

Problems and Countermeasures of the Internal Control of Monetary Funds: A Case Study of Foshan Lighting

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Abstract: Monetary fund is the most fundamental element for enterprises to engage in production and lucrative business activities, which has an impact on the operation process and outcomes. Therefore, enterprises must regard fund management as one of their key management links and establish an effective and practical internal control system. However, sensational cases such as the collapse of Barings Bank have exposed many problems existing in the internal control of monetary funds. Moreover, the high liquidity of funds itself engenders them as the target of embezzlement and self-interest, which will eventually threaten the company's wealth. Therefore, it is significant to analyze the problems existing in the internal control of monetary funds and provide corresponding solutions to them.

Keywords: Monetary fund; Internal control; Fund management

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1. Introduction

The establishment of an internal control system of monetary funds that is suitable for the market environment and its own characteristics can realize the effective management of monetary funds and provide support for the safe operation of enterprises. Therefore, it is an urgent concern for listed companies to study and design an ideal internal control system for the management of monetary funds.

1.1. Research background and significance

Monetary fund is the key subject of enterprise risk control. The purpose of the internal control of monetary funds is to manage all funds of the enterprise, control the capital risk of the enterprise, reasonably arrange the whereabouts of funds, and help the enterprise further realize its business strategy and development goals. It is of practical significance to analyze the problems existing in the current internal control of monetary funds and provide reasonable solutions to them.

1.2. Literature review

In investigating the necessity of the internal control of monetary funds, an efficient and reasonable internal control system can reduce the probability of illegal business behaviors to a certain extent and also ensure the safety of assets as well as the quality of financial reports^[1,2]. A good system and process assistance not

only ensures the daily payment needs of enterprises, but also improves the capital efficiency of enterprises [3,4].

In investigating the problems existing in the internal control of monetary funds, if the internal control of an enterprise is insufficient, the enterprise has a high probability of fraud [5,6]. Wu Yan pointed out that group enterprises are larger in scale and wider in business scope than other enterprises; hence, they tend to face more management challenges and problems [7].

In analyzing the causes of the problems in the internal control of monetary funds, through the establishment of hypotheses and empirical analysis, it has been found that managers who overestimate their own strength and are overly optimistic will affect the implementation of the enterprise's internal control system, resulting in the failure of internal control [8,9]. According to several studies on the actual situation of the internal control of corporate monetary funds, the main reasons are the defects in the accounting control system and the lack of attention to the key aspects of monetary fund management [10,11]. Other factors that affect the effectiveness of internal control include managers' awareness of internal control, employees' skill level, and professionalism [12-14].

In investigating on how to optimize the internal control of monetary funds, Karla Johnstone and several researchers, by proposing and testing a specific conceptual model, discovered that disclosing major deficiencies in internal control will enable enterprises to establish a reasonable governance structure [15]. Four suggestions have been put forward for the control of monetary funds, including increasing the knowledge reserve and moral level of employees, as well as improving the system construction [16-18]. In order to guide enterprises to establish a scientific and systematic internal control system, the eight-level theory has been put forward, which is of great significance for enterprises to improve the management level of monetary funds [19,20].

2. Theoretical overview of internal control of monetary funds

2.1. Definition of internal control of monetary funds

On June 22, 2001, the Ministry of Finance defined the concept of internal control of monetary funds and monetary funds. Monetary funds are assets owned or controlled by an enterprise, mainly in the form of cash, bank deposits, or other monetary funds. The internal control of monetary funds means that in order to standardize and supervise the income and expenditure, custody, as well as other activities involving monetary funds, the management of the company develops a set of reasonable and effective systems and procedures in accordance with the market environment and its operation and management characteristics.

2.2. Theoretical basis of internal control of monetary funds

2.2.1. Principal agent theory

In the 1930s, Burley and Mien put forward the principal agent theory. They pointed out that the corporate governance should avoid both, owners and operators and the principal should sign a contract with the agent to perform the duties of corporate governance. Due to the separation of the two rights, if the agent violates the contract and misappropriates the company's property, the interests of the client will be damaged. Hence, the internal control system is formed to control such risks.

2.2.2. Contingency theory

In the late 1960s, the contingency theory was established on the basis of empirical school. Contingency is the adoption of different methods based on the changes of things in different periods. This theory emphasizes the differences between the internal and external environment of the enterprise as well as the impact of the changes on management activities [9]. The management policies of the enterprise must be adjusted and changed in line with the changes of the environment.

3. Analysis of the current situation of the internal control of monetary funds of Foshan Lighting

3.1. Company profile

Founded in 1958, Foshan Electrical and Lighting Co., Ltd (Foshan Lighting) focuses on the research and development (R&D), production, and promotion of high-quality green energy-saving lighting products. In terms of product market, Foshan Lighting has garnered many opportunities through high-quality lighting products and long-term accumulated brand influence, with its sales network spanning across the country. There are also more than 120 export points abroad.

3.2. Basic information of Foshan Lighting monetary funds

Foshan Lighting's capital inflow is mainly concentrated in the sales of LED lighting products, traditional lighting products, and electrical products. Its capital recovery is from cash sales and credit sales, and the amount of receivables is relatively high. In terms of capital outflow, Foshan Lighting's funds are mainly used for purchasing raw materials, and the proportion of funds used for raw material procurement is at a high level. The operation status and monetary capital stock and proportion of Foshan Lighting from 2016 to 2019 are shown in **Table 1**.

