

Study on the Optimization of Internal Control in Government Grassroots Organizations: Take D Town as an Example

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Abstract: As the most grassroots organ of power in the country, the construction of internal control in township governments is a micro-foundation for the modernization of the national governance system and governance capacity, and an important grip for practicing anti-corruption and promoting the rule of law. Based on the internal control theory, this paper attempts to explore the current situation and problems of internal control in D town based on the five elements of the COSO internal control framework, and finally proposes measures to optimise internal control. In order to enrich the existing internal control case resources of administrative units in China, and play a certain theoretical reference role in the establishment and improvement of the internal control framework of administrative units in China.

1. Introduction

Cantonal governments are the basic link to public services and are primarily responsible for the implementation of the "last mile" of national financial regulations. The internal governance capacity of the grassroots government is closely related to the internal governance level of the whole region, and is also related to the overall development of the county economy. Currently, the current state of management in Canton D is characterized by large numbers of funds, mixed uses, high risks and strong management pressure. The scale of financial funds is expanding, the total amount of available funds is growing, grassroots affairs are complicated and all-encompassing, and the risks are growing. Whether grassroots financial funds are used in a standardised manner, whether the performance of inputs and outputs meet expectations, whether the management methods of grassroots cadres are scientific, and whether grassroots governance capacity is commensurate with its rapidly developing economic level, are all issues of concern. If there are loopholes in the internal control system at the grassroots level and serious management deficiencies and lack of implementation of internal management, the overall governance of the region will be worrying, hence the urgency of building internal control in townships. In recent years, China has introduced a series of policies and regulations to regulate, strengthen and improve grassroots finance, but the financial work of townships under the new situation is still facing great challenges [1]. Therefore, how to deal with problems and difficulties in the financial management of cantons is an intimidating task that the departments concerned must

face.

2. Theoretical Foundations

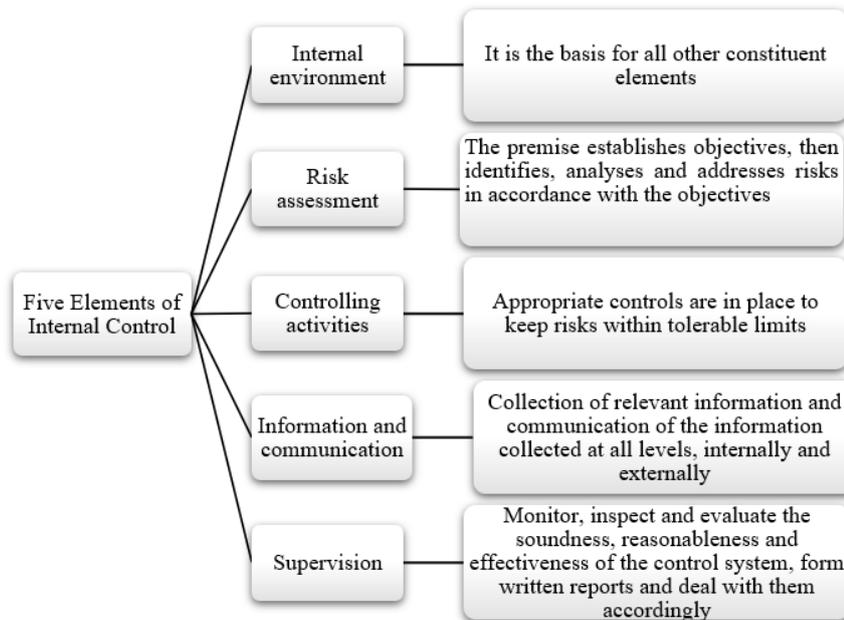
2.1. Internal Control at a Glance

Internal control refers to the prevention and control of risks in economic activities through the development of systems, implementation of measures and execution of procedures of the unit in order to achieve control objectives. The objectives of internal control mainly include: to reasonably ensure the legal compliance of the unit's economic activities, the safety and effective use of assets, the truthfulness and integrity of financial information, to effectively prevent fraud and corruption, and improve the efficiency and effectiveness of public services [2].

