

# Reflections on the Construction of the Internal Financial Control System of Group Company Subsidiaries under the Financial Centralized Management System

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## Abstract

The financial management of the group company is faced with high requirements and relatively great difficulty, especially with the increase of the number of subsidiaries, it is more likely to have deviation and confusion in financial management. The financial centralized management system has become an important mode, which is widely used in the group companies, and has indeed played an important role in the financial management of the group companies. In order to better rely on the financial centralized management system to achieve effective management and constraints for the group company subsidiaries, the construction of a feasible financial internal control system is a necessary condition. This paper first briefly introduces the financial centralized management system and the necessity of its application, then expounds the overall requirements and strategies for the construction of the financial internal control system of the subsidiary companies under this background, and finally discusses the key points of the construction of the corresponding financial internal control system, hoping to have reference function.

## Keywords

Financial Centralized Management, Group Company, Financial Internal Control System

## 1. Introduction

With the continuous development of China's social economy, there are more and more group companies. The number of subsidiaries involved in each group

company is also increasing. So it will inevitably put forward higher requirements for their own operation management. Financial management, as a crucial part of the operation management of group companies, should also be paid close attention to. The subsidiary companies should adopt appropriate and reasonable management mode to ensure that the group company's benefits will not be significantly affected. The financial centralized management system has been practiced and applied in more and more group companies at present, which can assist the group company to realize effective control of the financial condition of each subsidiary, and has become an important means to attract more attention. Under the background of the group company's application of the financial centralized management system, it is extremely necessary to build a sound and feasible financial internal control system, which can better control and monitor the financial management of each subsidiary, and should be an important part of the financial centralized management system. Based on this, this paper first describes the concept of centralized fund management, and then analyzes the construction requirements of financial internal control system of group company's subsidiary, finally put forward the key points of constructing financial internal control system of group company's subsidiary (Jia, 2020).

## 2. Overview of Financial Centralized Management

Financial centralized management system is commonly used in the current financial management of group companies. It mainly uses advanced network information and communication technology to effectively implement associations of group companies and each subsidiary, and build a perfect financial data sharing mechanism, thus to monitor the financial management procedures and specific data intensively. In this way, the effective avoidance and control of all kinds of risks and hidden dangers can be realized finally, and the management staff of the group company can be assisted to make scientific and reasonable decisions. The application of the financial centralized management system can obviously improve the capital scheduling and use efficiency, avoid obvious capital confusion, and ensure that the group head office can form good constraints and unified control over all subsidiaries on the basis of clear authority (Dombrovskaya, 2020).

The application of the financial centralized management system is crucial to the development of the group head office, which can be well adapted to the overall strategic layout and practice of the group, and has a stronger effect on the supervision and control of each subsidiary. Financial centralized management can include the financial status of a group subsidiary into the group company's accounting and management, and the subsidiary has only the right to make daily choices and the obligation to implement the group's policies. Specifically speaking, the necessity of implementing the financial centralized management system in the group company is as follows: First of all, the application of the financial centralized management system can strengthen the effect of capital control, ensure more efficient and orderly capital operation of the group head office, im-

prove the overall financing ability and capital use ability, and avoid the serious loss and waste of capital. Secondly, the application of the financial centralized management system can better realize the group company's internal financial objectives, and ensure that each subsidiary can also carry out financial management work in accordance with the financial objectives of the head office, especially in some major decisions, which can effectively highlight the value of financial centralized management. In addition, the application of the financial centralized management system can better realize the improvement of the economic benefits of the group company, which is also the ultimate pursuit of each group company at present. The application of this system can significantly reduce the operating costs of the group company, maximize the overall benefits, and assist with a scientific and reasonable performance management mechanism, so that the financial management of the group company and its subsidiaries can be better optimized and ultimately promote the rapid and sustainable development of the group.

The implementation of financial centralized management, on the one hand, can ensure the consistency of financial objectives within the group and reduce the "insider control phenomenon" of each unit, on the other hand, it is also conducive to the adjustment of investment direction, so that it can focus on strategic direction adjustment, to achieve the maximum of the overall interests of the group company. Therefore, the feasibility of the group's financial centralized fund management is as follows: First, it is to adapt to the group's overall strategic development. In order to gain a firm foothold in the international arena, an enterprise group must unite the strength of the whole group, especially concentrate its highly unified financial management within the group. Secondly, the separation of ownership and management is the property right basis for the implementation of financial centralized management. One of the most important symbols of an enterprise group is the link of property right between the group and its subsidiaries, which is the result of the separation of ownership and management. From the perspective of an enterprise group, it is an inevitable choice to supervise its subsidiaries. If supervision is not enough, financial information will be distorted (Borovikov & Smolyakov, 2019). If the group implements the financial centralized management system, it can reduce the supervision cost and avoid the distortion of financial information. Thirdly, the strategic position of subsidiaries in the group determines the centralized management of subsidiaries by the group company. For most enterprise groups, subsidiaries are agents of the group company's property rights and are merely legally independent because of necessity. The operation of the subsidiary is completely controlled by the group company, which is very important for the long-term development of the group company.

