

Research on the Challenges and Solutions of Internal Control in Administrative Institutions: A Case Study of H City Audit Bureau

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Abstract: Taking H City Audit Bureau as a case study, this research conducts field investigations based on the "Internal Control Standards for Administrative Institutions (Trial Implementation)". It analyzes the current state of internal control from four dimensions: risk assessment and control, organisational-level and operational-level internal controls, evaluation, and supervision. Findings reveal deficiencies including: absence of risk assessment mechanisms; inadequate segregation and rotation of key positions; lack of independent financial accounting; simplistic physical asset management; insufficient independence in self-evaluation; and weakened supervision. The root causes lie primarily in insufficient leadership commitment, inadequate institutional frameworks, suboptimal staffing and personnel quality, and weak internal oversight mechanisms. Consequently, the following countermeasures are proposed: enhancing leadership awareness of internal controls; refining systems for key position segregation, job rotation, asset management, and accountability mechanisms; strengthening staff training in internal controls and professional capacity building; and promoting the organic integration of internal oversight with self-evaluation to elevate overall internal control effectiveness.

Keywords: Audit Bureau; Administrative and Public Institutions; Internal Control

1. Introduction

In China, administrative and public institutions are categorised into two main types: administrative units and public institutions. Administrative units encompass state power organs such as legislative, executive, and judicial bodies, responsible for exercising administrative authority to ensure the normal functioning of social order. They formulate and implement policies, laws, and regulations to maintain public order and promote comprehensive socio-economic development^[1]. Public institutions, meanwhile, are service organisations established by the government using state assets, dedicated to providing public services such as education, scientific research, culture, and healthcare. Operating under government leadership, they possess legal person status and bear external liabilities^[2]. Together, these institutions form China's distinctive system of administrative and public institutions, playing an indispensable supporting role in national stability and progress. To ensure the effective functioning of this system, internal control is indispensable^[3].

2. Overview of Internal Control in Administrative and Public Institutions

On 29 November 2012, the Ministry of Finance formally promulgated the "Internal Control Standards for Administrative and Public Institutions (Trial)" (Cai Kui [2012] No. 21). As shown in Tables 1 and 2, these Guidelines outline the objectives and scope of internal control for administrative and public institutions. Consisting of six sections and a total of 65 articles, they cover general provisions, risk assessment and control strategies, organizational-level internal control, operational-level internal control, evaluation and supervision, and supplementary provisions. They officially took effect on January 1, 2014^{[4][5]}.

Table 1 Objectives of Internal Control in Administrative and Public Institutions

Core Objectives	Specific Implications and Measures
Legality and Compliance of Economic Activities	Institutional safeguards to ensure operations within statutory boundaries Compliance with Relevant Management Regulations Preventing unlawful and non-compliant conduct
Asset security and effective utilisation	Implementation of full-cycle asset management Preventing asset loss, misappropriation, and misuse Enhance the utilisation efficiency of state-owned assets
Financial information is truthful and complete	Timely and accurate recording of economic activities Supporting oversight and management decision-making
Preventing fraud and combating corruption	Strengthening the Mechanism for Balancing Power Addressing deficiencies in oversight and constraints on authority
Enhance the efficiency and effectiveness of public services	Strengthening power balancing mechanisms Addressing Deficiencies in Power Supervision and Constraints

Table 2 Content of Internal Control in Administrative and Public Institutions

Key Content Modules	Key Elements
Risk Assessment and Control Methods	Establish a regular risk evaluation mechanism Timely reassessment Formation of an assessment team
Internal Control at the Unit Level	Designate a dedicated department Separate key processes (decision-making, execution, oversight) Collective decision-making discussions Refine the system of job responsibilities
Business-level internal controls	Budgetary control Revenue and expenditure operational controls Government procurement operational controls Asset Control Project Construction Control Contract Control
Evaluation and Supervision	Establishment of Internal Control Systems Conducting Inspections and Self-Assessments Maintaining Independence

3. Analysis of the Current State of Internal Control at H City Audit Bureau

3.1 Introduction to H City Audit Bureau

3.1.1 Primary Responsibilities and Organisational Structure

The Audit Bureau of H City is a municipal government department, classified as an administrative unit at the section chief level. It oversees auditing work throughout the city. The bureau comprises eight divisions: six administrative divisions and two public institution divisions.