2.2. Internal Control Components

According to COSO's 2013 Integrated Internal Control Framework, the internal control framework is composed of five elements: internal environment, risk assessment, control activities, information and reporting, and oversight [3].

The framework of the five elements of internal control is shown in Figure 1.



Source: Summarized by the author on the basis of the relevant content of Internal Control in companies.

Figure 1: Diagram of the five elements of internal control

2.2.1. Internal Environment

The internal environment, the general term referring to the various elements which influence and restrict the establishment and implementation of internal control, forms the basis of the implementation of internal control. The internal environment of a township government, including the nature of the township administration, township officials, township cadres and their personalities, and the work environment in which they work, is the basis for internal control in a township government [4]. At a minimum, it includes ethics and values, skills, management philosophy and

style, organizational structure and power distribution, human resources management, and cultural development.

2.2.2. Risk Assessment

Risk assessment is the timely identification and systematic analysis of various risks related to internal control objectives in the course of business activities, and the formulation of corresponding risk countermeasures accordingly. Risk factors, risk events, and risk consequences are the foundation of risk, and risk factors are the preconditions for the occurrence and survival of risk.

2.2.3. Control Activities

Control activities are the adoption of appropriate controls, policies and methods to keep risks within tolerable limits in accordance with the results of risk evaluation and are at the heart of internal control. It helps ensure that management instructions are followed and guides employees through the implementation of management instructions.

2.2.4. Information and Communication

Information and communication refers to the timely, accurate and complete collection and transmission of all types of information about the administrative unit, and the timely delivery, effective communication and application of appropriate methods, and is the bridge to the implementation of internal control. Key content includes: information gathering, internal and external communication, and communication between all departments involved.

2.2.5. Supervision

Supervision refers to the monitoring and assessment of the merits, reasonableness and effectiveness of internal controls, as well as the preparation of a written report and its treatment accordingly [5]. The establishment and implementation of internal controls is subject to ongoing monitoring and inspection, issues are reported on a timely basis, and targeted suggestions for improvement are provided.

3. Case Study-Government of Canton D as Example.

3.1. Overview of the Cantonal Government of D.

D township belongs to Zhejiang province, located in the southeast coastal zone of China, the territory is flat and open, with good water and land transportation conditions, the total area of the map is 100.5 square kilometres, under the jurisdiction of 13 administrative villages and 6 communities, 101,742 people (2018), in October 2019, The canton of D has been chosen as the "global national force 2019 of the 1000 most important cities". In 2021 the city generated regional GDP of RMB 15.56 billion.

3.2. Current Condition of Internal Control in Canton D

3.2.1. Current Status of the Internal Control Environment

The government agencies of D town include 10 major functional offices: the Social Governance Office, the Social Affairs Service Management Office, the Economic Development Office, the Village Construction Management Office, the Project Service Office, the Finance Office, the

Agriculture and Rural Affairs Office and the Investment Promotion Service Office. Decisions on major matters (including the three major matters) are made through consultation with decision-making bodies, including the secretary's office meeting, the director's office meeting and the mayor's office meeting. The town government does not have a separate internal control function, but is led by the Finance Office, whose main responsibilities are to study the construction plan of the internal control system and to perform internal control evaluation, etc.

Township D attaches more importance to the study of the internal control system and has established a relatively sound internal control system. It contains six core systems for budget, revenue and expenditure, procurement, management of state-owned assets, management of economic contracts and management of construction projects. The sound rules and regulations are conducive to better regulating and restraining the behaviour of public officers.

3.2.2. Status of Risk Assessment

Risk assessment is the rapid identification and systematic analysis of risks that influence the achievement of established administrative objectives, and then the rational identification of strategies for meeting those objectives. The management of City D pays particular attention to the prevention and control of risks, and thus invests a large number of managers to carry out the risk assessment work. Firstly, a risk assessment team was set up under the leadership of the town manager; secondly, risks were identified and risk lists were compiled in terms of organisational structure, internal control and management systems, and six major economic operations; Again, a questionnaire survey was used to allow each survey respondent to make a judgement on the likelihood and degree of impact of each risk point, and the final risk level was determined. Finally, the risk assessment working group formulated risk response strategies and risk solutions based on its own conditions and the external environment in order to keep the risks within an acceptable range.

