identify the image of the company from the outside and develop appropriate solutions; control activities, which exist at all levels of the company's organizational framework and are the mechanisms that can help the company to Control activities, which exist at all levels of the company's organizational framework, are procedures that help the management to implement decisions smoothly, to ensure that the risks that the company has faced or will face can be actively addressed, linked to the risk assessment to achieve the purpose of risk avoidance; information and communication, which refers to the company's information requirements designed to be identified, accessed and disseminated in a timely manner in the course of daily business management activities. Facilitate employees to complete their work more efficiently and correctly; Supervision, which facilitates the evaluation of the internal control system, is continuously interspersed in the company's various business activities and has a strong independence, and is the process of evaluating whether the system is effective and reasonable.

3. Problems of Internal Control in Manufacturing Companies

3.1. Gaps in the Internal Control Environment

3.1.1. Inadequate Governance Structure and Organizational System

Although most manufacturing companies have established corporate governance structure according to legal requirements, the governance structure of the company is too theoretical and reveals various defects in daily operation. The board of directors of most companies is composed of internal employees, and the management right of the company is concentrated in the major shareholder alone, so that ownership and management rights are not clearly separated and the authority cannot be well exercised, and the board of directors cannot perform its duties. The supervisory board is a virtual body and cannot perform its duties well. The corporate governance structure that is not well organized and not clear enough in terms of authority and responsibility also leads to difficulties in information exchange, which affects the timeliness and accuracy of information and seriously reduces the efficiency of work.

3.1.2. Inadequate Human Resource Management

R & D capability is the more core competitiveness of manufacturing enterprises, so human resources are extremely important in addition to manufacturing resources, but many manufacturing companies lack strategic human resource management and talent development. At the very beginning of the recruitment of talent is not able to fully and completely understand the interviewees to find the strengths and characteristics of each person, so it is not possible to arrange the position in a targeted manner, resulting in employees not having the opportunity to fully display their abilities, will bury some of the ability. At the same time, the company lacks career planning for employees, so it cannot combine their personal goals with those of the company. In addition, manufacturing enterprises do not have an effective performance appraisal mechanism and in the payroll system, the lack of a certain degree of fairness will

reduce the initiative of employees, the increase in the rate of employee turnover will cause the instability of the enterprise staff structure.

3.1.3. Culture Building Away from Employees

The lack of sound values in building corporate culture usually reveals a number of problems. The relationship between the staff and the company should be closely related, but the process of developing and building the corporate culture does not allow the staff to actively participate and integrate into it, but only has the leadership to propose and advocate. For example, the corporate culture has little connection with the daily production and operation activities; the corporate culture is only superficial, shouting slogans, and does not integrate the leadership's management ideas and management style, which does not reflect the profound connotation, etc. And corporate culture is a spiritual factor, should become a cohesive force, the company from the board of directors down to the grassroots staff into a whole, and the lack of staff participation, which will bring a lot of resistance to the push of corporate culture, it is difficult to make the culture deeply rooted.

3.2. Inadequate Enterprise Risk Warning Model

The lack of a systematic risk early warning system and model within the enterprise leads to the company's early warning mechanism not being able to identify risks in a timely manner and lagging behind the occurrence of risks, and the lack of risk identification and assessment will lead to the greater risks faced by the enterprise in dealing with increasingly complex business activities, which will affect the effective implementation of the enterprise's relevant financial work and cause losses in the company's economic interests. For example, the company's investment decision errors, slow recovery of accounts receivable, inventory backlog longer, etc., these problems are due to the company's low sensitivity to risk, risk control is not timely, resulting in the expansion of the impact of risk. And the company does not have enough financial risk prevention and vigilance when making planning decisions, which will largely reduce the gradual growth of the enterprise in the future scale, thus increasing the degree of financial risk for the enterprise.

3.3. Deficiencies in Internal Control Activities

Many departments in manufacturing enterprises do not strictly implement the requirement of separation of incompatible functions, and incompatible functions are often performed by one person in the business, which is very likely to generate artificial fraud and cause economic losses to the enterprise.

Among the internal control activities of asset management, machinery and equipment required for manufacturing are particularly important for manufacturing companies, and inadequate maintenance of fixed assets or failure to replace them in a timely manner can impair or depreciate the value of the assets, and in serious cases, even pose safety risks, and affect the reliability of financial statements and audit results.

