

# Internal Control Management and Risk Prevention Measures of State-Owned Enterprises

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**Abstract:** As an important pillar of national economic development, state-owned enterprises, their operational efficiency, and risk management ability are directly related to the stability and security of the national economy. As an important part of enterprise management, internal control management plays an irreplaceable role. Especially in the current domestic and international economic situation is complex and changeable, market competition is increasingly fierce environment, to strengthen the internal control management of state-owned enterprises and risk prevention measures is particularly important. This paper starts with the importance of internal control management and risk prevention for state-owned enterprises, and analyzes the problems and strategies in the internal control management and risk prevention of state-owned enterprises, in order to build a more comprehensive and efficient risk management system for state-owned enterprises to adapt to the ever-changing market environment and realize sustainable development.

**Keywords:** State-owned enterprises; Internal control management; Risk prevention

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## 1. Introduction

With the deepening of global economic integration, the business environment faced by enterprises is becoming more and more complex and changeable, especially for state-owned enterprises, the fluctuation of the macroeconomy, the adjustment of industry policies, and the intensification of market competition have brought uncertainty and potential risks to the operation of enterprises. Therefore, as an important pillar of the national economy, the sound development of SOEs is not only related to macroeconomic stability but also to public interest and social responsibility. The ensuing challenge is how to strengthen the compliant operation of enterprises and institutions through effective internal control management and risk prevention, enhance the risk confrontation ability, and safeguard the safety and value-added of corporate assets. This is also the focus of this paper.

## 2. The importance of internal control management and risk prevention for state-owned enterprises

Internal control management is the core component of state-owned enterprise governance, its fundamental

role cannot be ignored. The establishment of a sound internal control management system can ensure the standardization and legitimacy of enterprise operations, and effectively prevent and reduce internal risks. By formulating and implementing a series of rules and regulations, processes, and control measures, internal control management ensures the compliance, accuracy, and efficiency of all economic activities of the enterprise, and provides a solid guarantee for the sound development of the enterprise. Risk prevention is an important part of internal control management and is of key significance for state-owned enterprises. As an important pillar of national economic development, state-owned enterprises are faced with complex and changing external environments and internal challenges. Through effective risk prevention measures, enterprises can discover and respond to potential risks promptly, avoid or reduce the losses caused by risks, and safeguard the safety of enterprise assets and the stable operation of enterprises <sup>[1,2]</sup>.

### **3. Problems and strategies of internal control management of state-owned enterprises**

#### **3.1. Problems of internal control management of state-owned enterprises**

##### **3.1.1. Management mechanism is not sound**

At present, state-owned enterprises as an important pillar of the national economy, and the establishment and improvement of its internal control mechanism is of great significance to ensure the healthy, stable, and sustainable development of enterprises. However, in practice, many state-owned enterprises still have unsound internal control mechanisms, these problems to a certain extent affect the operational efficiency of the enterprise, and may even bring potential economic losses and risks to the enterprise. Specifically, it is manifested in the following points: First, the internal control management system is not perfect. That is, some state-owned enterprises have not yet established a perfect internal control management system, or the implementation of the system is not strict, resulting in internal control management in form. Secondly, the internal control management responsibilities are not clearly defined and the coordination and communication between departments are lacking, leading to management loopholes <sup>[3]</sup>. Third, the internal control management process is not standardized. Some state-owned enterprises lack standardization in the internal control management process, resulting in poor implementation of internal control measures, which cannot effectively prevent risks.

##### **3.1.2. Weakness of internal audit function**

In the realm of internal control management within state-owned enterprises, the diminishing strength of the internal audit function is increasingly apparent. This is evident in the frequent subjection of the internal audit department to enterprise management, leading to a lack of independence. Consequently, audit outcomes may be influenced by management's directives, thereby compromising the efficacy of the audit process. Secondly, the internal audit of some state-owned enterprises mainly focuses on the compliance of financial statements but neglects the audit of internal control and risk management, resulting in a narrow scope of the audit, resulting in the overlooking of problems within the enterprise. Besides, with the expansion of the enterprise and the increasing complexity of business, traditional audit methods and techniques can no longer meet the needs of modern auditing. Despite this, some state-owned enterprises fail to update their audit methods and techniques, resulting in inefficient auditing and the overlooking of potential problems. In addition, some internal auditors are less competent and lack professional knowledge and skills, affecting the quality of auditing.

##### **3.1.3. Inadequate information disclosure**

The internal control management of state-owned enterprises also has the problem of inadequate information

disclosure. When some state-owned enterprises disclose information, they may selectively publicize certain information while concealing or ignoring other important information, resulting in incomplete information content. At the same time, with the operation and development of the enterprise, the information related to internal control management will also change, but some state-owned enterprises may fail to update the disclosed information in time due to negligence or other reasons, making the information outdated. In addition, due to the lack of uniform information disclosure standards, different SOEs may differ in their disclosure of information, causing problems for external investors or regulators. Finally, the information disclosed by some SOEs may be too complex or specialized for ordinary investors to understand, resulting in a significant reduction in the effectiveness of information disclosure.