3.2.3. Status of Measurement and Monitoring

At the end of each year, the Canton D Finance Office is responsible for the compilation and production of the Government's Internal Control Self-Assessment Report. A series of indicators for self-evaluation is first determined, and based on the indicators the overall content environment is evaluated finally an Internal Control Evaluation Report is prepared, which is subject to approval by the town mayor and the heads of the functional offices and then submitted to the Municipal Finance Office for approval and rectification.

As far as supervision is concerned, internal supervision is currently led mainly by the Government work office, assisted by the finance office, and external supervisory bodies are mainly the higher authorities. The township also opened a monitoring phone number on its official website, using the Internet to conduct its monitoring work.

3.2.4. Information and Communication

At present, there are many information systems used by D town government, including "budget cloud", "asset cloud", "government procurement cloud", "payment cloud" etc. These systems are used in different businesses, for example, the "budget cloud" is generally used for the preparation and adjustment of the unit's internal budget, and the "Government Procurement Cloud" is used for most of the unit's solicitations and purchases. The lack of interfaces between these software systems renders the transfer of information mediocre, and the internal flow of funds and information ineffective. Since information cannot be shared between different companies, many frontline tasks are always done manually, and the application of the software is not enough.

4. Problems of Internal Control in D Township Government

4.1. Irrational Job Setting and Low Quality of Personnel

When setting performance indicators, the administrative staff of township D did not take sufficient account of the indicators that they could not achieve, thus causing the staff to lose their motivation to work. Although there is some understanding of the staff's spirit, grooming, work discipline, treatment of people, environmental hygiene, organisational management and violations, it is not comprehensive; the honesty and professional ethics of the unit's leaders and cadres still need to be improved[6]. Secondly, the municipal government D does not reflect sufficiently on the competence aspects of its employees. Some administrators appear not to have the competencies to match their positions; the positions lack employees who can fully recognise and understand and apply their skills; and the administrators do not specify the competency requirements that each position should have. Lastly, there is a lack of quality financial personnel and a lack of financial personnel in the administration of Canton D, which translates into the recruitment of appropriate financial accounting personnel. The financial accounting staff are often engaged in a haphazard and random mix, with low professional standards, and are unable to carry out accounting according to standard criteria, resulting in substandard account processing. The frequent transfer and replacement of financial accounting personnel leads to financial positions that cannot be mutually supervised and a poor transfer of labour.

4.2. Disconnection between Budget Implementation and Budget Preparation

Currently, the Township of D government prepares an annual budget on an annual basis, but actual implementation is not very effective. The main reason for this is that some unit heads believe that as long as they have enough money, they do not need to be subject to the budget and lack a full understanding of budgetary control. Secondly, when preparing each year's financial budget, there is poor cooperation and incomplete consideration of the budget by various departments, resulting in a disconnect between budget execution and budget preparation by unit staff.

4.3. Poor Communication and Feedback, and Imperfect Computerization of the System

The biggest problem in information communication in the D township government is that communication and feedback are not smooth, and no unified instructions have been established for all positions, resulting in, for example, accounting departments not connecting well with relevant business departments. Networked information technology is not well developed and on-line channels are not well utilized. Secondly, there are problems with the security of information systems, network equipment still uses outsourced projects, information security cannot be fully guaranteed, and some of the older employees do not know how to use operating computers [7]. Again, the anti-fraud mechanism is not sound, the allocation of funds is unreasonable, special funds are not fully used for special purposes, and fraudulent behaviour still exists, leading to the interests of employees being damaged.

4.4. Internal Supervision Mechanism is Not Perfect

D township governments do not have independent internal audit institutions, internal audit work is mainly carried out by the finance office, which has formed an unreasonable model of finance personnel "that is, as athletes and referees". These phenomena severely limit the effectiveness of internal audit work, weakening the discipline of internal audit work and leading to the independence of internal audit work cannot be discussed[8]. Secondly, the scope of the current audit is only limited

to whether the accounting information is true and perfect, but cannot supervise and audit the business operation process, for the problems found in the audit cannot be timely development of corresponding countermeasures to solve, cannot avoid the occurrence of risk.

