

Research on enterprise internal control based on risk management

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Abstract: with the continuous development of economy, more and more enterprises begin to pay attention to the internal control of enterprises, but also realize the importance of risk management. However, due to the late start of the research on internal control in China, there are still many imperfections in the establishment of the internal control system, which makes the internal control not fully play its role. This paper first explores the relationship between internal control and risk management, then discusses the problems existing in the risk management of enterprise internal control, and finally puts forward the strategy of establishing a risk-oriented internal control system, and puts forward some suggestions for the construction and improvement of the internal control and risk management system.

Key words: risk management; Enterprise; internal controls

1. The relationship and difference between internal control and risk management

Modern internal control originated in the United States, and the emergence of enterprise internal control was after the industrial revolution. After the British Industrial Revolution, the internal revolution of enterprises has experienced three stages: the internal containment period of internal control, the audit oriented period of internal control and the risk management period of internal control in the last stage. Through the three stages of development, internal control has changed from the initial emphasis on control activities to the 1940s and 1980s, when the audit industry was promoting the development of enterprise internal control theory, forming the audit orientation of internal control, laying the foundation for internal control theory, and then to the current period of risk management and control of internal control, Internal control has developed into managers, owners and other stakeholders who begin to pay attention to the internal of enterprises. The risk management of an enterprise is to discover the potential risks existing in the operation and management of the enterprise through management means, and to avoid risks by adopting reasonable methods to ensure the safe operation of the enterprise. Through risk management, enterprises can effectively foresee or avoid the risks existing in the operation process of some operations and reduce the loss of enterprise interests. Internal control is a means of risk management. Enterprises connect all departments of the enterprise to greatly improve the efficiency of information transmission and ensure the authenticity of information.

The development of internal control theory is marked by the four reports issued by COSO committee, as shown in Table 1. The internal control system is controlled by Control environment □ risk assessment □ Internal control Activities, information and communication, and supervision are composed of five elements, which depend on the way the management manages the enterprise and are integrated into the management process itself, and their relationship can be expressed by its model. It can be seen that internal control has become a core means to help enterprise managers manage risks. Risk management and internal control are inseparable, both of which are of great significance for the sustainable development of enterprises. Risk management is the core of internal control and the goal of internal control. Internal control is a means of managing risk.

Table 1 report documents issued by COSO committee

time	Report file	primary coverage
1992year	Internal control - Integrated Framework	The internal control framework, which has been recognized worldwide, adds risk assessment to the elements of internal control for the first time.
1996year	Internal control issues in the use of derivatives	It points out that the model for managing the risks related to derivatives can be used to manage almost any type of risk in enterprises.
2004year	Enterprise risk management - overall framework	The risk theory has been redefined. This framework reflects the requirements for comprehensive risk management and is a milestone for the beginning of internal control towards risk management.
2013year	2013th edition of internal control - Integrated Framework	Further identify that internal control is a process composed of continuous tasks and activities of the organization, and emphasize the response of the organization's board of directors, management and other personnel.

At the same time, the process of enterprise management is the process of opportunity acquisition and risk prevention. Through the functional means of internal control, managers keep the risks throughout the implementation of the enterprise strategy within the tolerable risk capacity. Risk management refers to the management process of how to minimize the possible adverse effects of risks in a certain risk environment of the project or enterprise. Therefore, more emphasis is placed on strategic decision-making. If it is to solve the problems of enterprise operation and management, risk management must rely on internal control to achieve the expected effect and truly realize the management of risk control.

There are many ways to classify risks, which are linked with internal control. Risks can be divided into two categories: controllable risks and uncontrollable risks. Uncontrollable risks mainly include policy changes, natural disasters, macroeconomic changes, etc. Controllable risks mainly include risks at the enterprise operation level.

Generally speaking, internal control controls controllable risks, that is, risks at the operational level. It can also be seen from here that enterprise comprehensive risk management is about the management of all risks, while internal control is about the management of controllable risks, which is the difference between internal control and risk management.

2. Problems in risk management of enterprise internal control

2.1 Internal control objectives are not perfect

Internal control objectives refer to the tasks or standards that internal control is required to complete. Only by determining the correct internal control objectives can we ensure that the internal control in the enterprise runs in the right direction. Since 2008, relevant national departments have successively introduced laws and regulations related to internal control, which plays a role in promoting the development of internal control in China, and internal control has become more and more important in China. At the same time, the enterprise crisis caused by internal control defects also made more enterprises aware of the importance of internal control. For a time, academia and the industry set off a boom in the discussion and implementation of internal control. However, from the perspective of the operation of the internal organization of the enterprise, the effect of the implementation of internal control has not reached the expected effect. Control did not work as expected. If the internal control objectives are not perfect enough, the internal control will have errors in the operation direction of the enterprise, which will cause the adverse development of the enterprise.

