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Research on the Construction of Enterprise Internal Control System and Financial Risk Prevention and Control

Yongbin Liu*
Shandong Vocational College of Information Technology, Weifang 261000, Shandong, China

Author to whom correspondence should be addressed.

Abstract: In the increasingly competitive modern market environment, enterprises are facing more and more complex and diverse financial risks. The construction of a complete and effective internal control system has become an important foundation for enterprises to prevent financial risks, ensure stable operation and achieve sustainable development. Based on the actual needs of enterprise management, this paper focuses on the internal logic between internal control and financial risk prevention and control, clarifies the key points of internal control system construction, and puts forward systematic and operable financial risk prevention and control strategies. The research shows that a sound internal control system can effectively identify, evaluate, and respond to financial risks, reduce the possibility of financial losses, and improve the overall operational efficiency and risk resistance of enterprises. By optimizing the control environment, improving the risk assessment mechanism, standardizing control activities, unblocking information communication and strengthening supervision and feedback, enterprises can form a closed-loop management model of risk prevention and control. This paper maintains a practical and stable writing style, focuses on practical application scenarios, and provides clear and effective ideas for enterprises to strengthen internal management and resist financial risks.

Keywords: Internal control system; Financial risk; Risk prevention and control; Enterprise management; Operational stability

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1. Introduction

At present, many enterprises still have some common problems in internal control and financial risk management. For example, the internal control environment is weak, the risk awareness of management is insufficient, the control system is not perfect, the process execution is not in place, the information transmission is not smooth, and the supervision and evaluation mechanism is absent. These problems make the financial risks of enterprises accumulate continuously, and eventually break out in the form of fund chain tension, illegal operation, financial fraud, asset loss and so on. Therefore, it is of great practical significance to study the construction path of the internal control system and the matching financial risk prevention and control strategies [1].

This paper starts from the practical needs of enterprises, combines the basic principles of internal control and the actual situation of financial risk management, clarifies the construction path of the internal control system, and puts forward targeted financial risk prevention and control strategies. The content of the paper is close to the actual operation of enterprises, avoids too theoretical or too colloquial expressions, maintains a stable and practical style, and provides clear and practical guidance for enterprise managers, financial personnel and management departments.

2. The connotation and value of internal control and financial risk prevention and control

2.1. The connotation of internal control system

Internal control refers to a set of management mechanisms formed by enterprises to achieve operational objectives, ensure the authenticity and compliance of financial information, improve operational efficiency and reduce various risks. It is not a single system or document, but a whole including organizational structure, job settings, process specifications, authority allocation, supervision and evaluation. The internal control system runs through the whole process of enterprise decision-making, execution, and supervision, covering business, finance, human resources, assets, and information systems [2].

A complete internal control system includes five core elements: control environment, risk assessment, control activities, information and communication, and supervision and improvement. The control environment is the foundation, including corporate governance structure, management philosophy, organizational structure, human resource policies and corporate culture. Risk assessment is the premise, which requires enterprises to timely identify internal and external risks, analyze the possibility and impact of risks, and determine risk response strategies. Control activities are the core, including authorization approval, separation of duties, accounting control, asset protection and performance appraisal.

2.2. The connotation and types of financial risks

Financial risk refers to the possibility of economic losses caused by various uncertain factors in the financial activities of enterprises. Financial risks are objective, universal and potential, and exist in all links of financial management. Common financial risks mainly include the following categories:

First, capital risk. It mainly refers to the risk of capital chain rupture caused by unreasonable capital structure, insufficient cash flow, difficult fund recovery or excessive debt. Capital is the blood of enterprise operation. Once the capital flow is blocked, the normal operation of the enterprise will be directly affected.

Second, investment risk. It refers to the risk that the actual income of the enterprise is lower than expected due to inadequate demonstration, improper decision-making or changes in the market environment in the process of foreign investment. Blind investment, excessive expansion and lack of risk assessment are the main causes of investment risks.

