

Internal Control Problems and Improvement Measures of High-tech Enterprises: Evidence from a Water Purification Company

Xin Xie, Huiqi Chen *

School of Accounting, Guangzhou College of Commerce, Guangzhou, Guangdong, China

**Corresponding author*

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Abstract: The perfect internal control of enterprises can ensure the effective operation of funds and avoid operation and management problems. High-tech enterprises must strengthen internal control to take the lead and remain invincible in the increasingly fierce market competition. The management objectives can be achieved only by controlling the operation of high-tech enterprises with compliance. This paper adopts the case study method, takes a water purification company in a high-tech enterprise as the research object, and points out the problems and loopholes in the enterprise's internal control from the management and financial levels. Given the problems found in the two levels of management and finance, this paper puts forward corresponding improvement measures to optimize the internal control construction of high-tech enterprises. This paper not only enriches the relevant research of high-tech enterprises but also combines the author's audit experience to analyze practical problems, which has a certain practical significance for improving the internal control system of high-tech enterprises.

1. Introduction

Science and technology are the core driving force to promote the development of enterprises. In recent years, with the rapid development of science and technology, high-tech enterprises have gradually become the leading force in the wave of scientific and technological innovation. Enterprises, especially manufacturing enterprises, under the support of national policies and subsidies, try to get a leading edge in the increasingly fierce market competition by continuously enhancing their scientific research and innovation ability and applying for the qualification of high-tech enterprises. As shown in Figure 1, the number of high-tech enterprises in China increased yearly from 2010 to 2020. High-tech enterprises are a considerable qualification for becoming bigger and stronger. They can not only bring tax incentives and financial subsidies to enterprises but also bring certain impetus to the development of enterprises. Therefore, more and more enterprises begin to improve their business capabilities through various ways to improve the probability of successfully applying for the recognition of high-tech enterprises. Under such a market background, the internal control of high-tech enterprises has also received more and more attention from

enterprise researchers.

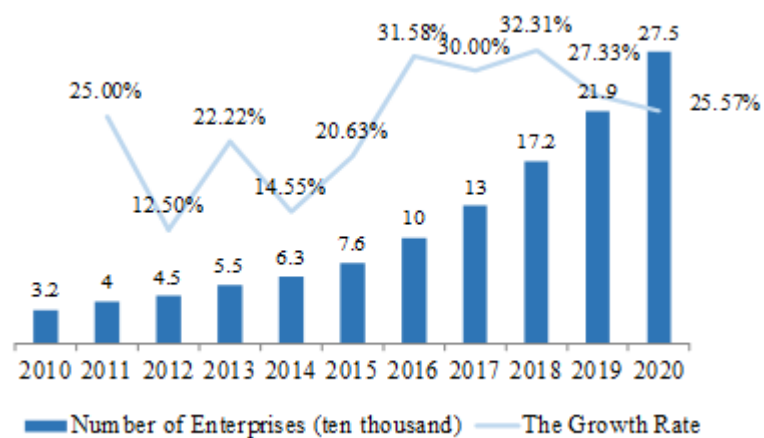


Figure 1: Growth Trend of the Number of High-tech Enterprises in China from 2010 to 2020

There are still many deficiencies in the internal control of many high-tech enterprises. With the continuous accumulation of the national experience in the qualification of high-tech enterprises, the conditions and thresholds for the declaration of qualification continue to improve, and the examination standards and intensity of the qualification of high enterprises are becoming more and more strict. Such strict certification procedures not only affect the enterprises that have not applied for qualification certification but also re-carry out self-rectification and self-examination at all levels for the high-tech enterprises that have been recognized as high-tech enterprises in advance.^[1] Including but not limited to the qualification of high-tech enterprises, supervision and administration of daily business activities, qualification examination of tax incentives, etc. If any problem is found during the inspection, it will be dealt with accordingly, and in serious cases, it may even be disqualified as a high-tech enterprise. In this regard, relevant enterprises must strengthen internal control and their compliance management at ordinary times to better maintain the qualification of high-tech enterprises, enjoy healthy tax incentives, and calmly and calmly face the inspection. Strengthening internal control and compliance control of high-tech enterprises are not only the internal requirements of optimizing corporate governance structure and preventing various risks but also the only way to continuously enhance the core competitiveness of enterprises in the increasingly fierce market competition and enhance the value of enterprises.