3.4. There is a Lag in Information and Communication

With the expansion of enterprises and business increase, information technology construction is an indispensable part of the business process, is to be able to grasp the production and operation of enterprises in a more timely manner, it is necessary to have good information system support. However, due to the long manufacturing industry chain, the workflow is complicated, and the volume of information is large, the communication between departments within the manufacturing enterprise is less, only dealing with the business involved in this department, due to the lack of timely information communication, some problems will inevitably be negligent, not to be able to timely find and effective information analysis. Some manufacturing enterprises in this aspect of information technology construction is obviously insufficient, the integration of enterprise information systems is not high, it is difficult to

provide timely, effective and complete information between departments, the quality and efficiency of communication still needs to be improved, but also increases the difficulty of enterprise management.

3.5. Insufficient Internal Audit Oversight

The internal audit department of an enterprise is the main supervisory department of the company, which is responsible for supervising the daily business activities of the enterprise and whether the control activities are carried out effectively, and the most important thing as a supervisory department is to maintain the independence of the department itself. However, the independence of the internal audit department of manufacturing enterprises is obviously insufficient at present, and the management has a weak awareness of internal audit, believing that the internal audit organization is only a formal need and not able to play a role in enterprise management. Many auditors do not have professionalism, but are drawn from the finance department, lacking the necessary risk identification ability and independent awareness. The audit department is parallel to most of the functional departments, is not given the right to supervise the company, and is susceptible to varying degrees of interference from management or stakeholders, preventing it from exercising its true function and making it impossible for audit supervision to be fully implemented. The credibility of audit results from an audit department that does not guarantee independence is greatly reduced and does not have reference value, making it difficult to provide valuable advice for the future development of the company. At the same time, many manufacturing companies do not establish monitoring and evaluation mechanisms and internal control system evaluation, which is not conducive to the identification of problems and the establishment of internal control systems that meet the needs of enterprises.

4. Enterprise Internal Control Improvement Measures

4.1. Optimizing the Internal Control Environment of Enterprises

4.1.1. Improve the Corporate Governance Structure and Organizational System

Enterprises should develop scientific and effective human resources strategy, talent as an important resource for enterprises, enterprises should reasonably help employees to give full play to their motivation, find the corresponding positions with their abilities, and make the best use of their talents. As the most solid backing for employees, enterprises should create a fair environment for employees, provide them with a greater platform to develop their skills and give them the appropriate authorization. At the same time, it is also necessary to develop a scientific and rewarding incentive mechanism, that is, from the staff performance, work ability and career awareness and other aspects of the examination, to be rewarded or promoted accordingly. This not only can fully and actively mobilize the staff, but also can stimulate the creativity of the staff to help the company achieve better development.

4.1.2. Conducting Scientific and Effective Human Resource Management

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4.1.3. Engaging Employees in Culture

Corporate culture, as a spiritual element, should become a combined force, integrating the company from the board of directors down to the grassroots staff as a whole, and merging the realization of personal ideals and the completion of corporate goals into one. Culture building is not simply led and built by the company's top management, but employees should not just passively accept and obey the company's values, but should actively participate in them. This will strengthen employees' sense of belonging and their sense of ownership, making them a part of the company's culture builders, so that they can share the same fate with the group. The company should hold a people-oriented employment concept, so that employees can stimulate creativity and realize the value of life in a good cultural atmosphere.

4.2. Improve the Financial Risk Evaluation System

Financial risks should be evaluated by setting up a system to measure the risks and monitoring them in real time. The company's financial indicators, such as debt service, receivables, inventory changes and operating profit, should be focused on to further evaluate the company's financial risk in relation to its actual business situation. At the same time, because the financial risks faced by the company at different stages of development and the needs to be avoided are constantly changing, financial indicators should also be kept up to date.

4.3. Strengthening Property Protection and Accounting Systems

Property protection requires that the company should take good care of original or foreign documents and documentation related to various properties, and back up critical or easily lost financial data. Secondly, the company is required to regularly reconcile its assets with the actual accounts, take regular physical inventory, or conduct random checks, and if problems or operations that do not conform to the prescribed system are found during the inventory check, the reasons should be identified, responsibilities should be pursued, and related matters should be resolved as soon as possible, so as to further strengthen the property protection and complete the asset management system.

