

# Research on the Current Situation of Internal Risk Control and Financial Governance of State-owned Enterprises: The Case of C Bank

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## Abstract

With the continuous deepening of world financial globalization and liberalization, and the high incidence of global economic and financial crises, effective internal control, as a key means to improve the core competitiveness of commercial banks, plays an important role in ensuring the stable operation of the banking system. Therefore, to correctly understand and grasp the uncertainties faced by the development of state-owned commercial banks, and to adopt effective measures to establish a complete, effective and reasonable internal control system will be a very realistic subject and a long-term task. This paper takes the internal control of state-owned enterprises as the main research object, understands the theoretical research of state-owned enterprises' financial governance and the investigation of the current situation of internal risk control, and based on the case analysis of C Bank, proposes corresponding solutions and improvement methods for the construction of state-owned enterprises' internal control.

## Keywords

Internal Risk Control; State-owned Enterprises; Financial Governance.

## 1. Literature Review

### 1.1. Research Status at Home and Abroad: The Current Situation of Risk Management in State-owned Enterprises

The international environment is in the context of the development of economic globalization, and my country's domestic socialist market economy is also constantly improving. Jing Yang (2018) believes that this poses a huge challenge to the development of state-owned enterprises, and the risk control problem of state-owned enterprises has also become the current A key factor restricting the development of state-owned enterprises. The risk control problem of state-owned enterprises has also become a key factor restricting the development of state-owned enterprises at present. With the continuous restructuring and continuous expansion of the scale of operation, under the combined effect of internal structural adjustment, external market risk and other factors, the operating risks of state-owned enterprises are prominent, and the reform of state-owned enterprises has always been the central link in China's economic system reform. At the same time, Zhiyuan Yang (2010) also believed that the risk control practice of state-owned enterprises obviously has the characteristics of industry specificity, individual differences, and discretionary measures.

### 1.2. Project Development Trends: Internal Management Problems Existing in State-owned Enterprises

Yanmei Jia (2019) pointed out that with the deepening of reform in my country to an unprecedented height, the channels for low-cost financing of state-owned enterprises are increasingly reduced, and the financing methods are single. As a result, state-owned enterprises face many risks in capital management and daily operation management. Due to the rapid

economic development, there is still a lot of room for improvement in the internal control of some state-owned enterprises. For example, the governance structure of enterprise internal control proposed by Yaqin Sun (2021) is not clear enough, the implementation of internal control is not in place, and the supervision mechanism is not perfect, etc. Multiple reasons hinder the development of state-owned enterprises. As well as Qiuyan Chen (2016) and others put forward various financial risks in the process of restructuring and M&A of state-owned enterprises; Jihong Zhang (2018) stated that in the process of deepening my country's reform and opening up, the overall operation of state-owned enterprises reflects the financing Costs, few financing channels, and single methods lead to internal control of state-owned enterprises. Various problems and risks faced in capital and daily operation and management will have an impact on the subsequent development of state-owned enterprises. Lin Wang (2011) pointed out that due to the late start of research on internal control in my country, the construction of internal control in enterprises is relatively lagging behind, and there is still a significant gap between the theory and practice of internal control in western developed countries. It is mainly manifested in the following five aspects: imperfect internal control system, lack of good internal control environment, inadequate awareness of risk control, lack of appropriate control activities, and weakened internal audit supervision.

### **1.3. The Academic Value of the Project: The Significance of Risk Control in State-owned Enterprises**

Rongrong Li (2009) believes that risk control is a serious issue in the economic system reform of state-owned enterprises, which is related to the exploration process of enterprises. Risk management involves many theoretical knowledge, including political economy, law and management. The internal risk control has corrected to a certain extent the defects in the governance structure of the current state-owned enterprises, and also provided theoretical guidance for the smooth progress of the inspection work, and explored the relevant aspects of the control and influence of state-owned enterprises. theoretical point. With the development of the market economy and the deepening of economic development, state-owned enterprises are facing various risks in decision-making, personnel, finance, information, etc., coupled with the unpredictability and uncertainty of risks, in order to ensure the enterprise's Healthy, stable and sustainable development, Shuxin Liu (2010) studied the risk control of state-owned enterprises from three aspects: risk identification, risk control and capital control. Zhen Qi (2018) and others said that the competition in the domestic market is increasingly fierce, and the financing risks faced by Chinese enterprises will also increase. Effective management and control of competitive financing risks is a necessary condition for deepening the reform of state-owned enterprises under the new situation.