There is much literature on internal control, the theoretical system has been relatively perfect, and most of the research on internal control is at the overall level.^[2] The design of enterprise internal control should be different according to the characteristics of the enterprise, and appropriate internal control should be constructed according to its characteristics to achieve effective management. The internal control of product R&D and design is the focus of high-tech enterprises.^[3] Generally, smaller, younger, weaker enterprises have more serious internal control problems.^[4] The internal control of enterprises with a large internal scale and the perfect system is better than that of small enterprises.^[5] When the external audit is not strict enough, it is more necessary to strengthen internal control.^[6] The more personnel in the internal audit department, the higher the personnel quality of the enterprise and the more standardized the management and supervision.^[7] Therefore, the more standardized a listed company is, the more attention the management pays to internal control, the deeper the corporate culture, and the better the effect of internal control.

Most of the literature on internal control focuses on the necessity and effectiveness of internal control.^[8,9] Scholars have conducted in-depth research on the internal control theory, involving key internal control points, high-tech enterprises' internal control problems, and optimization and

rectification. However, there are insufficient systematic and systematic research results, especially those combined with specific high-tech enterprises' internal control. We reveal the internal control of the water purification company, find the weak links in its internal control construction, present the reasons and propose solutions, to make a useful exploration for improving the internal control of high-tech enterprises, improving modern enterprise governance and enhancing enterprise value.

The possible contributions of this paper are reflected in the following two aspects. On the one hand, when previous articles studied the internal control of enterprises, most scholars studied the cases of ordinary enterprises and rarely considered them from the perspective of high-tech enterprises. Therefore, there is a lack of relevant information on high-tech enterprises. Given the particularity of high-tech enterprises, this paper identifies them from the perspective of high-tech enterprises, enriching the research perspective of enterprise internal control. On the other hand, combined with the author's audit experience, this paper studies the high-tech enterprise of the water purification company as a case and points out the practical problems which have a certain practical significance for improving the internal control system of high-tech.

2. Characteristics of Internal Control of High-tech Enterprises

Compared with the traditional manufacturing industry, the survival of high-tech enterprises depends on innovation and has the characteristics of high risk, high investment, high growth and technology-intensive operation. At the same time, it also faces more challenges and risks, such as the failure of the project's research and development, the loss of technical personnel, and the shortage of funds within the research and development management team.

2.1. Extensive Talent and High Investment

Nowadays, with the rapid development of science and technology, we should have the courage to innovate if we want to remain invincible in the high-tech enterprise industry. At the same time, professional and technical talents are also the foundation of enterprise development. Scientific research personnel plays a far greater role in the enterprise than other personnel. In particular, high-tech R&D personnel is the most precious scarce wealth of the enterprise, the most important strategic resources, and the biggest difference from other traditional industries.^[10] Research and development innovation is the soul of high-tech enterprises, while research and development of products, external procurement of high-end equipment, market promotion of new products and other links, enterprises need to invest a lot of capital operation. Especially in the early stage of development, because of the lack of professional knowledge of technology, process, technology, and operation not skilled, development teams need to explore and try continuously. In this stage, need to invest a lot of material resources, human, science and technology personnel constantly test, especially the development of high-tech products, and often need to seek the support of abundant capital. Therefore, internal control also has a certain uniqueness, and high-tech enterprises need to attach great importance to the research and development of projects, more need to strengthen the internal control of enterprises.

