Research on the Factors Influencing the Quality of Internal Control Information Disclosure in China

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**Abstract.** An increasing number of financial fraud scandals have burst, and the effectiveness of internal control of listed companies has been questioned. Therefore, both listed companies themselves and external information users such as investors and bondholders are in urgent need of finding a reliable and reasonable way to understand the enterprise's internal control status. From the perspective of listed companies, the disclosure of internal control information is the first way for the managers to complete the fiduciary duty, and secondly, it is an important way to enhance the managers' awareness of internal control. From the perspective of external information users, disclosure of internal control information can provide information which can help the investors to make decisions besides the information of the financial report. At the same time, it can also increase the reliability of the financial reports used by the investors. Based on the analysis of the influencing factors and existing problems of disclosure of internal control information in China, then we making some suggestions.

**Introduction**

From the perspective of listed companies, the disclosure of internal control information is the first way for managers to fulfill the fiduciary duty, and the second is also an important way to enhance the level of internal control awareness of managers, there is fierce competition between management personnel, competitors to obtain favorite Of the position and obtain the trust of shareholders, will inevitably continue to enhance their own strength, which should include knowledge of internal control and the ability to implement internal control, and now widely adopted equity incentive policies will also enable managers to pay attention to corporate internal control. From the perspective of external information users, disclosure of internal control information can provide investors with information other than financial reporting information, but also can increase the reliability of the financial reports they use, the company to provide external control to meet the requirements of the internal control report The supervisory role of the internal control can guarantee the authenticity of the disclosure of the financial report information of the enterprise. In the case of the internal control, the supervisory role of the internal control can be ensured.

**The Concept of Internal Control Disclosure of Information**

**The Concept of Internal Control**

In 2008, *the Basic Standard for Enterprise Internal Control* formulated by the five ministries and commissions such as the CSRC indicated that internal control was carried out by the board of directors, board of supervisors, managers and all employees to achieve the goal of control[1]. The objective of internal control is to ensure the legal compliance of business operation and management, the safety of assets, the integrity and completeness of financial reports and related information, improve the efficiency and effectiveness of business operation, and promote the development strategy of enterprises. Control environment, control activities, risk assessment, information communication is the internal control of the five elements, that the control activities is important means, control environment is the basis for internal control, risk assessment is the
foundation, information communication is the carrier, the five elements throughout the entire business process[2].

**The Concept of Disclosure on Internal Control Information**

Internal control information disclosure is the process of evaluating the rationality, completeness and effectiveness of the internal control of the entity according to the standard of internal control evaluation by the enterprise management authority and disclosing it in a report-oriented manner[3]. The objective of this information disclosure is to provide information to the outside world that can help assess the value of the enterprise and to safeguard the interests of stakeholders such as investors. Disclosure type has voluntary disclosure and mandatory disclosure, the disclosure of internal control information has experienced from the spontaneous to mandatory. Disclosure of internal control information, both internal control report can be provided separately, can also be included in the board of directors or other financial reports and other reports.

**Influencing Factors of Information Disclosure Quality of Internal Control**

**Regulatory System**

Laws and regulations are listed companies to take any action compass, the regulatory system not only includes the introduction of the state for the entire listed company's internal control laws and regulations, the same, according to the different locations of listed companies also need to follow the different internal control information disclosure Regulations. On the one hand, from 2000 to 2010, the Ministry of Finance has issued a *Guide to Internal Control of Listed Companies* and *Supporting Guidelines*, the promulgation of these internal control laws and regulations and the implementation of the internal control rules and regulations[4]. The implementation not only provides guidance for the establishment of the internal control system, but also gives the coercive force and motivation for the disclosure of internal control information, and the status quo of the internal control information disclosure of the listed company has been greatly improved. On the other hand, the listing of different locations, the stock exchange on the quality of internal control information disclosure requirements will be based on specific industry and other factors to develop, therefore, the two exchanges for the mandatory disclosure of internal control and supervision is Difference.

**Equity Structure**

Equity structure determines the distribution of corporate control rights, but also affects the relationship between owners and management, master of control of the owner or manager will be decided to disclose internal control information and content of the main force, therefore, The ownership structure of the company will affect the owners and managers of the disclosure of internal control information on the attitude. When the equity concentration is used to express the ownership structure of the company, it can be found that when the ownership concentration of the listed company is low, there is no actual controlling shareholder, the influence of the shareholders is weak and the supervision is weak. The controlling power of the shareholders and the power of disclosure of the internal control information are not enough. When the concentration of the listed companies is high or medium, the controlling power of the shareholders is strengthened and the company is no longer in the insider control state. The controlling shareholder of the enterprise can force the management to disclose the information of the internal control system of the company and the state of the internal control construction and provide the internal control information needed by the investor to show the fulfillment of the agency's entrusted agency responsibilities[6]. If the concentration of ownership is too high, the controlling shareholders and the management, driven by the maximization of interests, may co-operate to intervene in the disclosure of internal control information and intentionally hide the key internal information so as to reduce the cost of disclosure, Disclosure of quality standards, against the interests of minority shareholders.
The Cost of Disclosure on Internal Control Information