## **2. Theoretical Research on Internal Risk Control of State-owned Enterprises and Investigation of Current Situation**

### **2.1. Overview of the Internal Control of State-owned Enterprises**

#### **2.1.1. Development Process**

The internal control of state-owned enterprises is constantly changing and developing. Changes have taken place with the development of the economy, the production scale of enterprises and the market environment. At this stage, the concepts and theories of internal control of state-owned enterprises are also more abundant and perfect. Summarize the development process of internal control of state-owned enterprises , has gone through the development stages of internal containment, internal control system, internal control structure, internal control overall framework, enterprise risk management, and integration framework.

### 2.1.2. The Concept of Internal Control of State-owned Enterprises

In my country, the development of internal control of state-owned enterprises is relatively late. Combined with the formation and operational objectives of the internal control framework of state-owned enterprises at this stage, the concept of internal control of state-owned enterprises is summarized: a process jointly implemented by directors, management and other staff, in order to achieve business results, efficiency, financial Actions taken to report reliability and compliance with applicable laws and regulations.

### 2.1.3. Factors Affecting the Internal Control of Enterprises

The elements that affect the internal control of an enterprise mainly include the control environment, risk assessment, control activities, information communication and monitoring. Based on the influencing factors and overall framework of the internal control of state-owned enterprises, it is concluded that the objectives of enterprise internal control mainly include the following aspects: to achieve enterprise governance risk prevention and control, enterprise operation risk prevention and control, enterprise reporting risk prevention and control, and enterprise cooperation Regulatory risk prevention and control.

## 2.2. The Status Quo of State-owned Enterprise Internal Control

At present, many state-owned enterprises focus on the management efficiency and core competitiveness of enterprises in the process of development. The implementation of these two goals is inseparable from the internal control of state-owned enterprises. However, in the real environment, some state-owned enterprises are difficult to adapt to the needs of management due to the lack of scientific and effective internal control measures.

### 2.2.1. Control Environment

First, the scale of state-owned enterprises continues to expand, resulting in more and more complex internal control environments. Second, some state-owned enterprises are still in chaos and cannot adapt to the new environment due to the influence of traditional enterprise concepts and development models, which makes internal control difficult. bigger. In addition, the organizational structure of the enterprise also affects the management effect of the enterprise. After the reform, the enterprise is still affected by the traditional management mode in terms of development mode and basic composition framework. These factors together lead to the complex and severe status quo of the internal control environment of state-owned enterprises.

### 2.2.2. Risk Management

Many state-owned enterprises have established risk awareness in the process of operation and practice, and have also established corresponding risk prevention systems according to their own development, but the overall level of risk assessment and management is still not high. Most of them carry out corresponding risk management and evaluation based on the interests of the department. Risk analysis and management are not based on the business decisions of state-owned enterprises in the market environment, and risk analysis and management are carried out on the basis of the development strategy.

### 2.2.3. Internal Control Execution

When state-owned enterprises carry out internal control, the corresponding control activities have not been fully implemented. There are still some state-owned enterprise accountants forging and altering accounting vouchers, tampering with accounting data, etc., and it is not uncommon for related accounts such as property liquidation and debt management to be unclear during the implementation of control activities. There is no scientific and reasonable planning and control of expenses, resulting in waste of funds, random spread of costs, and reduced profits.

#### **2.2.4. Supervision and Management**

At this stage, during the implementation of state supervision, the supervision work with the SASAC as the main core is prone to repeated supervision and supervision vacuum. In terms of social supervision, the auditors did not fully perform the audit functions and related procedures, and did not play an effective role in the supervision and management of the various work of the enterprise. In the internal supervision of enterprises, there are phenomena such as insufficient self-testing, weak internal control, and weak awareness of internal control.