## **3.2. Strategies to strengthen the internal control management of state-owned enterprises**

### **3.2.1. Establishment of sound internal control mechanism**

State-owned enterprises should further improve the internal control management system and clarify the management requirements <sup>[4,5]</sup>. They should comprehensively streamline business processes, identify key control points, and establish an improved internal control mechanism that covers the entire process, ensuring clear norms and operating procedures for each link. It is crucial to define the responsibilities and authority of departments within internal control management, strengthen interdepartmental coordination and communication, and foster synergies. Additionally, the promotion and implementation of internal control systems and training should be reinforced to ensure staff understand and adhere to these systems <sup>[6]</sup>. A robust assessment and accountability mechanism should be established to supervise and evaluate system implementation, and a detailed internal control management process should be formulated to ensure all internal control measures are effectively implemented to mitigate risks.

### **3.2.2. Strengthen the internal audit system**

Given the weakening of the internal audit function of state-owned enterprises, the internal audit system should be further strengthened. To ensure the independence of the internal audit department in both organizational structure and function, enabling it to perform its duties objectively and impartially, the internal audit department should be placed under the direct leadership of the board of directors or the audit committee. This arrangement would enhance its independence. Additionally, the audit scope should extend beyond the traditional financial statement audit to include internal control, risk management, and compliance, allowing for a comprehensive identification of enterprise issues. Incorporating advanced auditing methods and technologies, such as big data analysis and cloud computing, is also crucial for improving the efficiency and accuracy of audits. In addition, it is necessary to strengthen the training and education of internal auditors to improve their professional knowledge and skills. While strengthening training, a perfect incentive mechanism and assessment system should be established to encourage auditors to continuously learn and make progress.

### **3.2.3. Promote information disclosure**

To address the issue regarding the disclosure of internal control management information in state-owned enterprises (SOEs), several measures should be implemented. The government or relevant regulatory bodies should establish clear information disclosure standards to regulate SOEs' practices, ensuring completeness and accuracy of the information provided. SOEs should enhance the transparency of their internal control management, ensuring timely and comprehensive disclosure. Enterprise leaders and management need to raise awareness about the importance of information disclosure and promote its development. Regular training and education activities should be conducted for information disclosure personnel to enhance their professionalism and accuracy.

Third-party organizations can be enlisted to conduct audits, providing professional opinions and suggestions for improvement. Additionally, SOEs should reward individuals or entities excelling in information disclosure and impose penalties on those violating regulations. Strengthening communication with investors to understand their needs and feedback is also crucial for improving the quality and relevance of information disclosure.

## **4. Problems and strategies in risk prevention of state-owned enterprises**

### **4.1. Problems in risk prevention of state-owned enterprises**

#### **4.1.1. Risk identification is not comprehensive**

Risk prevention is a crucial task in the development process of state-owned enterprises. However, the risk identification systems of many state-owned enterprises are incomplete, which may lead to potential risks not being found and dealt with in time, thus posing a threat to the stable operation and long-term development of the enterprise. As the market environment and technological development continue to change, new risks continue to emerge. Consequently, some state-owned enterprises may fail to identify and respond to these emerging risks due to reasons outdated thinking or limited access to information. Additionally, many state-owned enterprises tend to focus more on external risks, such as market risks and competitors, while neglecting the identification and management of internal risks. This oversight can result in chaotic internal management and employee misconduct, ultimately affecting the overall operation of the enterprise. Furthermore, some state-owned enterprises lack a scientific and effective risk identification mechanism to comprehensively and systematically identify and analyze the various risks they face. This deficiency may lead to an inaccurate understanding of risks, which in turn hampers the formulation and implementation of effective risk response strategies.

#### **4.1.2. Inaccurate risk assessment**

With the increasingly complex and dynamic market environment, state-owned enterprises face escalating risk challenges. Risk assessment, a crucial aspect of risk prevention, directly impacts the operation and development of these enterprises. However, several issues currently hinder the effectiveness of risk assessment in state-owned enterprises. Many enterprises lack a systematic and standardized risk assessment mechanism, leading to subjective and one-sided assessment results. Additionally, deficiencies in data collection, processing, and analysis distort risk assessment outcomes. Traditional risk identification methods are insufficient for modern needs, necessitating the adoption of advanced technologies and methods. The absence of unified risk assessment standards complicates the comparison and evaluation of risk assessments across different enterprises. Moreover, risk assessment is a highly specialized field, yet many state-owned enterprises lack professionals with the necessary knowledge and skills.