Disclosure of internal control information in the long-term benefits to the enterprise at the same time, will bring a series of costs. First of all, the behavior will bring significant costs, disclosure of internal control information, provided that there is information available for disclosure, companies need to build internal control system, internal control related personnel, training staff internal control knowledge, and the need to regularly assess the enterprise, The implementation of internal control, and internal control defects to repair, which will lead to the outflow of corporate resources, such as the reduction of bank deposits; the same time, the behavior will have hidden costs, if the enterprise exists internal control flaws and disclose it, Will weaken the investor confidence and investment motivation, resulting in additional losses[7]. Of course, not the more detailed disclosure of internal control, the greater the cost, when the internal control of information disclosure involves a wide range of enterprises by the internal supervision and external supervision, the more the occurrence of internal control failure and the possibility of financial fraud The lower the loss, the smaller the loss, and when companies have the habit of disclosure of internal control information, external investors will have confidence in the enterprise, the lower the social cost.

External Supervision

The stock exchange and external audit are the backbone of supervision information disclosure. First of all, the stock exchange is a listed company, the listed companies need to follow the relevant provisions of the stock exchange, when the stock exchange on its disclosure of information strictly regulated, the enterprise should be subject to oppressive and full disclosure of information to the contrary, the company disclosed The power and quality will be unsatisfactory. Second, the external audit usually refers to the accounting firm, in accordance with the "norms", the company should be requested to audit the company's internal self-assessment report audit and advice, certified public accountants audit to some extent to protect the internal control report can be Credibility, and the scale of different accounting firms rely on the degree of enterprise is different, usually dependent on the size and size is proportional to the scale of the firm issued by the audit opinion is more fair and credible.

Information Needs of Users

Internal control information users include managers, investors, employees, creditors and regulatory bodies. According to economic knowledge, the supply of goods and demand are closely related, as with the commodity, the supply of information is also a function of demand, on the one hand, the information needs of companies rely on the disclosure of information to make decisions, but also the right to require listed companies to provide real internal Control information, safeguard their own interests, information users and enterprise development are closely related, so companies must be sufficient attention to their information needs[8]. On the other hand, enterprises should choose what kind of internal control information disclosure, should be disclosed in what way, which are affected by the needs of information users. According to the principle of cost-effectiveness, enterprises do not need to disclose information that users do not need to increase the additional costs of enterprises. At the same time, the fundamental goal of information disclosure is to meet the needs of stakeholders, then the disclosure of information in the enterprise should be based on the principle of clarity, concise content, easy to understand, fully explained.

The Problems of Disclosure on Internal Control Information

The Powers and Responsibilities Are Ambiguous

The Sarbanes-Oxley Act sets out the manager's obligation to audit financial information and its legal obligations, that is, management is responsible for disclosure of internal control information. However, China does not specify the responsibilities of managers in the disclosure process. Under normal circumstances, investors will think that the board of directors and management is the main body of internal control, the Board of Supervisors is mainly responsible for the evaluation and
supervision, certified public accountants is to verify the internal control of a sound and effective external force, although the Commission and the government issued norms The legal responsibilities and functions of the three parties are clearly stipulated, which leads to a greater responsibility to avoid the disclosure of internal control information, and also makes the main responsibility of information disclosure is not uniform.

Orderless Evaluation Standard

China's internal control information disclosure range from part of the company to all the companies, from the spontaneous stage to the mandatory stage, throughout the development stage, China has issued a series of laws and regulations, internal control information disclosure system has been improved, but these documents are different requirements for information disclosure, listed companies in the information disclosure criteria faced by too many choices, and there is no clear line to judge the correctness of their choice, the choice of large enterprises, companies must choose the most enterprises Disclosure of benefits, so that it will avoid the adverse business decisions, but for investors is very important news, endanger the interests of investors.

Content is Not Standardized

China's introduction of the Basic Norms of Internal Control Means that listed companies to disclose internal control information from the spontaneous progress to the mandatory disclosure, even though its disclosure of the format and requirements are not clearly defined, so the disclosure of various listed companies in China There is no consistent standard for format and content. At the same time, there are different rules about the internal control information that should be disclosed by the two stock exchanges in China. In this case, there are differences in the reliability and usefulness of the disclosure of listed companies. Greater selectivity, and not a regulatory body can picky its content.