### **3. Case Study on the Current Situation and Establishment of Internal Control of Bank of C Bank**

#### **3.1. Current Situation and Existing Problems of Internal Control of C Bank**

The 2012 annual report of C Bank emphasized the three lines of defense of internal control, and gave instructions on the construction of internal control from the company itself, the legal department, and the audit department. However, with the continuous advancement of banking reform, although C Bank is committed to learning advanced experience and has achieved certain results in internal control, many aspects are still not properly grasped, which has also led to the frequent occurrence of various cases. At present, from the perspective of BOC's internal control construction work, some weak links are at risk of breaking out of discipline, and there are also some problems.

##### **3.1.1. Insufficient Awareness of Risk Management**

Due to too much emphasis on product service and marketing, there are many negligence in risk control and many other aspects, such as lack of risk management atmosphere, imperfect system, backward technology and so on.

##### **3.1.2. Conceptual Understanding Deviation**

Due to the widespread misunderstandings, lack of solid management awareness, and unorganized and purposeless work, frequent violations occur.

##### **3.1.3. Low Efficiency of Internal Control Information Processing**

At present, a comprehensive management information system has not been established, which restricts the development of monitoring work, and cannot supervise the loans of branches in a timely manner, so it is impossible to grasp the financial status and credit level of customers.

##### **3.1.4. Insufficient Effectiveness of Internal Control**

In addition to the lack of soundness, the internal control work is also ineffective, and the system construction is backward, resulting in negligence in work, and the work efficiency of employees is relatively low, resulting in a waste of human resources. Fifth, the supervision mechanism needs to be improved. The degree of harm of supervision and risk is not compatible, which affects the effectiveness of its internal control to a certain extent.

#### **3.2. C Bank's Measures to Improve Internal Control in Recent Years**

According to relevant policy requirements and regulations, C Bank has also made certain improvements and improvements to its internal control work, which are mainly reflected in five aspects: working environment, risk assessment, control activities, information and communication, and monitoring.

##### **3.2.1. Working Environment**

Improvements have been made in terms of governance structure, internal control system, and human resources, and the structure of senior management such as the general meeting of shareholders, the board of directors, and the board of supervisors has been improved. Managers can better exercise their rights, and the establishment of the three-line defense

system has been further grasped. The front-end gate of internal control, while accurately cultivating employees, improving the quality of human capital plans, is conducive to the realization of comprehensive risk management, and ensuring the timeliness and effectiveness of internal control.

### **3.2.2. Risk Assessment**

With its three-line defense system as the core of its work, BOC has clearly divided responsibilities, continued to conduct risk assessments on the system in a timely and comprehensive manner, strictly implemented internal control work, consolidated the risk management structure, and implemented countermeasures and preventive measures in advance for different risks, so as to be able to respond to the market. Risk, credit risk and other liquidity risks.

### **3.2.3. Control Activities**

By not allowing separation of duties, authorization and approval, and reasonable budgets, the responsibilities of positions are clearly divided, and different positions are mutually restricted. The authorized management system of the whole bank can realize the complementation between positions, ensure the stable operation of the business, and formulate a budget management system at the same time. , clearly stipulate the budget content, budget implementation, etc., effectively resist the occurrence of risks.

### **3.2.4. Information and Communication**

Focus on information exchange and feedback, information analysis and research and information disclosure, accelerate the promotion of the three-way system from the management level, establish an information tracking mechanism, supplement the requirements of the internal control system, follow up the update of relevant regulations in a timely manner, and implement the internal control aspects of various departments. It also established a relatively complete information disclosure system, and supervised the implementation of the work in terms of information release and management operations.

### **3.2.5. Monitoring and Management**

Strengthen risk monitoring through on-site and off-site methods, and implement it from internal inspection, rectification, and supervision. Among them, focus on the use of off-site monitoring methods, and ensure the timely release of risk information by measures such as measuring key risk indicators and improving video monitoring mechanisms, and have countermeasures to deal with and prevent risks from occurring.