3.1.2 Staffing Structure

The H City Audit Bureau comprises: one Party Secretary concurrently serving as Director; two Deputy Directors; one Chief Auditor; one Secretary of the Party Committee; one Head of the Economic Responsibility Audit Division; and one Director of the Investment Audit Centre. The total authorised staffing is 30 personnel, comprising: 14 administrative posts, 14 public institution posts, and 2 support staff posts.

3.2 Current Status of Internal Control at H City Audit Bureau

3.2.1 Risk Assessment and Control Methods

The risk assessment and control methods employed by the H City Audit Bureau for internal control in government and public institutions include: segregation of incompatible duties, internal authorisation and approval controls, centralised management, budgetary controls, asset protection controls, accounting controls, voucher controls, and an internal information disclosure system. The primary written regulations are formulated by the Party Leadership Group, formally promulgated and implemented after approval by all staff members, and comprise three parts: (1) H City Audit Bureau Work Regulations (2) H City Audit Bureau Internal Management Regulations (3) H City Audit Bureau

Collective Decision-Making System for "Three Major and One Important" Matters. The H City Audit Bureau's budget management practices adhere to citywide uniform standards and are therefore not elaborated upon herein.

3.2.2 Internal Control at the Unit Level

(1) Organisational Structure

The Internal Control Leading Group of the H City Audit Bureau comprises members of its Party Leadership Group. The group consists of five members: the Group Leader is the Party Secretary and concurrently the Director; members include the Deputy Director, Chief Auditor, and Secretary of the Party Committee. The Office serves as the primary coordinating body for internal control.

(2) Decision-Making Mechanism

The Bureau implements a collective decision-making system for "Three Major Matters and One Significant Decision", encompassing: major policy decisions, appointments of key personnel, significant project arrangements, and the use of substantial funds. Collective decisions are made through Party Group meetings, with agenda items proposed by the Party Group Secretary or determined based on suggestions from Bureau leadership. Relevant departments prepare materials under the direction of the responsible Bureau leader. The meeting is chaired by the Party Group Secretary. The agenda item is briefly explained by the relevant bureau leader or the head of the concerned section. Attendees shall engage in thorough discussion and express clear opinions on the matter. Unanimous consensus shall be reached through collective discussion to determine major matters. Where voting is required, each item shall be voted on individually, with the voting stance of each Party Leadership Group member recorded for reference. Following voting, decisions shall be made according to the principle of minority deferring to the majority. In cases of significant disagreement, decisions shall generally be deferred.

(2) Key Position Rotation System

The H City Audit Bureau designates key positions including accounting, cashier, seal management, asset management, and disciplinary oversight (assigned by the H City Commission for Discipline Inspection). The accounting and cashier roles are responsible for budget preparation. Rotation shall occur every three years.

(3) Information Technology Framework

The H City Audit Bureau exhibits relatively underdeveloped information technology capabilities. The primary financial software currently in use falls into two categories: general-purpose financial software, such as Xinzhongda Financial Software, primarily employed for daily accounting operations; and specialised software mandated for state administrative and public institutions, such as the Treasury Centralised Payment System. Furthermore, the majority of document processing at the H City Audit Bureau is conducted using Microsoft Office or WPS, with transmission via QQ or WeChat, while paper-based operations remain predominant.

3.2.3 Operational Internal Controls

Owing to the specialised nature of its functions, H City Audit Bureau frequently conducts field audits. It engages in minimal procurement activities, construction projects, and contracts. This paper therefore focuses solely on the current status of its budgetary operations, revenue and expenditure management, and asset management.