Suggestions on Improving the Quality of the Information

Clear the Main Part of Responsibility

The main responsibility body of disclosure the information is the person who is in change of internal control system design, implementation and supervision. Clearing responsibility for the main body, can promote the responsibility of the degree of emphasis on internal control. At present, China's relevant laws and regulations do not clearly put the main responsibility. Generally speaking, as the subject of internal control responsibility, there are board of directors, board of supervisors, managers and external certified public accountants. The CPA as the main responsibility is obviously not appropriate, the CPA did not participate in business and internal control of the building, so if the CPA as the main responsibility, then it is bound to spend more time and money to assess the company's Internal control status, therefore, the external certified public accountant should be responsible for the audit assessment report and give the audit opinion. The board of supervisors is responsible for the effectiveness of the internal control of the enterprise. But in fact, the board of supervisors in the governance structure of the listed companies is useless, It is difficult to play its supervisory role, so the board of supervisors in the internal control of information disclosure process should give full play to the role of supervision, and should not be the main responsibility. The manager layer and the board of directors as the important participants in the enterprise management, understand all aspects of the enterprise, its internal control of the enterprise are most familiar with the most qualified to assume responsibility for the assessment of internal control, but in the case of separation of the two managers.

Improve the Disclosure Standards

As can be seen from the foregoing, due to the lack of recognition by the community of internal control information disclosure standards, so disclosure of internal control information appears to rely on the standard confusion. Disclosure of internal control information is generally dependent on
the Commission and other government departments, the Shanghai Stock Exchange, Shenzhen Stock Exchange and other norms.

In the Sarbanes-Oxley Act, the scope of internal control information disclosure is the internal control related to financial reporting. However, some scholars in our country have investigated the scope of internal control information disclosure for different information users. The main content of the internal control report should be a detailed description of the internal control of corporate responsibility, the disclosure goal is to inform the user that the implementation of internal control status, therefore, the disclosure of the report should first clear in the implementation of the internal control of the Board of Directors And the internal control system established by the enterprise should be provided (should be compared with the internal control system disclosed in the previous report, indicating the change of the whole); in order to show that the improvement of internal control The implementation of this responsibility should be the last year to report on the repair of internal control deficiencies; this year's internal control system and the implementation of self-assessment, the report should include the implementation of internal control is effective, The solution provided; and, finally, the disclosure of information should lead to significant uncertainty in matters such as supplementary explanation.

**Strengthen the External Supervision**

After Listed companies provided internal control reports, there need a monitor to judge the reliability of its report. China external regulatory authorities are mainly the SFC, the stock exchange and external accounting firms. In order to strengthen the external supervision, we should start from strengthening the external supervision department, at the same time, introduce the third-party certified public accountant's high quality audit, to discover the information disclosure unreal question enterprise must promptly carry on the rectification and punishment.

**Strengthen External Supervision and Formulate Incentive Measures.** In addition to establishing a proper disclosure system, the CSRC and the SEC adopt a combination of guidance and coercion for companies that do not want to disclose internal control information and provide them with knowledge training on internal control construction so as to enable them to correctly understand the internal control As well as to increase the incentive to disclose this information. At the same time, the two exchanges should also focus on the establishment of a complete and effective oversight mechanism to absorb internal control personnel, there are internal control deficiencies in the internal control of listed companies to conduct regular assessment and evaluation of non-defective listed companies from time to time checks, Good Control of Internal Control Information Disclosure.

At present, regardless of the information disclosed is true or false, have not been the appropriate reward or punishment. Therefore, for the false control of internal control information, to conceal the internal control information of the listed companies and false opinion issued by accounting firms and certified public accountants should be given severe punishment and published, so that both internal control deficiencies can alleviate the problem of inadequate disclosure, Can increase the cost of illegal enterprises, from the root causes of false information to solve the problem. For listed companies with good disclosure, they should be publicly rewarded to help them attract more investors.

**Strengthen the CPA Review, Optimize Their Level of Practice.** CPA as a highly independent professionals, investors and other information users do not necessarily have a professional knowledge of internal control, certified public accountants audit opinions have important reference value. For the enterprise, the audit opinion of the registered accountant is not only the appraisal of the self-assessment report, but also helps the enterprise to check its internal control system from the external angle, discover the control defect, and also provide the internal control perfect opinion.

In order to exert the audit function of certified public accountants, it is necessary to ensure the independence of the audit opinions. From the perspective of the CPA, independence depends on the CPA's professional level. CPA should pay attention to the new laws and regulations, taking the
initiative to learn new audit knowledge, and actively participate in continuing education activities. In addition to a wealth of professional knowledge, the CPA should also be committed to strengthening the practice of moral self-discipline, stick to the bottom line. When the professional level of the CPA industry is optimized, the audit opinion provided by the CPA industry is more fair and credible, and the possibility of cooperation between the CPA and the management is less, thus improving the quality of information disclosure.

Conclusion
The disclosure of internal control information of listed companies in China is in the stage of strengthening and perfecting. The information of internal control has been paid more and more attention. This article begins with expounding the related concepts of disclosure of internal control and the theoretical basis of disclosure. The disclosure of the contents of the standard is not standardized, the evaluation of the standard confusion and inadequate supervision and the current disclosure process of the main body of the responsibility is not clear. The author puts forward some suggestions and countermeasures, such as clearly disclosing the main body of responsibility, perfecting the information disclosure standard of internal control and strengthening the supervision.

References