2.2. High Risk

The internal control of high-tech enterprises is different from that of other traditional enterprises because they need to pay special attention to preventing R&D risks.^[11] The main risks faced by high-tech enterprises are the uncertainty of technological R&D success and the unpredictability of the future market. Research and development risk is one of the uncertainties in its operation.^[12] The failure of a research and development achievement may lead to the loss of the previous huge

investment of the enterprise or even cause irreparable losses to the enterprise, thus ruining the future of the enterprise. High and new technology industry upgrading with products significant characteristics of fast speed, short life cycle, so that the industry is particularly fierce competition on the market, enterprises to take certain share in the market, we must quickly list new products research and development. However, high technical requirements for the research and development of new products bear greater risk in a short time. If the new product is not satisfied with the market, all the investment in the product is wasted. Therefore, for high-tech enterprises, it is of special significance to strengthen internal and external risk management, effectively control R&D risks and realize the stable operation of enterprises, especially risk prevention of R&D projects, which is an important guarantee to ensure their sustainable and healthy development.

3. Case Company Overview

3.1. Basic Information of the Water Purification Company

The water purification company is a high-tech limited company founded in 2003. By the end of 2020, the number of employees of the water purification company is about 110, among which there are more than 30 members in the R&D department, mainly responsible for R&D projects and related scientific research activities. The registered capital of the company is 50 million yuan. The water purification company and its subsidiaries are mainly engaged in water pollution treatment, sewage treatment and recycling, engineering management services, environmental protection consulting services, general mechanical equipment installation services, electrical equipment repair, general equipment repair and other services for small and medium-sized high-tech enterprises. The water purification company is engaged in an industry with great market demand and good development prospects.

Table 1: Operating Income Profit Table of the Water Purification Company

Project	2020		2019	
	Amount	Growth	Amount	Growth
Operating income	4,336.26	35%	3,206.91	23%
Operating profit	2,312.41	122%	1,041.48	53%
Net profit	2,285.68	124%	1,020.07	55%

Notes: Data from the company's internal record, sorted out by the author; The unit of the amount in the table is a million yuan.

From Table 1, we can see that the operating revenue of the water purification company in 2019 is 3.21 billion yuan and that in 2020 is 4.34 billion yuan. The growth rate of operating revenue in 2020 is 35%. In 2020 and 2019, the net profit was 2.29 billion yuan and 1.02 billion yuan, with a growth rate of 124%, showing a large increase. The growth rate is relatively stable. The operating profit of the enterprise in 2019 was 1.04 billion yuan, and that in 2020 was 2.31 billion yuan. The growth rates were 122%, respectively, with a large increase. The main business income of the water purification company accounts for more than 98% of the operating income, mainly from sewage treatment and recycling services. The sewage treatment and recycling services account for the highest proportion of the income, more than 90%, and the gross profit is relatively stable. With the improvement of the company's service quality and efficiency, the maturity of relevant business platforms and the experience of project implementation personnel, the updating and upgrading of R&D product technology, and the support of market customers, the gross profit margin of products and services has increased steadily.

3.2. Internal Control Status of the Water Purification Company

3.2.1. Internal Status of Company Management Level

The water purification company is a large and medium-sized high-tech enterprise with a scale above the medium level in the industry. The company has established some necessary departments according to its business characteristics and situation. At present, the specific organizational structure of the water purification company is shown in Figure 2. The company's department allocation is relatively comprehensive, the responsibilities of various internal departments are relatively clear, and the function division is relatively clear so that the employees can understand their job responsibilities, help to improve work efficiency, strengthen the professional management of the company's R&D platform, and finally help to effectively reduce the company's costs and achieve the company's long-term strategic goals.