(1) Internal Control of Budgetary Operations

The H City Audit Bureau has not established a dedicated budget management team, instead implementing the city-wide unified budget management approach. Budget-related tasks fall under the purview of the General Office. The annual budget is drafted by the General Office, reviewed by leadership, and submitted to the Finance Bureau. All fiscal revenue consists of appropriations from the treasury. The budget comprises two components: revenue and expenditure. Revenue is categorised as general public budget appropriations, while expenditure is divided into basic expenditure and project expenditure, including general public services, social security and employment, health and healthcare, and housing security.

(2) Internal Control over Revenue and Expenditure Operations

The H City Audit Bureau has designated the Office to manage its revenue and expenditure operations. A cashier position and an accountant position have been established, responsible for

approving daily expenditure reimbursements and related accounting tasks. Institutionally, the unit primarily adheres to higher-level financial management regulations to standardise its revenue and expenditure operations. The unit has no debt obligations; this analysis focuses primarily on its revenue and expenditure processes.

The expenditures of H City Audit Bureau are categorised by economic function into personnel expenses and operational expenses. Personnel expenses, such as basic salaries, performance-related pay, bonuses, and social insurance contributions, are paid directly by the treasury. Operational expenses encompass office supplies, travel expenses, training fees, and official hospitality expenditure, typically processed through treasury-authorised payments. The financial reimbursement process involves the handler collating receipts and completing an expense reimbursement approval form. The handler (along with the certifier and verifier) signs the receipts, which are then reviewed by the section head and verified by the finance department.

(3) Internal Control over Asset Management

The internal controls of H City Audit Bureau concerning asset management primarily encompass two areas: the management of monetary funds and the management of physical assets, both of which fall under the responsibility of the Office.

In the management of monetary funds, the cashier executes payments based on approved payment requests and records these in the bank cash book. The accountant prepares accounting vouchers accordingly, which are entered into the ledgers after approval by the finance manager. All relevant vouchers must be signed off and filed to ensure the traceability of transaction trails. At the beginning of each month, the accountant must obtain the previous month's bank statement, reconcile it with the bank cash book records, and prepare a bank reconciliation statement for any discrepancies.

Regarding physical asset management, the Office is responsible for oversight. Asset procurement is managed through a procurement plan and requires approval through relevant procedures. For bulk purchases, relevant departments must submit applications for approval via the Office's workflow. Government procurement must comply with municipal regulations. Upon delivery, procured items require completion of relevant formalities, timely reimbursement, and registration in ledgers maintained by the Office. Fixed asset entries are recorded by finance personnel. The specific using department is responsible for asset management and usage, with the Office providing oversight.

3.2.4 Evaluation and Oversight of Internal Control Status

The Internal Control Working Group of H City Audit Bureau also serves as the Internal Control Evaluation Team, conducting a self-assessment of internal control implementation in mid-December each year. The team summarises the bureau's internal control activities for the year. Assessment criteria are allocated to each division (centre) according to their responsibilities, with a comprehensive target-based assessment using a percentage system. Scores serve as the basis for selecting advanced units and individuals annually, as well as for distributing staff work allowances. Internal control supervision is carried out by the internal control team, while external oversight is the responsibility of the Finance Bureau. Its primary activities include the annual submission and review of the unit's internal control report.

4. Analysis of Problems and Causes in the Internal Control System of H City Audit Bureau

4.1 Problems with Internal Control at H City Audit Bureau

4.1.1 Risk Assessment and Control Aspects

The existing internal systems of H City Audit Bureau predominantly comprise administrative management regulations. Internal control systems and provisions concerning risk assessment and control are only sporadically referenced within several written regulations, lacking dedicated and targeted implementation measures.