The accounting control system and the company's accounting department should be set up according to the national unified accounting standards, with professional and highly qualified staff to ensure their business standards. Since the basic accounting work is relatively simple, it is easy for the company to ignore it, so the company is required to strengthen the entire process from the entry of accounting vouchers to the preparation of general ledger and ledger and financial reports to ensure that the whole process is true and complete.

4.4. Establish Enterprise Information Communication Mechanism

Enterprises should establish information and communication mechanisms, provide smooth communication channels for each department, clarify the collection, transmission and processing procedures of relevant information, ensure that information can be communicated in a timely manner, and promote the effective operation of internal control. Enterprises can use the same electronic information platform internally to provide employees with a good information-based office environment, ensure the availability and stability of information systems, and realize office data sharing, which can greatly shorten information transfer time. Between each department and each business step, the transmission and exchange of information should be strengthened. Business departments responsible for different processes should regularly report on the progress of their work, keep abreast of the business situation in other departments, communicate and coordinate the progress of work, so that information within manufacturing enterprises can be transmitted in a timely manner between all levels and further improve the efficiency of employees.

4.5. Enhance Internal Audit Supervision and Management

The internal supervision of the enterprise is mainly carried out by the internal audit department, so the internal audit department should always maintain a strong independence, not to be dependent on the finance department, work information directly to the company's top management, and not to have any related financial interests with other departments of the company. Because internal audit must penetrate enterprise management in many aspects and angles, the risks it faces are unpreventable, so enterprises should also adopt and develop appropriate pre- and post-audit plans to make up for the deficiencies that may be overlooked in post-audit. Enterprises can conduct special audits of various daily business operations, audit each cycle process, and should also conduct outgoing audits of important positions to establish a better audit system. At the same time, we should pay attention to the overall quality of the audit department staff, pay attention to the staffing, and reasonably arrange the audit work in order to improve the quality and efficiency of task completion.

5. Improving Internal Control Cases in Manufacturing Companies

Haier Corporation, the fourth largest white goods manufacturer in the world, has excellent internal controls that are worthy of study and reference by other manufacturing companies. According to Haier's financial statements, Haier's operating income has been growing for the past five years. Even after the outbreak of the new crown epidemic in 2020, although the enterprise was affected, its operating income reached 20,972,582,000 yuan, a record high for the year, and the current period increased by 4.46% over the same period of the previous year, and the net cash flow from operating activities of the enterprise reached 17,599, 111,715,000 Yuan, an increase of 16.68% for the period compared with the same period of the previous year. Haier, as a leader in the manufacturing of household appliances, has been able to achieve the results it has achieved today with a sound internal control system is inseparable. Haier pays more attention to the field of research and development of the enterprise, the enterprise found itself in the human resource management deficiency, timely improvement of the staff selection mechanism, by strengthening the research cooperation and talent complementary relationship with various well-known institutions, at the same time for the research and development of any heavy special attention, and with the talent center has a close communication, in order to let it recommend talent for the company, the establishment of excellent talent pool. It also broadens the channels for employee promotion, which plays a great role in improving employee satisfaction and reducing the employee turnover rate.

Haier uses the ERP financial control system, which is an extremely important internal control system that monitors and controls all departments of the group and has the ability to resist financial risks. the ERP system enables the company's operations to be conducted in a more structured and compliant manner, enabling effective financial monitoring and management. After the implementation of the system, the company can complete the whole process from customer purchase to factory order, production and processing to suppliers in just a few days, which improves the correctness and material turnover rate, and also greatly reduces the procurement and labor costs, so that the capital can be turned around faster and greatly improves efficiency.

And Haier has a complete internal supervision organization, divided into daily supervision and special supervision, which is mainly carried out by the Supervisory Board and Audit Committee of the Group, with strong independence. In terms of risk assessment, Haier has its own complete set of risk assessment process, which can identify the internal and external risks faced by the company in a timely manner, adopt scientific risk assessment techniques and methods to control the risks within an acceptable range, and can propose effective risk response plans.

6. Concluding Remarks

The use of internal control systems to govern the company has become a very critical topic to improve the company's management results, internal control is an important driver to improve the operating conditions of manufacturing enterprises, enterprises should fully understand its necessity and importance, the quality of the implementation of internal control is related to the development status of the enterprise. This paper analyzes the problems of manufacturing enterprises in various aspects of internal control and proposes corresponding improvement measures to ensure that enterprises establish better internal control mechanisms, improve the core competitiveness of enterprises, and promote the long-term development of internal control in manufacturing enterprises.

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