2.2 Internal control environment is not perfect

The elements of the control environment include an enterprise's risk management philosophy, risk appetite, the supervision of the board of directors, integrity and ethics, the ability of employees, the way of allocating rights and responsibilities, and how to organize and improve the ability of employees. The CSRC released 20 typical illegal cases verified by the CSRC in 2020. The problem with these cases is that the company's control is missing, the business process has internal control defects, or the internal control related to financial reporting has defects. All these behaviors reflect the imperfect internal control environment of these companies. And similar to the enterprises in the case, there are many enterprises with poor internal control environment. The facts show that the internal control system will not achieve good results only if the internal control system, methods and measures of the enterprise are not concerned with the internal environment on which the internal control depends.

2.3 Lack of perfect risk management mechanism

Enterprise risk management refers to the method and process that enterprises try to control the results of various uncertain factors within the expected acceptable range in the process of achieving future strategic objectives, so as to ensure and promote the realization of the overall interests of the organization. With the continuous development of economy, more and more enterprises begin to pay attention to enterprise risk management, and establish the corresponding risk management mechanism within the enterprise. However, the risk management mechanism established under their guidance is not perfect because many managers themselves do not have a clear understanding of internal control and risk management. If there is no perfect risk management mechanism, it can not guarantee the effective development of enterprise internal control. Therefore, in order to strengthen the improvement of risk management mechanism, enterprises need to strengthen the understanding of enterprise managers on internal control and the importance of risk management. At the same time, professional talents with professional knowledge of risk management should be employed to establish a risk management mechanism suitable for the enterprise according to the actual situation within the enterprise and strengthen the risk management of the enterprise.

2.4 Lack of good risk management awareness

Because the domestic research on internal control started late and the basic professional knowledge of theoretical research was not solid, although the upsurge of establishing internal control system in enterprises was set off in the early stage, many enterprises have established internal control system in enterprises, but due to the lack of domestic research on internal control, many people have invested in the research, But few of them can achieve practical results. As a result, when the management of enterprises implement internal control, without the guidance of theoretical knowledge, many enterprises can only cross the river by feeling the stone, while studying the internal control system and constantly improving it. Especially for the risk management of enterprises, many enterprises do not pay attention to the importance of risk management at present. As a result, the top managers of enterprises lack the awareness of how to manage enterprises in the face of enterprise risks. This will cause enterprises to be at a loss when they really face the risks existing in enterprise management, which will seriously damage the operation and management of enterprises.

3. Establishment and improvement of internal control system from the perspective of risk management

The five classic elements of internal control are control environment, risk assessment process, information system and communication, control activities and supervision of control. Therefore, in order to establish and improve the internal control system from the perspective of risk management, these five elements must be considered. The control environment is an important foundation, risk assessment is an important link, control activities are important means, information system and communication are important conditions, and important guarantee for the supervision measures of control. From the perspective of risk management, to establish and improve the internal control system, the author believes that it should be divided into the following two points:

First, the managers of enterprises should strengthen the awareness of risk management of enterprises and realize the importance of risk management. The management of an enterprise should keep abreast of the implementation effect of internal control at any time and make

timely corrections if problems are found. At the same time, it should also regularly provide professional knowledge training to employees of the enterprise to ensure that each employee understands what internal control is and the role he plays in the internal control system. If you want to better prevent and reduce the losses caused by the risks faced by the enterprise, the operators of the enterprise are required to fully grasp the dynamic situation of the enterprise, understand some business risks that the enterprise may face in the future, and the composition of the internal staff of the enterprise. It is suggested to improve the internal control system to control the risks.

Second, strengthen the management of internal control and supervision mechanism. Enterprises can strengthen the establishment of supervision mechanism, formulate the corresponding rules and regulations of various functional departments within the enterprise, strictly check the work attitude and performance of employees, and strengthen the management of employees through a series of ways and means of performance management through performance management, Focus on “how to translate the strategic objectives of the organization into the daily actions of employees”.

4. Concluding remarks

Facing the changing market, enterprises should fully realize the importance of enterprise risk management. On the one hand, we should establish an efficient and effective internal control system according to the actual situation of the enterprise, and at the same time realize that we should combine the risk management and internal control of the enterprise to manage the enterprise. On the other hand, if we want to better manage the enterprise, we must improve the risk management awareness of managers, and make managers clearly know the importance and relevance between risk management and internal control. Then, according to the actual development of the enterprise, timely adjust the operation and methods of the enterprise, and constantly improve the internal control system of the enterprise, so that the internal control of the enterprise can be more efficient. At the same time, when facing risks, the enterprise can know how to face it, and ultimately promote the benign development of the enterprise.

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