4.1.2 Unit-Level Internal Control

(1) Inadequate Segregation of Key Duties

Positions such as accounting and cashier duties, budget formulation, seal management, and asset management play crucial roles within administrative institutions, directly impacting operational efficiency and effectiveness. Field investigations revealed that while H City Audit Bureau has

established a post allocation plan, it only delineates departmental responsibilities without specifying duties within individual posts. Most tasks were assigned by departmental heads, resulting in unclear delineation of responsibilities. Notably, a fully-fledged accounting department had not been established, with office staff required to undertake multiple roles including accounting and cashier duties, budget preparation, and asset management.

(2) Inadequate rotation of key positions

In administrative and public institutions, positions such as accounting and cashier duties, budget formulation, seal management, and asset management often carry significant authority. Long-term occupation of the same post can foster corruption. Although the H City Audit Bureau has established a job rotation mechanism, its implementation lacks rigour, resulting in insufficient rotation for certain critical roles.

4.1.3 Operational Internal Controls

(1) Absence of a Dedicated Financial Department

The administrative staff at H City Audit Bureau undertake multiple responsibilities, including financial duties. However, with only two personnel in the office, they frequently struggle to process substantial volumes of financial information promptly amidst heavy workloads, resulting in delays in preparing financial reports. Accounting records constitute vital documentation of an organisation's economic activities. Timely processing is crucial for ensuring the accuracy of financial information, preventing omissions or erroneous entries, and thereby safeguarding data integrity. This is essential for enabling leadership to make data-driven decisions. Field investigations revealed delays in accounting processing at H City Audit Bureau, with instances of accounts being processed up to one or even three months late. This impedes the ability to provide timely data support for leadership decision-making. (2) Overly Simplistic Control Measures for Tangible Asset Management

The physical asset management of H City Audit Bureau is undertaken by the Office. Given the heavy workload, only procedures for recording issuance and disposal have been established. This approach proves inadequate for comprehensively controlling physical asset information. The unit has failed to establish a comprehensive information recording system covering the entire lifecycle of physical assets, nor has it assigned dedicated personnel for routine maintenance. This management deficiency implies a lack of clear accountability for physical assets. When relevant personnel record fixed asset information, they often merely note the asset name while neglecting to register information on assets transferred between departments. Such incomplete records lead to management confusion. Furthermore, the absence of detailed records makes it difficult to assign responsibility when assets are lost.

4.1.4 Evaluation and Supervision Aspects

(1) Lack of Independence in Self-Assessment Organisations

The evaluation and supervision of internal controls are crucial for an organisation's self-improvement. However, in H City, the internal control evaluation body and the supervisory body are the same organisation. This means that the evaluation and supervision of internal controls are designed and implemented by the same working group, lacking independence. Consequently, it is difficult to identify problems in the design of internal controls during the evaluation process, and only execution issues related to other business departments can be detected.

(2) Insufficient Supervision

The internal audit function within H City's Audit Bureau is relatively weak. The organisation only conducts internal audits at year-end, lacking detailed oversight procedures to provide continuous monitoring of daily operations. Furthermore, the small number of internal auditors, most of whom hold concurrent roles, compromises their independence and hinders effective oversight. Moreover, certain oversight activities remain superficial rather than thorough. For instance, in physical asset management, audits are confined to reconciling accounts without detailed inspections, merely verifying data consistency with relevant software records.

(3) Absence of Oversight Plans

According to H City's unified regulations, each unit should formulate a detailed internal control supervision plan annually to enable specific and effective oversight of all economic activities, asset security, and financial information throughout the year. In practice, however, the H City Audit Bureau

has not compiled relevant annual internal control supervision plans.