#### **4.1.3. Inadequate supervision mechanism**

Some state-owned enterprises face challenges in risk prevention due to inadequate supervision mechanisms. This is primarily evident in both insufficient internal supervision and weak external oversight. Internally, many state-owned enterprises have unsound internal audit systems that lack independence and authority, making it difficult to effectively identify and prevent risks. While some enterprises have established internal control systems, their implementation is often superficial and ineffective. Additionally, the decision-making process in some state-owned enterprises lacks transparency and fails to establish effective checks and balances, creating opportunities for corruption and risk. Externally, there are gaps in the laws and regulations governing SOEs, posing challenges to effective risk prevention and control. Regulatory agencies often struggle with limited human and financial resources, hindering their ability to supervise all state-owned enterprises comprehensively.

## **4.2. Risk prevention strategies for state-owned enterprises**

### **4.2.1. Strengthen risk awareness cultivation**

To address the one-sided risk identification in state-owned enterprises, it is essential to enhance risk awareness. This can be achieved by establishing a comprehensive risk identification mechanism that systematically identifies and analyzes various risks through regular risk assessments and monitoring. Employee awareness and attention to internal risks should be improved through internal training, publicity, and education. Promoting an all-encompassing risk management culture and integrating risk management into the daily operations of the enterprise is crucial. Risk awareness training should be reinforced through case analysis and simulation exercises, enabling employees to understand the importance of risk management and improve their ability to respond to risks effectively. This training ensures that employees can take swift and effective measures when risks arise. Additionally, enterprises should establish a risk information-sharing mechanism to encourage active employee participation in risk management.

### **4.2.2. Enhancing risk assessment ability**

It is crucial to improve the risk assessment capacity of state-owned enterprises by establishing a systematic and standardized risk assessment system with clear assessment process, methods, and standards, and the assessment results should be objective and accurate <sup>[9]</sup>. To achieve this, it is necessary to strengthen the collection, collation, and analysis of data to ensure the accuracy and completeness of the data to provide a reliable basis for the risk assessment. Besides, it is necessary to actively introduce advanced risk identification technologies and methods, such as big data analysis and artificial intelligence, and to improve the accuracy and efficiency of risk identification and efficiency <sup>[10]</sup>. Furthermore, it is also necessary to formulate unified risk assessment standards and methods to ensure that the risk assessment results between different enterprises are comparable and assessable. Lastly, it is crucial to strengthen the cultivation and introduction of risk assessment professionals to improve the overall quality and professional level of the risk assessment team.

### **4.2.3. Strengthening internal and external supervision mechanism**

Strengthening both internal and external supervision mechanisms is crucial for effective risk prevention in state-owned enterprises. Internal supervision is fundamental to ensuring standardized operations and risk prevention, while external supervision promotes transparency and standardization. Clarifying the importance of these mechanisms helps build a comprehensive supervision system, ensuring the healthy development of state-owned enterprises. Internally, it is necessary to establish a robust internal control system, clearly defining the responsibilities and authority of each department and position to create a system of checks and balances. An effective internal reporting system should be implemented to encourage employees to report violations, ensuring smooth information flow and transparency within the enterprise. Additionally, the discipline inspection and supervision system should be strengthened, enhancing the authority of the supervision organization and ensuring its independence. Coordination between discipline inspection, internal audit, risk management, and other departments should be improved to create a synergistic approach. Externally, cooperation with government departments, industry associations, and other organizations should be enhanced to build a strong external supervision environment. Active participation in external supervisory activities, such as undergoing inspections by government departments and engaging in self-regulation within industry associations, is essential. Establishing an external supervision information sharing mechanism to access timely supervision information provides robust support for enterprise risk prevention.

## 5. Conclusion

There is still room for improvement in the internal control management and risk prevention of state-owned enterprises, and continuous innovation is essential for achieving long-term stable development. Recognizing the importance of internal control, enhancing management's awareness of risks, and continually optimizing internal control processes are crucial steps. Effective integration of enterprise resources can establish a dynamic and flexible risk response and prevention system. Looking ahead, state-owned enterprises should remain vigilant about political and economic dynamics domestically and abroad, promptly adjusting and enhancing internal control management systems. Strengthening the ability to identify risk sources and characteristics, innovating preventive and control measures, and enhancing the efficiency and accuracy of risk management through information technology applications are vital. Additionally, fostering a culture of risk management at the organizational level and promoting full participation and continuous improvement are essential. Through these measures, state-owned enterprises can effectively prevent and control both internal and external risk factors, ensuring the safety of state-owned assets and the stable growth of the national economy.

## Disclosure statement

The author declares no conflict of interest.

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