5. Measures to Optimize Internal Control in D Township Government

5.1. Improve the Division of Labour and Improve the Quality Level of Personnel

The person in charge of the township government unit should first of all do a good job themselves to lead by example, to be honest and to require themselves with strict moral standards. Establish a staff-oriented management concept, attach importance to the development of talents, designate a reasonable performance appraisal system, further improve the enthusiasm of employees, establish a reasonable promotion system, stimulate the potential of employees, and add more vitality to the organizational unit. The mind of the personnel, the instrumentation, the work discipline, the treatment of the persons, the hygiene of the environment, the management of the organization and the irregularities are regulated. Secondly, the management has a full understanding of the capabilities of each post, collates detailed requirements for the duties of each post and delegates them, and recruits staff who meet them in accordance with the requirements so that each post is staffed and the role of each post is given full play. Through democratic selection, people who fulfill the ideals of the people and who have the ability and style to act as managers are chosen. A reasonable internal organisation should be set up according to its own characteristics and the needs of internal control, with clear responsibilities, and an internal management manual should be drawn up so that everyone understands the internal organisation set up, business processes and clear responsibilities. Reasonable assignment and delegation of authority, and reasonable assignment of a variety of functions and skills to all employees.

5.2. Scientific Budgeting and Strengthening Budgetary Control

In view of the financial management of the cantons, budgetary control is the weak link in the internal control of the cantons, while the scientific and reasonable budget is very large. Therefore, D township government should strengthen the cooperation and communication of all departments and cooperate with each other to prepare a comprehensive and scientific budget and do a good job of quantifying records. The financial mechanism of the budget should be constantly improved, the execution and organization and coordination of the budget should be strengthened, and the budget should be tested, analyzed and monitored and controlled, so as to better manage performance; when preparing the annual budget, the annual financial budget should be truly, completely and accurately reflected, the year-end budget and settlement should be standardized, and the final accounts should be reviewed and summarized to maintain the seriousness of the final accounts[9].

5.3. Build Information and Communication Mechanisms and Establish Network Information Security

The township government should establish a sound information and communication mechanism, and the management should put forward professional opinions to improve the efficiency and effectiveness of management and promote the democratization of decision-making. The major decisions, the major projects are to organize the departments and staff involved in coordination and communication. Put in place and improve the mechanism of fight against fraud, resolutely oppose anti-fraud behaviors and seriously tackle these behaviors. Secondly, to fully understand the needs and objectives of the staff, to establish a two-way e-government system, to connect various departments

through electronic networks, to give full play to the convenience of the network information age, and to improve office efficiency. The development and maintenance of information systems should be controlled in a safe and stable manner.

5.4. Strengthen Audit Supervision and Establish an Internal Audit System

The Township's governmental units should establish independent internal audit institutions and establish internal audit institutions separate from the Department of Finance. Formulate annual audit plans, do the work of internal audit, take timely and targeted remedial measures for the problems found in the audit process, and follow up and rectify them, and at the same time build up a system of accountability for those responsible in relation to them[10]. The supervisory function of auditing and finance should be given full play, and regular and irregular inspections should be carried out to analyse the implementation of internal controls overseen by auditing, and practical suggestions for improvement should be made. Secondly, a sound internal audit system should be established to cover all governmental funds, to supervise and audit the business operation process, and to focus on sound supervision of the whole process before, during and after the event.

6. Conclusion

In view of the fact that the theoretical research on internal control of grassroots government in China is still in a blank state, this paper defines and studies the definition, objectives and elements of internal control of grassroots government in China from the COSO internal framework, and discusses the problems of internal control of grassroots organizations in China's government as well as proposes corresponding countermeasures from the perspective of the five elements of internal control, combined with township D in Zhejiang Province as a case study. Although the case will have certain limitations, is not universal, and there are not many previous studies, so there is a certain bias in the design of the content. However, the case chosen for this paper is representative of the city in which it is located, with innovative methods, innovative content and innovative perspectives, application and academic aspects that can bring some inspiration and reference for future research work.

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