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Research on the Problems and Countermeasures of Monetary Capital Internal Control in Small and Medium-Sized Enterprises

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Abstract: Small and medium-sized enterprises (SMEs) constitute the primary drivers of production within the nation's existing enterprise landscape. They represent the most dynamic segment of the national economy and play a pivotal role in supporting economic growth, fostering employment, and enhancing people's livelihoods. However, despite their significant and extensive organizational structures, only a fraction of these companies have established internal control systems, and even fewer possess robust ones. Building upon this premise and considering the prevailing circumstances of SMEs, this paper undertakes an empirical analysis of monetary fund management within this sector. It delves into the operational intricacies, exploring how monetary funds should be effectively implemented to ensure their safety and integrity. Furthermore, it proposes viable strategies to enhance the circulation efficiency of monetary funds, thereby maximizing benefits for enterprises. Addressing these challenges is crucial for SME managers striving to achieve sustainable profit growth and navigate the complexities of financial management.

Keywords: Monetary funds; Internal control; Optimization scheme

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1. Objectives and principles of internal control of monetary funds

Internal control comprises a series of internal supervision systems mandated by the board of directors, the board of supervisors, and managers, in accordance with national laws and regulations, to achieve control objectives. The internal control of a company's monetary funds primarily aims to ensure the safety, authenticity, and effectiveness of the company's monetary resources.

1.1. Objectives of internal control of monetary funds

1.1.1. Security objectives

Ensuring the security of funds is the fundamental goal of an enterprise's internal control. Monetary funds, being the paramount resources for an enterprise, serve as the lifeblood of its operations and development. The safety of monetary funds hinges on the establishment of a comprehensive internal control management system within the enterprise [1].

1.1.2. Integrity objectives

The integrity of monetary funds primarily pertains to the company's receivables, ensuring that business income is fully accounted for, accounts receivable and outstanding balances are promptly recoverable, and provisions for bad debts are made for unrecoverable amounts.

1.1.3. Legitimacy objectives

The company's operations must adhere to the legal requirements of the country, ensuring that monetary funds are utilized and managed in accordance with relevant laws and regulations. Economic activities should be conducted within the confines of the law, and proper procedures must be followed for the sources, purposes, and storage methods of various funds involved in business activities to monitor their legitimacy.

1.1.4. Efficiency objectives

Efficiency of monetary funds refers to the enterprise's ability to make rational and efficient use of idle funds, facilitating fund circulation and achieving returns higher than bank deposit and loan interest rates. This prevents idle funds from accumulating in the company's or bank's accounts, thus averting wastage of the company's capital resources and maximizing the value of its monetary capital.

2. COSO internal control model

The COSO internal control model, also referred to as the "COSO Internal Control Framework," fosters continuous improvement in operational efficiency through internal control mechanisms and significantly enhances the quality of financial reporting. The framework encompasses five key aspects: environmental control, risk assessment, activity control, information dissemination, and monitoring. By employing this structure, organizations can receive assistance in establishing and enhancing their internal control systems.

3. The internal control environment of monetary funds

By considering the principles and objectives of monetary internal control and the COSO internal control model, several issues arise in enterprises regarding the internal control of monetary funds.

3.1. Poor implementation of division of powers and responsibilities

In some enterprises, when establishing institutions and departments, the board of directors becomes the decision-making body, while management and various project organizations serve as the executive body, and the supervisory board acts as the oversight body. It is imperative to align the three powers within the corporate governance structure, clarifying the company's responsibilities, authority, personnel count, and workflow to conform with the company's establishment.

3.2. Lack of risk awareness in internal control

Some companies, when setting up internal controls, primarily focus on dealing with supervision and review from relevant departments, overlooking the subjective understanding of operational risks associated with monetary funds. The attention to internal control is insufficient, and little consideration is given to its implementation. Often, when expanding the size of monetary funds and controlling internal risks, the former is prioritized. Moreover, many company managers and employees perceive internal control of monetary funds as unrelated to other departments, overlooking the fact that monetary funds are integral to daily operations.

3.3. Insufficient quality training mechanism for financial personnel

Talent constitutes the most fundamental internal force for enterprise sustainability. The personal quality of financial personnel not only determines their ability to perform specific financial tasks but also significantly impacts the quality and effectiveness of financial management and internal control within the enterprise. Hence, in selecting and recruiting accounting talents, attention should be paid to their professional qualifications and attributes relevant to the applied positions.

3.4. Low awareness and recognition of the internal control system among employees

Many small and medium-sized enterprises (SMEs) lack a dedicated internal control system manual or promotional guide. Some means and methods related to the effective operation of the internal control system are only documented within specific departments, rendering them mere formalities. Additionally, enterprises neglect to educate employees on the internal control system, resulting in low awareness and understanding among staff, hindering its implementation in actual work, and limiting opportunities for continuous exploration and validation of its correctness and effectiveness.