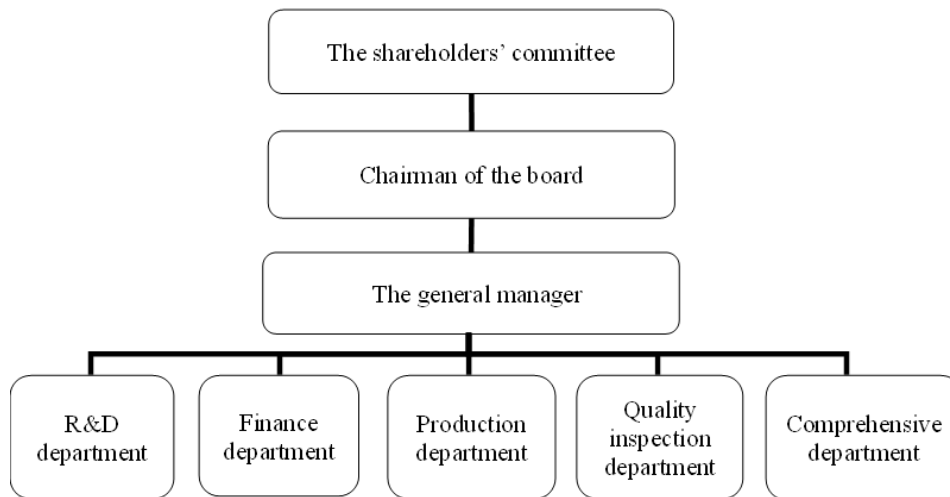


Figure 2: Organizational Structure Diagram.

3.2.2. Current Situation of Internal Control of R&D Activities

The water purification company is an enterprise dealing with sewage treatment. It mainly relies on customers' needs to build sewage treatment projects and services. The production process, equipment and operation management level of each sewage treatment plant are high in China, and the effluent quality fully meets the national first-class and stricter provincial standards. The R&D management personnel are generally highly educated, equipped with professional personnel, and strictly implement the post-responsibility system. Take effective control measures against problems in the R&D process to ensure that the R&D process is efficient and controllable. Carry out a feasibility study on R&D projects and prepare a feasibility study report. The enterprise has good organization and coordination, a clear project schedule, good research process management and an incentive mechanism for R&D personnel. The R&D process is sound, the relevant file information is complete, and the R&D projects are approved according to the specified authority and procedures.

4. Problems and Analysis of Internal Control in the Water Purification Company

4.1. Problems Existing in the Company's Management

4.1.1. Organizational Structure Issues

Corporate governance structure and organizational structure are the important basis for implementing internal control measures and will also have a certain impact on the internal control environment of the enterprise. After understanding the organizational structure of the water purification company, we observed that although its organizational structure is relatively complete, there are still certain problems. With the gradual development of the enterprise, the enterprise needs to set up the relevant internal audit department. Due to the lack of an internal audit department and a complete internal control system in the water purification company, the tasks and responsibilities that the department should have undertaken were assigned to the financial department or other departments and managers. As a result, managers cannot monitor and provide feedback on implementing their designated rules and regulations. In fact, from a strictly legal point of view, the internal audit work should not be undertaken by the financial department because the audit work is very independent, and the financial department cannot guarantee the fairness and objectivity of the work.

Currently, the internal audit department has increasingly become one of the indispensable departments of enterprises. In particular, high-tech enterprises need to match different organizational structures at each stage of development. At the initial growth stage, the management mainly considers the enterprise's project development and survival, that is, how to quickly develop successful products and turn them into products required by the market. Once this difficulty is overcome, it will soon enter the growth stage, and its scale and speed will become unusually large. In addition, due to the lack of systematic thinking on the organizational structure and the lack of overall consideration in many designs, the team's attention and handling methods deviate from specific departments and fields, and the overall interest balance is unbalanced, which has a certain impact on the optimization of the functions of various organizations. The unqualified organizational structure will lead to excessive consumption of enterprises, which cannot adapt to the fierce external competitive environment timely and effectively and affect the operation efficiency of enterprises.

4.1.2. Information Communication and Supervision

The realization of the ultimate goal of enterprise management is inseparable from communication management. In enterprises with a sound internal control system, employees need to regularly and timely summarize and report the information of the current stage to the manager to establish an effective communication bridge so that the manager can manage the enterprise according to the problems reported by employees. However, subordinate employees cannot timely and actively report to managers in the water purification company. Managers usually need to urge subordinate employees, so the information received by superiors will be delayed. The data they receive may not accurately reflect the business state of the enterprise, and the information they receive may not be timely. If there is a problem in the operation of the enterprise, the manager cannot find the problem point the first time and cannot make the most effective internal control measures, which is easy to cause serious consequences to the enterprise and bring more serious losses to the enterprise.