4.2 Analysis of Causes for Internal Control Deficiencies in H City Audit Bureau

4.2.1 Insufficient Emphasis on Internal Control by Unit Leadership

The effective operation of an organisation's internal management system hinges on the attention of its senior management. Differences in experience and environment may lead some leaders to underestimate the necessity of internal controls, thereby undermining the independence and authority of the oversight and evaluation teams. This hinders their ability to effectively implement and guide the organisation's internal control development. Furthermore, when leadership neglects internal controls, ordinary staff may also downplay their importance, mistakenly viewing them as solely the responsibility of the finance department. This, in turn, undermines the overall effectiveness of internal control measures.

4.2.2 Deficiencies in Establishing Essential Internal Control Systems

The H City Audit Bureau lacks key systems including segregation of duties for critical positions, rotation mechanisms, physical asset management protocols, and a clear accountability framework. When decisions prove erroneous, the absence of institutional mechanisms to assign responsibility and impose consequences means accountability remains unlinked to authority. When decisions prove erroneous, personnel involved typically face no commensurate penalties, nor does this affect their career advancement. Consequently, when individual assessments diverge from leadership decisions, personnel often align with the leadership's stance, leading to centralised and arbitrary decision-making.

4.2.3 Staffing Levels and Competence Require Optimisation

On the one hand, staffing levels are insufficient. The H City Audit Bureau has specialised operational requirements, with staff frequently undertaking field audits. This creates staffing shortages, making it difficult to ensure adequate personnel across all positions. Consequently, key roles are often filled by individuals with multiple responsibilities, such as the office handling several critical functions, preventing regular job rotation. On the other hand, training for key positions is inadequate. Some key personnel within the H City Audit Bureau possess professional backgrounds that do not align with their job responsibilities. This is particularly evident in internal control positions, which demand higher specialisation that ordinary staff struggle to acquire through self-directed learning. The organisation provides only rudimentary training for such roles, leading to inefficiencies in the implementation of internal controls within the H City Audit Bureau.

4.2.4 Inadequate Internal Oversight Mechanisms

Within the framework of China's administrative system, public institutions face challenges of insufficient autonomy and initiative, coupled with a lack of intrinsic incentive mechanisms, when advancing internal control development and implementation. This is particularly acute for government internal control bodies such as the H City Audit Bureau, where operational characteristics and staffing constraints complicate the execution of self-supervision. The roles of internal control development personnel and internal control assessment staff often overlap, frequently resulting in "self-review" scenarios that directly compromise the quality and objectivity of internal control assessment reports. Concurrently, to meet higher-level departmental requirements and prioritise operational efficiency, internal control teams frequently undertake self-assessment tasks, further exacerbating the issue. As a grassroots administrative unit, the H City Audit Bureau lacks sufficient manpower and resources for routine, ongoing internal control oversight. It has also failed to establish a systematic framework for continuous internal monitoring. These factors collectively undermine the effectiveness and efficiency of its day-to-day internal auditing functions.

5. Recommendations for Enhancing Internal Controls at H City Audit Bureau

5.1 Strengthening Leadership Commitment to Internal Control

Only when senior management fully grasps the critical importance of internal control can an organisation establish an effective internal control environment and system. This fosters consensus and collaboration among organisational members, laying a solid foundation for the development and implementation of the internal control framework. Consequently, regularising the dissemination and education of internal control knowledge has become an urgent task. Relevant bodies should organise

diverse activities such as training sessions and seminars to emphasise to senior management the central role and necessity of internal controls within administrative and public institutions. This aims to elevate managers' conceptual understanding of internal controls.

5.2 Enhancing Internal Control System Development

Firstly, refine the segregation of duties for critical positions. Considering the specific circumstances of H City Audit Bureau, the primary task is to establish a management framework for key roles. This includes creating detailed job description documents and strictly enforcing the principle of incompatible positions to clarify the responsibilities and authorities of critical roles. Additionally, business processing procedures should be optimised to prevent any potential fraudulent activities and ensure standardised workflow operations.