Table 1. Operating capital and capital stock of Foshan Lighting from 2016 to 2019 (unit: 100 million yuan)

Index	2019	2018	2017	2016
Operating income	33.38	38.02	38.00	33.66
Operating cost	25.61	29.23	29.40	25.18
Net profit	3.01	3.78	7.40	10.72
Monetary fund	11.25	8.97	5.70	14.79
Total assets	61.75	55.88	56.76	61.00
Monetary capital/total assets (%)	18.22	16.05	10.04	24.25

Data source: Annual report of Foshan Lighting from 2016 to 2019

As can be seen from **Table 1**, the operating income and operating cost of Foshan Lighting in recent years are relatively stable in change. The company's monetary capital shows a relatively stable growth trend, and the use of funds is more reasonable. However, the turnover rate of the company's accounts receivable and inventory is slow; hence, the enterprise should optimize the management of monetary funds and increase its risk tolerance.

4. Main problems existing in the internal control of monetary funds of Foshan Lighting

4.1. Issues on the division of labor in the internal control of monetary funds

Although the work content is divided, the financial personnel of a company may help one another to complete the work tasks for reasons attributable to human sentiments, convenience, and diligence, so that the work content can be completed by the same employee.

4.2. Loopholes in the authorization and approval of monetary funds

On the one hand, the scope of authorization between posts is not clearly defined, the control of staff authority is not standardized, and some employees may take advantage of the loopholes in the system to avert the recommended approval process. On the other hand, the management rights are too broad, and applicants can easily pass the required approval procedures.

5. Causes of problems in the internal control of monetary funds of Foshan Lighting

5.1. Defects in the internal control system of monetary funds

First, the design and implementation of Foshan Lighting's system have not been updated. Second, the existing system of the enterprise for the separation of authority and approval is unclear and incomprehensive.

5.2. Lack of professional skills among financial personnel

The lack of professional skills among Foshan Lighting's financial personnel is a critical reason for the existing problems in its internal control system of monetary funds, as shown in **Figure 1**.

According to **Figure 1**, the overall education level of the current internal financial personnel of Foshan Lighting is average, in which the proportion of personnel with a junior college degree or lower is relatively high. Many of them lack professional accounting knowledge and active learning in their daily work. The employees who are actively involved in business processing tend to rely more on the accumulation of experiences, which affects the business processing of the company.

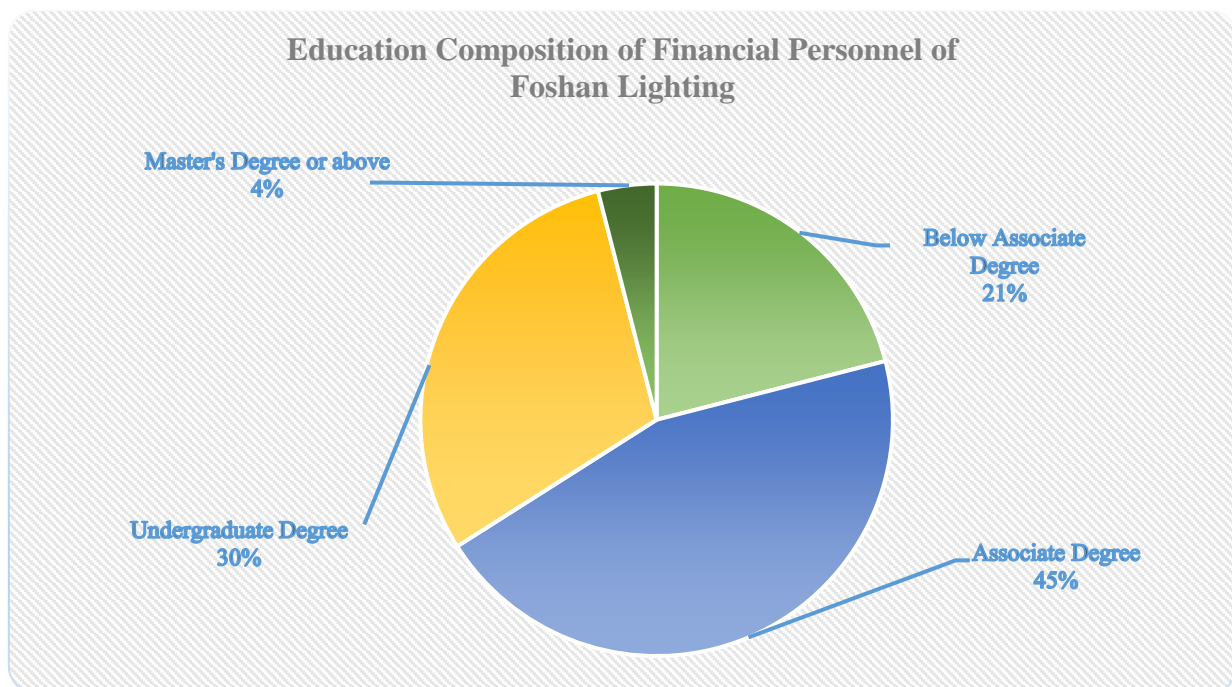


Figure 1. Education composition of Foshan Lighting's financial personnel

6. Measures to strengthen the internal control of monetary funds of listed companies

6.1. Improve the internal control infrastructure of monetary funds

In terms of post division, different personnel should deal with the work tasks of incompatible positions and clearly express the work tasks and role-based authorization of each post through various forms. At the same time, enterprises should formulate a strict regular rotation system, in which workers who do not regularly rotate according to the provisions shall be punished.

In terms of authorized approval of monetary funds, the necessary approval process for monetary funds should be specified in writing following the completion of the approved economic activities.

6.2. Improve the professional skills of financial personnel

First, high quality business training activities should be organized to help employees adapt to sudden major adjustments. Irregular trainings should also be carried out in enterprises, so as to increase the proportion of

compound talents, adopt strict procedures, and emphasize pre-job training. Finally, enterprises should establish their own evaluation and competition mechanisms to enhance the enthusiasm and responsibility of their employees.

Disclosure statement

The authors declare no conflict of interest.

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