Suppose the company's internal control lacks supervision measures and is not monitored in time. In that case, the company's management personnel cannot timely and accurately understand the

risks and problems in the enterprise development and fund operation and cannot timely perform the warning duties and propose corrective measures to the subordinates. Under such circumstances, it is very easy to lead to the disconnection between the thoughts and actions of the management and the middle and lower levels of the enterprise, unable to get the latest news from the market, resulting in the lack of corresponding risk reduction countermeasures, or the poor implementation of the work of the lower levels. Especially for the high-tech enterprises similar to this water purification company, in developing new technologies, if the upper and lower levels cannot exchange and share relevant information promptly, it will be impossible to achieve effective supervision and early warning of venture capital. As a result, the management of various enterprise systems is chaotic. More serious R&D projects cannot be completed on time, according to quality, quantity and schedule, and even lead to the failure of the entire R&D project, bringing immeasurable losses to the enterprise.

4.2. Problems Existing at the Financial Level of the Company

4.2.1. Problems Existing in financial Personnel

Due to the lack of internal communication and docking with the R&D personnel, the financial personnel of a water purification company does not understand the enterprise's technical R&D work, resulting in the financial personnel can only analyze the input and output of data. It is difficult to conduct in-depth research and constraints on the rationality of the funds used in R&D. When calculating the R&D expenses. The financial personnel only conduct the accounting based on their subjective consciousness in the office, so they have a strong subjective consciousness when judging whether the R&D expenses are capitalized and do not know what stage the enterprise is in in the product R&D. Therefore, the collection of R&D expenses in the later stage becomes very chaotic.

The water purification company has not established a perfect internal control system, so it does not pay enough attention to the financial personnel. In addition, the combination of internal control and technology R&D is generally low, the financial personnel stagnates in the daily accounting work, and the records of the income of high-tech products and the R&D expenses of related projects are not sufficient, which often makes the R&D work divorced from the financial accounting. It is impossible to find the problems in the R&D process in time and effectively. These problems will restrict the project cost accounting, and the accounting lacks scientific. For example, when enterprise purchases high-value consumables for product development, the financial personnel only record the expenses in the account book according to the details on the invoice, without knowing what the products are and for what purpose. They can only be registered in fixed assets with subjective consciousness, resulting in accounting treatment errors. There are great differences in the summary of R&D expenses, and the cost allocation of each R&D project is not reasonable, which is not conducive to the smooth development of the enterprise's internal control.

4.2.2. Problems in R&D Expense Accounting

The financial person in charge of the water purification company did not specify the accounting items of R&D expenses when calculating R&D expenses and confused R&D expenses, administrative expenses, production costs or other expenses. Therefore, the accounting items of administrative expenses were not true and accurate. In the tax, accounting and high-tech three different levels, there are different caliber requirements for R&D expenses accounting, so it cannot be completed in the same way as accounting. If these problems are ignored, the management quality of accounting will be greatly reduced. Part of the reason for these problems may be that financial personnel have insufficient knowledge, professional level and comprehensive quality of R&D

expense accounting and collection.

4.2.3. Problems Existing in the Overall Budget Management Mechanism

Currently, the water purification company cannot directly arrange for other departments within the company to cooperate in comprehensive budget management due to the lack of management authority of the financial department over other departments. The comprehensive budget management is superficial, the budget implementation is loose, and the budget control lacks timeliness, so it is not easy to give full play to its real value. As a result, the budget is in vain and loses the significance of budget preparation. The water purification company has not established a corresponding budget management organization, lacks a perfect budget management system, and only the financial department is responsible for the whole budget management process, which easily causes ineffective budget implementation. As a high-tech enterprise, a water purification company invests many funds in the R&D process. Without reasonable budget management, whether it is talent investment, material investment or other investment, it will bring waste of funds, inaccurate cost control and inaccurate budget to the enterprise, which is not conducive to the realization of the established goals of the enterprise.

