

From the Perspective of Internal Control, Small and Medium-Sized Enterprises Financial Management Risk Research

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Abstract: As an important driving force of social and economic development, small and medium-sized enterprises play a huge role in promoting employment, stimulating innovation and increasing economic vitality. However, with the increasing changes of market economic environment, SMEs are facing new opportunities and challenges. SMEs have problems in the internal control design and implementation, which can lead to financial management risk in practical operation. Financial risks will not only threaten the survival and development of SMEs, but also affect on the stable and healthy operation of the national economy. From the perspective of internal control, this paper analyzes the status quo of internal control of SMEs, explores the risks of financial management, and puts forward solutions, in the hope that SMEs can reduce the potential risks of financial management by improving the effectiveness of internal control.

Keywords: Internal Control; Small and Medium-Sized Enterprises; Financial Management

1. Overview of internal control

Internal control is an important way to improve corporate governance. The establishment of enterprise internal control system needs the joint participation and cooperation of owners, management and employees. Scientific, standardized and efficient enterprise internal control system can improve the overall management level, improve the quality of financial report information, and promote the legal compliance of enterprise business activities. Efficient internal control is conducive for enterprises to make scientific investment decisions, promote the rational circulation of capital, and improve the efficiency of capital use. Failure of internal control will affect the normal operation of the company, increase the possibility of financial fraud.

2. The relationship between internal control and corporate financial management

2.2 The objectives between financial management and internal control are consistent

Enterprise risk management framework proposes that internal control objectives include strategic objective, business objective, reporting objective and compliance objective, and the ultimate goal is to maximize enterprise value. From the purpose of financial management, the objectives of financial management include maximization of enterprise value and sustainable increase of enterprise capital. Overall, the objectives between financial management and internal control have consistency.

2.1 Internal control and corporate financial management support each other

The design of the internal control system and the implementation of relevant rules are important guarantees for the smooth development of the company's financial management. On the one hand, by establishing and improving the internal control system, SMEs can standardize the company's financial management process, strengthen the business process supervision, reduce human factor's impact on finance, make financial management more scientific and standard, and improve the efficiency. On the other hand,

from the view of financial management, financial management can provide support for optimizing and improving the internal control system, for efficient financial management can improve the quality of financial accounting information, which provide a platform of communication for the internal control of enterprises.

3. Internal control status of SMEs

3.1 The consciousness of the company's main body is weak

The whole staff and whole process are internal control's traits. The company management's attitude has a direct impact on the design and implementation of internal control system. SMEs' founders usually wear many hats, which is easy to produce "Hoodwink the public" phenomenon. Compared with large and medium-sized enterprises, the management concept and system of SMEs are less systematic. Knowledge structure and professional ability reduce their willingness to establish and improve internal control, which further affects the concept and executive e behavior of employees.

3.2 Lack of effectiveness in internal control design and execution

According to industry characteristics, business scope, growth stage and other actual conditions, enterprises should scientifically design the internal control system. As the internal control has the limitation of cost, SMEs are faced with the financial pressure from inside and outside for a long time, so they ignore the design of internal control. Even if the company has established internal control system and norms, the organization members still rely on subjective understanding and cannot deal with the relationship between rationality and flexibility due to their weak awareness and inability to act in full accordance with the control system. The design of internal control is not sound , and compared with the expected effect, the policy implementation has a large deviation, which reduce the efficiency of risk management of SMEs.

3.3 Ignore internal environment construction

As the foundation of the five elements of internal control, the internal environment has a decisive effect on the effectiveness of the design and operation of the internal control system. From the view of organizational structure, the SMEs' organization structure is flexible and simple, and the governance structure and institutional setting are less systematic and professional. Some SMEs fail to adjust the organizational structure according to the actual needs, such as the development stage, business scope and operating conditions, which does not conform to the adaptability principle of internal control. For example, the enterprise has established a warehouse, but the purchasing department is responsible for the storage of goods stored in the warehouse. The distribution of powers and responsibilities is unclear, which is not conducive to supervision. From the perspective of human resources, SMEs neglect the selection and training of professionals and key positions. Accountants and auditors generally have poor professional skills and appear to occupy multiple positions. From the point of corporate culture, SMEs ignore the construction of corporate culture. And many SMEs' management concept is concise and rough, and do not pay attention to the construction and transmission of core values within the enterprise.

3.4 Insufficient risk assessment mechanism

COSO04 divides internal assessment into four links: goal formulation, risk identification, risk analysis and risk response. Risk assessment is an important process of internal control, which is of great significance to the realization of goals. Currently, most small and medium-sized enterprises in our country have failed to establish a complete, scientific and operable risk assessment mechanism. In the link of goal setting, because the managers of small and medium-sized enterprises have sole authority, they seldom introduce professional opinions in the goal setting, which makes the process of setting enterprise strategies and goals lack objectivity and rigor. In the link of risk identification and analysis, limited by cost, professional knowledge and efficiency, small and medium-sized enterprises cannot scientifically and efficiently use quantitative and qualitative methods to identify and analyze potential risks. Due to inadequate risk analysis, enterprises may choose risk sharing or acceptance when they should adopt risk avoidance strategies, which results in serious damage to the interests of enterprises.