Secondly, rigorously enforce the rotation system for critical positions. Given the specialised operational requirements of H City Audit Bureau, while the rotation cycle for key roles may be moderately extended, a corresponding evaluation system must be established to facilitate the timely replacement of underperforming staff in these positions. This ensures sustained efficiency and motivation within these critical functions.

Thirdly, refine the physical asset management control system. Firstly, when handling the requisition of physical assets, the unit must strictly adhere to established procedures regardless of the asset's scale. The advance requisition of assets without formal authorisation is absolutely prohibited to ensure accountability can be traced. For each fixed asset, the unit shall designate a specific individual responsible for its routine maintenance and upkeep, conduct regular asset inventories and maintenance to safeguard the integrity and security of state-owned assets, promptly process accounting adjustments for any asset shortages or surpluses to ensure book records align with physical inventory.

Fourthly, an accountability mechanism must be established, ensuring that decision-makers bear responsibility for their actions, with duties clearly assigned to each relevant individual. Linking accountability to performance bonuses and promotions will heighten awareness of this importance among all decision-makers. Concurrently, internal oversight must be fully leveraged to monitor collective decision-making, thereby effectively preventing centralisation and arbitrariness in decision-making.

5.3 Enhancing Staff Awareness and Professional Competence in Internal Control

At first, internal control requires full organisational support. Tailored training for staff at different levels should be provided to enhance understanding and acceptance of internal control. For key positions such as finance and accounting, internal audit, discipline inspection and supervision, and asset management, regular professional development should be organised through lectures and short courses delivered by universities and research institutions. This ensures staff genuinely grasp the specialised knowledge and significance of internal control, thereby guaranteeing its smooth implementation within the organisation.

Secondly, concerning the work of financial personnel, efforts should be made to strengthen communication and information exchange between financial staff and other departments regarding financial matters. This includes the timely sharing of financial data and the preparation and submission of financial reports to provide key data for decision-making support to organisational leadership. Concurrently, financial knowledge training should be provided to the principal responsible persons of relevant departments. This aims to reduce the workload of the finance department by enhancing the financial management capabilities of non-financial personnel, thereby promoting more efficient resource allocation and management.

5.4 Integrating Internal Oversight with Self-Assessment

The H City Audit Bureau should establish robust systems for supervising and inspecting internal controls alongside self-evaluation mechanisms. Specific oversight procedures should be refined to identify prominent issues, management loopholes, and weaknesses in internal control implementation through routine and specialised supervision, thereby further improving and strengthening internal controls. Self-evaluation should assess the comprehensiveness, materiality, checks and balances, adaptability, and effectiveness of internal controls to drive further refinement. A detailed annual internal control supervision plan should be formulated to ensure the achievement of internal control objectives.

Concurrently, the unit shall integrate internal supervision and self-evaluation with cadre assessment and accountability mechanisms. The outcomes of internal supervision and self-evaluation shall be disclosed internally through appropriate channels to reinforce self-supervision and self-discipline, thereby promoting the continuous refinement of self-supervision and self-restraint mechanisms.

6. Conclusion

Administrative and public institutions play a pivotal role in advancing national governance and societal development. Collectively forming China's distinctive system of administrative and public institutions, they provide indispensable support for national stability and progress. Our nation must pursue comprehensive optimisation and institutional innovation of internal control systems through top-level design. This encompasses, but is not limited to, refining relevant laws and regulations, establishing clear internal control standards and guiding principles, strengthening talent cultivation and professional training, and leveraging information technology to enhance internal control efficiency and transparency. Information technology initiatives, such as the introduction of advanced management information systems, can not only enhance the timeliness and accuracy of internal controls but also bolster capabilities in data analysis and risk early warning. Guided by the Thought on Socialism with Chinese Characteristics for a New Era, China's internal control systems within administrative and public institutions are poised to achieve a qualitative leap through continuous refinement and improvement. This will not only enhance administrative efficiency and transparency but also contribute to the establishment of a more equitable and effective governance framework.

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