5. Improvement Measures for Internal Control

5.1. Improvement of Internal Control of Management

5.1.1. Optimize Organizational structure settings

As a high-tech enterprise, the management should constantly optimize the organizational structure with increasing enterprise scale. For the problems of the water purification company, they should set up an audit department. The internal auditor will check the implementation of each department according to the current rules and regulations of the company and carry out risk control on the enterprise. Comprehensively and effectively supervise the whole process of enterprise operation and management, not just at the financial level, to bring more value to the enterprise. At the same time, it also shares the work of the managers of the financial department and other departments, ensures the improvement of work efficiency, improves the organizational structure of the enterprise, further defines the responsibilities of each department, balances the rights of each department, and makes the operation and management of the enterprise more standardized.

5.1.2. Strengthen Information Communication and Supervision of the Company

Enterprises should build a perfect information communication system and provide timely feedback to managers. Enterprises need to improve the fluency of communication and coordination and the quality of information communication to ensure that the internal control of enterprises can play its due effect. Enterprises can establish an internal information exchange platform, ensuring the timeliness of information transmission and the accuracy and confidentiality of information. A high-quality communication mechanism is important to promoting enterprise operation and management orderly. Departments and managers can cooperate better and improve work efficiency. At the same time, strengthening internal control speed up information construction. Further, improve the transparency of internal accounting information and accuracy of financial data, improve the enterprise management level, achieve strategic development goals, and promote stable and sustainable development of enterprises.

5.1.3.Improve Management's Awareness of Internal Control

In order to implement the internal control system well in the enterprise, it is necessary to improve the high attention and determination of the management while paying attention to the development of technology and performing the duties of internal control. First of all, it is to actively mobilize the participation enthusiasm of middle and senior managers and urge them to participate in improving and upgrading the internal control system. Moreover, it is also necessary to strengthen the internal control awareness of grass-roots employees, give full play to the role of internal training and publicity, and constantly strengthen the communication and cooperation between enterprise departments, especially the communication between other functional departments.

In addition, it is necessary to strengthen the publicity of the enterprise's internal control, carry out the training of in-depth understanding of the company's internal control system, and continuously improve the enterprise's employees' understanding and mastery of the company's internal control. Managers should consciously participate in the internal control work so that everyone can actively participate in the internal control work in an efficient atmosphere to ensure the efficient and orderly implementation of the company's internal control system and contribute to the improvement of the company's internal control system.

5.2. Improvement of Internal Control at the Financial Level

5.2.1.Strengthen Communication Between Financial Personnel and R&D Personnel

We suggest that enterprises should require financial personnel to communicate regularly with R&D personnel to promote financial personnel to fully understand, master and standardize the collection of R&D expenses. The financial personnel shall participate in the relevant R&D results reporting meeting and learn about the project progress and the use of R&D funds from the meeting to facilitate the collection of subsequent R&D expenses. In collecting R&D expenses, if financial personnel encounter their knowledge blind spot, they can actively communicate with R&D personnel or other relevant personnel rather than a judge only by subjective consciousness.

5.2.2.Improve the Knowledge Reserve and Quality of Financial Personnel

A high-tech enterprise shall regularly provide business knowledge guidance to financial personnel and organize financial personnel to learn the characteristics of high-tech R&D processes and related business operations. The financial personnel shall have a preliminary understanding and mastery of the enterprise's business, lay a good foundation for further study of relevant policy research on the collection and addition and deduction of high-tech R & D expenses, and understand the knowledge and skills of cost segmentation in each link.

At the same time, financial personnel should constantly improve their professional ability, strengthen theoretical study, obtain relevant qualification certificates, constantly learn the latest policies, update their knowledge reserves, and keep up with the speed of accounting policy updates. Based on paying attention to the internal control system, high-tech enterprises should strengthen the professional level and comprehensive quality training of accounting personnel, improve the knowledge reserve and quality of financial personnel, and strengthen the training of internal control theory, skills and R&D cost collection, to better improve the internal control ability of enterprises.

5.2.3.Improve the overall budget management system

A perfect budget management system is the basic guarantee for high-tech enterprises to

implement comprehensive budget management. To compile the comprehensive budget of high-tech enterprises, first of all, we need to grasp the actual business situation and the current market economic environment and decompose the strategic development goals of enterprises. Supplement with the budget preparation opinions of all departments to improve the authority of budget preparation.