Third, financing risk. It refers to the risk caused by an unreasonable financing structure, high financing cost, difficulty in repayment of principal and interest, and excessive reliance on a single financing channel. Improper financing decisions will bring huge financial pressure to enterprises and even lead to a debt crisis.

3. The overall path of enterprise internal control system construction

3.1. Optimize the internal control environment and consolidate the management foundation

The control environment is the basis for the operation of the entire internal control system. If the environment is not perfect, even if the system is perfect, it is difficult to implement effectively. The optimization of the control environment starts with the improvement of the organizational structure, the rational allocation of jobs and the clarification of responsibilities and authorities [3].

Enterprises should establish a relatively sound governance structure, clarify the responsibilities of decision-making, management and supervision, and form a pattern of mutual coordination and mutual restriction. The organizational structure should be set reasonably, avoid too many levels or too few functions, and ensure smooth command and efficient execution. In terms of job setting, the principle of separation of incompatible duties must be followed.

3.2. Establish a comprehensive risk assessment mechanism

Risk assessment is the premise of internal control and the key link of financial risk prevention and control. Enterprises should establish a normalized risk identification and evaluation mechanism, not only for sudden risk response, but also for active prevention and forward-looking management.

First, risk identification should be comprehensive and systematic. It is necessary to comprehensively sort out all kinds of risks in business processes, financial activities, asset management, compliance and legal affairs, and establish a risk list. For financial risks, it is necessary to focus on capital flow, accounts receivable, investment and financing, cost control, tax compliance and other links.

Second, risk analysis should be scientific and objective. According to the possibility of risk occurrence and the degree of impact, risks are divided into different levels such as general risk, important risk and major risk. For major risks, special attention should be paid to them, and special prevention and control measures should be formulated.

3.3. Standardize and implement key control activities

Control activities are the specific methods and measures of internal control, which are directly aimed at risk prevention and control. Control activities should be embedded in all business and financial links to form a standardized and repeatable operation process [4].

First, strengthen authorization and approval control. All economic businesses and financial activities must be carried out within the scope of authorization, and it is strictly prohibited to operate beyond authority or without approval. The approval authority should be clearly defined, and the approval process should be standardized to avoid arbitrary decision-making.

Second, implement a strict accounting system control. Ensure the authenticity, accuracy and completeness of financial information through standardized accounting treatment, strict review of original documents, standardized voucher preparation and regular account checking. Financial data must be consistent with business data, and it is strictly prohibited to adjust accounts at will or make false accounts.

4. Financial risk prevention and control strategies based on internal control

4.1. Capital risk prevention and control strategy

Capital risk is the most direct and most influential financial risk for enterprises. Based on the internal control system, enterprises should establish a full-process capital management and control mechanism.

First, strengthen cash flow management. Implement cash flow budget control, accurately predict cash inflow and outflow, arrange capital collection and payment reasonably, and ensure the balance of payments. Strictly control the scale of monetary funds, improve the efficiency of capital use, and avoid idle capital or insufficient working capital.

Second, standardize the management of fund receipt and payment. The collection and payment of funds must be approved in accordance with the procedures, and the separation of duties is strictly implemented. The collection of funds should be recorded in a timely manner, and the payment of funds must be reviewed for authenticity, compliance and rationality. For large fund payments, collective decision-making and hierarchical approval should be implemented.

Third, strengthen accounts receivable control. Strictly implement customer credit evaluation, reasonably determine credit policies, strengthen the follow-up and recovery of accounts receivable, reduce the proportion of bad debts, and accelerate capital turnover. Establish an accounts receivable responsibility system to clarify the recovery responsibilities of relevant departments and personnel.

4.2. Investment risk prevention and control strategy

Investment risks are often hidden and destructive, and must be strictly controlled through internal control.