## **4. Based on C Bank's Opinion on the Improvement of the Internal Risk Control System of State-owned Enterprises**

By analyzing the existing problems of my country's state-owned commercial banks, taking C Bank as an example, it puts forward relevant suggestions for improving the construction of internal control for reference.

### **4.1. Establish a Sound Governance Structure**

One of the existing problems of state-owned banks is that the organizational structure is unreasonable and the mechanism for personnel control is not perfect. Therefore, priority should be given to improving the internal organizational structure. In terms of organizational structure, under the background of the domestic market environment, appropriately reduce the share of state-owned equity, introduce private investors, handle the relationship between all parties, and gradually establish a sound governance mechanism.



#### **4.2. Improve the Internal Control Environment**

First of all, enterprise managers should be trained to have a good management concept. This is the basis for guiding all employees to form correct moral values, and it is also an important basis for improving corporate reputation and maintaining market position in the market competition environment. Secondly, to improve the internal control environment of enterprises lies in establishing a good corporate governance structure, providing enterprises with various frameworks for planning, executing, controlling and supervising the implementation of activities, and guiding the effective implementation of internal control work. Strengthen the role of the board of directors so that the board of directors can exercise supervisory responsibilities on behalf of shareholders in the process of corporate internal control.

#### **4.3. Strengthen the Construction of Information Systems**

On the one hand, a perfect information system can transmit information in a timely and effective manner, and on the other hand, it can also assist in the construction of internal control, improve the accounting information system, pay attention to the algorithm of internal accounting, strengthen the supervision of information transmission and processing, and realize the effective information Communication and transmission are conducive to business management, and computer security precautions are taken to ensure the normal operation of the system.

#### **4.4. Improve HR Policies**

Internal talents are also an important factor in work operation. Reserve internal control talents, make scientific and reasonable allocation of human capital plans, actively absorb outstanding talents at home and abroad, and through training work and improving employee quality, we can tap the potential value of employees and improve their abilities. and quality, reduce internal control risks from the source. In accordance with the principles of science, streamlining, efficiency, transparency, and checks and balances, and comprehensively considering factors such as the nature of the banking industry, development strategies, cultural concepts, and management requirements, internal functional agencies should be reasonably set up, the responsibilities and authorities of each agency should be clarified, and overlapping and missing functions should be avoided. Or the powers and responsibilities are too concentrated, forming an internal control working mechanism in which each performs its own duties, assumes its own responsibilities, mutually restricts and coordinates with each other.

#### **4.5. Play the Role of Internal Supervision and Audit Mechanism**

Ensure the independence of the supervision and audit department, and strengthen the supervision and audit awareness of internal control. From the government level, the role of enterprise supervision can be brought into play, so that the SASAC and external auditors can evaluate and guide the development and management of enterprises; the internal control of enterprises has also been further strengthened to comprehensively improve the overall quality of internal auditors and accounting managers. Taking C Bank as an example, it is in a constantly changing market environment. Internal supervision and auditing departments should be given real independence, so that they can continuously supervise and audit the internal control system of the bank. The supervisory and management agency of the C Bank shall formulate scientific, reasonable and unified supervisory systems and procedures.

### **5. Conclusion**

Under the new situation, the development opportunities and risks of state-owned enterprises coexist, which also requires banks to strengthen the requirements for risk management and

internal control. The risk factors of enterprise development are diverse. Risk management, as a preventive measure against risk factors in the process of bank development, can ensure the sustainability of development and help state-owned enterprises to carry out better financial governance.

## Acknowledgments

This research is supported by the 2021 National College Students Innovation and Entrepreneurship Training Program of Anhui University of Finance and Economics "Internal Risk Control and Financial Governance Coupling under the Background of New Development Pattern - Analysis from State-owned Enterprises in the Yangtze River Delta Region" (Grant No. 202110378082).

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