3.5 Lack of efficient information communication and feedback mechanism

Information and communication refers to that enterprises can accurately, timely and utmostly access to internal and external related policy, market, technology and other information, and effectively transfer it internally to provide strong support for the decision making of managers in daily business activities. At present, SMEs have not established a perfect internal information communication and feedback mechanism, which makes the communication between employees, employees and leaders, departments and departments is not smooth. Even if employees find problems, it is difficult to timely report to the leader, increasing the risk of financial fraud.

4. Financial management risks of SMEs

4.1 Investment risk

In the relevant important investment decisions, due to the lack of sound internal control system, SMEs cannot strictly follow the collective decision-making or joint signing system when facing "three heavy and one big" decision, which is prone to incur the phenomenon of "one person has the final say". Influenced by the personal knowledge, experience and subjective emotion of decision-makers, the management is prone to blindly make investment decisions without adequate due diligence and budget management, which increases the risk of errors in investment decisions resulting in a large gap between expected earnings and actual recovered funds.

4.2 Asset security issues

The core idea of internal control is internal containment, incompatible job separation is an essential means to achieve internal containment. SMEs do not strictly follow the principle of incompatible job separation between important posts and critical control points in the institution establishment. There are phenomena that personnel both approve and execute, cashiers both manage money and keep accounts, accounting personnel both record detailed accounts and record general accounts, which increases the risk of asset loss of enterprises.

4.3 Information quality risk

The improvement of corporate governance and strengthening of internal control rely on accounting information carrier. One of the goals of the internal control is to ensure that the financial report information is authentic and complete. The manifestation of the internal control failure is lack of internal supervision, which increases the subjectivity of financial workers when preparing financial statements. The decline in the quality of the accounting information makes it difficult for the company's stakeholders to make correct decisions.

4.4 Financial fraud

Mutual check and balance is an important idea for enterprises to implement internal control. Means to achieve the checks and balances include incompatible job separation, authorization and approval, accounting system, budget management, etc. Due to the imperfect internal control and low quality of internal audit of SMEs, the effectiveness of the supervision of the whole business process and production and operation activities is reduced, which increases the possibility of collusion and fraud of personnel in key positions. Corporate financial fraud will not only affect the cash flow of, cause the enterprise to be punished by the law, impact on the reputation, but also make the enterprise lose the development opportunity.

5. Measures to prevent financial management risks of SMEs

5.1 Attach importance to the construction of internal control

As the organizer and participant of internal control, the enterprise management should attach importance to the design and implementation of internal control, and play an exemplary role in the daily business activities. When involved in "three heavy and big one" matters, the enterprises should actively adopt the opinions of all parties, implement the collective decision-making or joint signing system, do not make decisions alone and arbitrarily change the collective decision-making opinions, which is beneficial to

reduce the errors of investment decisions. The internal members should enhance the consciousness of internal control, participate in designing and implementing of with the mentality of the hero, and actively implement the relevant provisions of internal control.

5.2 Improve the internal environment of enterprises

In terms of organizational structure, SMEs should adhere to the adaptability principle of internal control, according to their own development stage, business scope and actual conditions, adjust organizational structure to make it more scientific and reasonable. In the design of specific posts, combined with business characteristics and internal control requirements, enterprises should implement the principle of incompatible job separation and mutual checks and balances, clarify post responsibilities and authority, and strengthen the supervision of daily business activities and processes to reduce the occurrence of partnership fraud. In terms of human resources, enterprises should strictly screen the personnel selection and staffing in key positions, hire professionals for financial work, and carry out regular on-the-job training. Managers should combine scientific management with artistic management, strengthen flexible management, attach importance to the establishment and publicity of enterprise core values, and cultivate employees' collective sense of honor, belonging and participation.

5.3 Improve the efficiency of risk assessment

Risk assessment is an important process to ensure the realization of internal control objectives. In the link of goal formulation, enterprises should establish a strategic committee, comprehensively use the macro, meso and micro environment analysis tools, formulating reasonable strategic objectives based on the actual needs and risk tolerance. At the same time, enterprises should adhere to contingency thinking and dynamically adjust their goals. In the link of risk identification and risk analysis, quantitative and qualitative analysis methods should be adopted by SMEs to accurately identify risks in the financial management. In the link of risk response, enterprises should weigh costs and benefits, and evaluate their own risk tolerance and risk capacity. When the cost of risk response exceeds its benefits, enterprises should adopt risk avoidance strategies to reduce the loss of enterprises.

5.4 Establish a sound information communication and feedback mechanism

Information and communication is an important condition for the realization of enterprise internal control objectives. SMEs should establish an efficient information communication and feedback mechanism, timely grasp the efficiency of the implementation of control activities, and adjust the control activities according to the feedback. SMEs should establish a perfect upward and horizontal communication mechanism to reduce the communication barriers. It is necessary to establish and improve the internal supervision and reporting mechanism to strengthen the internal supervision, so that the employees can quickly report to the management after discovering the financial fraud and illegal occupation or misappropriation of assets, so as to reduce the loss of enterprise assets.

6. Conclusion

The design and operation of the internal control system lacks effectiveness. Small and medium-sized enterprise internal control problems are mainly manifested in the staffs' weak consciousness of the participation, unreasonable governance mechanism, poor human resources team, and the imperfect information communication and feedback mechanism. These problems will increase the possibility of enterprise investment decision-making errors, and reduce the enterprise accounting information quality, which increase the risk of financial fraud. From the five elements of internal control, SMEs should attach more importance to the construction of internal environment, improve the risk assessment system, strengthen the information communication and feedback mechanism, reduce the probability of financial management risk, to promote the long-term and steady development of enterprises.

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