First, standardize the investment decision-making process. All investment activities must go through sufficient feasibility demonstration and risk assessment, and major investments must be collectively decided, and it is strictly prohibited to make investment decisions beyond authority or unthinkingly.

Second, strengthen the investment process control. After the investment project is implemented, dynamic tracking and management should be carried out to grasp the investment income and risk changes in a timely manner. Regularly evaluate the investment effect, and timely take measures to deal with projects with poor benefits or high risks.

4.3. Financing risk prevention and control strategy

Financing risk is directly related to the debt pressure and capital structure of an enterprise, and reasonable control must be carried out through internal control.

First, formulate a reasonable financing strategy. According to the capital demand, financing cost, repayment ability, and market environment, determine the financing scale, financing method, and financing structure, and avoid excessive financing or a single financing channel.

Second, control financing costs and risks. Strengthen the evaluation and comparison of financing costs, and avoid high-cost financing that exceeds the capacity of the enterprise. Strictly abide by financing agreements, repay principal and interest on schedule, and maintain good credit.

Third, strengthen the debt risk early warning. Establish debt risk indicators, regularly monitor asset-liability ratio, interest coverage ratio and other indicators, and take timely measures to adjust when risks are found.

4.4. Accounting and compliance risk prevention and control strategy

Accounting and compliance risks can easily lead to financial information distortion and regulatory penalties, which must be prevented through strict internal control.

First, improve the accounting management system. Standardize accounting treatment, strictly implement accounting standards and relevant policies, and ensure the authenticity, accuracy and completeness of financial statements.

Second, strengthen financial review and supervision. Strictly review the authenticity, legality and compliance of original documents, and prohibit the occurrence of false documents and illegal expenses.

Third, attach importance to tax compliance management. Understand and abide by tax laws and regulations, standardize tax declaration and payment, carry out tax-related business reasonably and legally, and avoid tax risks such as underpayment, mispayment and false declaration.

5. Practical suggestions for the integration of internal control and financial risk prevention and control

5.1. Strengthen the risk awareness of the whole staff

The implementation of internal control and financial risk prevention and control cannot be separated from the attention and participation of the whole staff. Enterprise managers should take the lead in establishing risk awareness, attach importance to internal control construction, and drive all employees to form a common understanding of risk prevention and control. Through training, communication and case analysis, employees can understand the importance of internal control and risk prevention, master basic risk identification and response methods, and form a good internal control atmosphere.

5.2. Promote the deep integration of business and finance

Many financial risks originate from business links. Only by realizing the integration of business and finance can internal control and financial risk prevention and control be truly implemented. The financial department should intervene in advance in the business process, participate in business decision-making, budget formulation, contract review, and process supervision, so as to realize the synchronization of business flow, capital flow, and information flow. Business departments should also understand financial norms and risk requirements, and operate in accordance with processes and systems to avoid financial risks caused by irregular business operations.

5.3. Improve the professional ability of financial personnel

Financial personnel are the direct implementers of financial risk prevention and control, and their professional ability directly affects the effectiveness of risk prevention and control. Enterprises should strengthen the training and assessment of financial personnel, improve their professional quality, professional ability and risk awareness. Financial personnel should not only be familiar with accounting and financial management, but also understand internal control norms, risk identification methods and relevant laws and regulations, and be able to find hidden dangers in a timely manner and put forward prevention and control suggestions [5].

6. Conclusion

In the modern market environment, the construction of an internal control system and the prevention and control of financial risks are important guarantees for the stable operation and sustainable development of enterprises. Internal control provides institutional support and operational specifications for financial risk prevention and control, and financial risk prevention and control provides goal-oriented and key points for internal control construction. The two are integrated and mutually supportive.

In practical operation, enterprises should strengthen the risk awareness of all staff, promote the deep integration of business and finance, improve the professional ability of financial personnel, appropriately use information technology, and establish a continuous optimization closed-loop management mechanism.

Disclosure statement

The author declares no conflict of interest.

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