3.5. Inadequate approval and execution of monetary fund investment activities

The absence of a clear classification of risk projects based on their importance according to the risk matrix model may lead to biased risk assessment, impacting the selection of risk mitigation measures. Consequently, currency risks may not be adequately minimized. Moreover, as the internal and external environment changes, the importance order of risk projects may shift, necessitating timely reassessment from a dynamic perspective to enhance the accuracy of assessment results.

3.6. Insufficient and limited internal control information and communication for monetary funds

Despite the small size of the enterprise, inadequate information provision often hampers effective and complete transmission during collaboration processes. Delayed information transmission may result in operational losses, while failure to identify appropriate communication objectives may lead to conflicts between individuals and tasks, thereby undermining overall collaboration effectiveness.

4. Optimization plan for internal control of monetary funds

4.1. Strengthening pre-supervision

The specification should encompass three stages: pre-evaluation, implementation, and post-evaluation. Building upon this framework, this paper advocates for the necessity of pre-supervision. Thus, it is imperative to allocate adequate attention to this aspect and enhance it, even necessitating the establishment of a risk management team when deemed necessary. Extending internal oversight to preparatory work helps to prevent fund damage at its root cause.

4.2. Strengthening control environment construction

4.2.1. Clearly defining post functions and powers, and enhancing post connectivity

A well-defined institutional structure enhances organizational efficiency and efficacy. While the financial department is integral to enterprise management, its ownership structure may give rise to latent connectivity issues, thus diminishing management efficiency. Often, finance departments operate as separate entities within many companies. Therefore, companies should prioritize the independence of the finance department or consider its redistribution to mitigate fraud risks [2].

4.2.2. Improving the quality of financial personnel and emphasizing training and assessment

During the recruitment process, emphasis should be placed on the fairness and transparency of accountant selection. Additionally, enterprises should encourage continuous education and training for their employees while establishing a comprehensive salary and bonus system to consistently enhance overall enterprise quality. Accountants should stay abreast of the latest financial policies and national reform regulations, continuously updating their theoretical knowledge. Tailored training programs should be provided across different categories and domains to foster ongoing professional development.

4.3. Strengthening risk management awareness

4.3.1. Enhancing risk awareness and identifying risk points

Every market entity faces internal and external risks. Therefore, leadership must grasp the significance of effectively identifying and evaluating risks comprehensively. Risks should be categorized into favorable and unfavorable types, addressing the uncertainties enterprises encounter during development and limiting them to levels acceptable to the company. Enterprises should conduct a thorough review of unit-wide levels and pinpoint risk points in each business link, intensifying supervision of key issues to prevent these risk points from adversely impacting monetary funds.

4.3.2. Establishing a risk assessment system and adopting reasonable methods

Risk control is paramount for SMEs. Companies should establish an internal risk management organization responsible for developing risk management systems and prevention strategies. This organization should recruit and train specialized personnel in risk assessment and analysis, equipping them with a comprehensive understanding of the company's development history, operational philosophy, and future goals. Based on this background information, they should evaluate and classify various risk points in a comprehensive risk database, presenting key risk factors to the board of directors in a risk assessment report along with countermeasures.

4.3.3. Diversifying risk response measures

Enterprises can utilize internal supervision to monitor the monetary fund's internal control system in real-time, enabling immediate identification of any issues for prompt feedback and correction. Each SME should establish an internal audit department to define its audit scope and enhance its independence in internal oversight. The audit department should conduct regular and irregular staff supervision, ensuring the rationality of staff allocation and the implementation of authorization and approval systems. Any issues discovered during audits should be promptly reported to management authorities for resolution, thereby safeguarding the company's assets.

4.4. Strengthening internal control information and communication of monetary funds

Firstly, it is imperative to ensure the integrity of transmitted data. Secondly, efforts should be made to enhance transmission efficiency. To address the issue of poor information quality in quantitative scoring, establishing an information transmission hierarchy and identifying information gatherers can improve information quality. Collectors can upload gathered data internally within the enterprise, facilitating swift resource sharing and making information more transparent and accessible [3].

5. Conclusion and prospects

Sound corporate governance necessitates the establishment of a robust internal control and management system for monetary funds, rigorously enforced. Effective monetary fund management directly influences a company's long-term development and strategic trajectory. Thus, to better achieve strategic goals and enhance operational efficiency, companies must first establish a robust internal control system for monetary funds and accord it due attention. Subsequently, both management and fund management departments must diligently enforce it at both theoretical and practical levels, thereby elevating the company's monetary fund internal control management standards.

Disclosure statement

The authors declare no conflict of interest.

Author contributions

Conceptualization: Lina Sha
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