Secondly, change the traditional budget management mode, establish a comprehensive budget management organization, and reverse the situation in which the former financial department independently completed the comprehensive budget management. Let all departments actively cooperate, strengthen communication between them, jointly promote comprehensive budget work, further clarify the responsibilities and authorities of other departments, perform their respective duties, and better jointly promote comprehensive budget management.

Finally, to comprehensively improve the attention of all staff within the enterprise to comprehensive budget management, all departments within the enterprise need to actively participate in comprehensive budget management, establish a scientific and reasonable comprehensive budget management concept, and incorporate comprehensive budget management into the enterprise management activities. Once an enterprise has made a budget, it must continue to strengthen the budget binding force, strictly implement the budget plan, and shall not arbitrarily adjust the enterprise budget plan except under special circumstances. Only by strictly implementing the expenditure budget can we reflect the guiding significance of the budget for the development of enterprises, give full play to the role of comprehensive budget management in the operation and development of enterprises, and further promote the development of high-tech enterprises.

6. Conclusion and Discussion

High-tech enterprises, as frontier enterprises in science and technology, have their particularities, and enterprises should make full use of these particularities and establish and improve the internal control management system. Only by continuously strengthening the construction of internal control, constantly improving the internal control system, and establishing a scientific risk control mechanism can we effectively control costs, avoid risks, carry out effective internal control, and ensure the smooth progress of research and development in the research and development of products and technologies. Otherwise, various problems will arise in internal control. There are still many problems in implementing internal control in high-tech enterprises, and people need to continue to explore and improve to ensure that internal control can play a greater role in the development of high-tech enterprises.

Enterprises need to realize that improving the internal control of enterprises is not an overnight task but a lasting battle. In order to win this battle, we should constantly improve the loopholes, implement various daily work at ordinary times, and incorporate them into the construction of the internal control system. Therefore, in the daily operation and management, enterprise managers should continuously strengthen their risk awareness, analyze the causes of the problems encountered in the internal control work in the past, and find effective measures to solve the problems in the internal control field. Moreover, improving internal control is not only the job of enterprise managers but also the responsibility of every enterprise employee. It is necessary to provide effective solutions through concerted efforts, effective communication and strong implementation of all employees. Formulate strict supervision measures, standardize the internal control system, make full use of internal control, improve the internal control system of the enterprise, continuously improve the work efficiency and level of the enterprise, and make the high-tech enterprises have better and faster development.

The water purification company is a typical example of a high-tech enterprise. As the research

object, we have conducted an in-depth analysis of it. We have found common problems in the internal control of high-tech enterprises from the management and financial levels and put forward relevant improvement suggestions for these problems. On the one hand, from the management level, enterprises can optimize the organizational structure, strengthening the company's information communication and supervision and improving the management's awareness of internal control. On the other hand, from the financial level, enterprises should strengthen the communication between financial personnel and R&D personnel, improve the knowledge reserve and quality of financial personnel, and improve the comprehensive budget management system. The above suggestions can be used as a reference and solution for enterprises of the same type.

Our research has certain limitations. First, we only analyzed one case company. However, the internal control of various high-tech enterprises may be slightly different. In practice, other high-tech enterprises can directly learn from the improvement methods in this paper. Enterprises should comprehensively analyze and consider the applicability of improvement suggestions according to their actual situation. Secondly, the problem analysis is not comprehensive enough. Internal control is complex. This paper only puts forward a few problems existing in the internal control of high-tech enterprises, which cannot be raised one by one and analyzed comprehensively. Finally, some data involve the trade secrets of the case company, which cannot be publicly analyzed. Therefore, there may be deficiencies in the analysis conclusion of the case company in this paper. The follow-up research can be carried out more in-depth and comprehensively. High-tech enterprises must also find the most suitable development path through continuous exploration and practice, show stronger risk resistance and management ability, and embark on an innovative, healthy and sustainable development path.

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