### **3. Requirements for the Construction of Financial Internal Control System for Subsidiaries of Group Companies**

#### **3.1. Improve the Internal Control Environment**

The construction of the financial internal control system of a subsidiary of a

group company must first rely on a perfect internal control environment. Only when the internal control environment is appropriate and reasonable, can a more scientific and feasible internal control system be derived. Based on the specific content and requirements of the construction of the financial internal control system of the subsidiaries of the enterprise group, the corresponding internal control environment is also facing various requirements. Such as the enterprise culture is the essential condition. If the group company and its subsidiaries could have positive, scientific and reasonable culture atmosphere, it can exert good guidance and restraint effect in financial management. This will certainly be able to realize the positive assistance to the group company subsidiaries' financial internal control system, reduce the possible deviation problem obviously, and have important value for the follow-up work. In addition, the financial management system, organizational structure and specific organizational members of a group company and its subsidiaries are also necessary factors for the construction of the internal control system. If there are problems in this aspect, the relevant financial management organization is in chaos, or the position competence of the employees is insufficient, it will inevitably affect the construction effect of the internal control system eventually, and at the same time, it will produce obvious harm to the operation of the subsequent internal control system (COSO, 2017).

### 3.2. Improve Financial Internal Control Organization

In the construction of the financial internal control system of enterprise group subsidiaries, the complexity of the financial management of group company and their subsidiaries are also becoming more and more prominent, and the group company and their subsidiaries come under greater pressure to manage their finances. Thus, it is necessary for the financial internal control system to have a strong adaptability and purposefully centralize financial management, and the corresponding financial internal control organization should be improved. In the specific work implementation requirements of current group company's financial supervision on each subsidiary, chief financial officer (CFO) system is more common. CFO system refers to the general name of the financial supervision and management organization established by the enterprise owner within the enterprise under the structure of separation of ownership and management right and multi-layer management, which is composed of specific professionals, institutions, systems and measures to protect the interests of the owner and realize the preservation of the company's capital. It puts forward higher requirements for the CFO, who needs to be involved in each of the relevant financial management process, give full play to its own supervision and audit responsibilities, and show the internal control effect. Based on this, each subsidiary CFO should pay great attention, ask the group company send professionals appropriately, prompting them to have independence, supervise the financial management and financial data information of subsidiaries in detail, and point out the confusion and omission in the subsidiary company's financial account-

ing information in time in order to exercise their own internal control responsibilities. Of course, in order to better ensure the orderly operation of the subsidiary's financial internal control system after the chief financial officer is made clear, it is often necessary to arrange sufficient and reliable audit and supervision staff to form a relatively complete financial internal control team. Then the financial status of each subsidiary could be monitored to avoid serious deviation and confusion in personnel (Nusa, 2020).

### **3.3. Unify the Financial Accounting System**

The construction of the financial internal control system of the subsidiaries of a group company also needs to focus on the unification of the financial accounting system. It is very necessary to implement the unified financial accounting system in the group company and its subsidiaries, which is also an important prerequisite for better practicing the internal control and its financial accounting supervision mechanism. The group company should conduct unified management of financial accounting system for each subsidiary, require to formulate feasible financial accounting management system, then promulgate to each subsidiary company, then require all subsidiaries to practice in strict accordance with the financial accounting system, and gradually adjust and improve the contents that do not conform to the financial accounting system of the group company. In the unified management and control of financial accounting system, it is often necessary to focus on strong operability and require that financial processing procedures and approval procedures be detailed and clear. In this way, the scientific guidance could be formed for financial and accounting staff of each subsidiary to avoid serious messy problems in the corresponding work. The cash control system, financing control system, investment control system and other key parts of the financial accounting work of the subsidiaries of a group company also need to be unified, and they are required to be practiced in accordance with the standard system.

Under the background of the unified financial accounting system, the group company also need to pay attention to the improvement of the unified financial objective evaluation system, which requires the formation of a more scientific and fair evaluation of the financial accounting status of each subsidiary, so as to carry out accurate assessment and facilitate the continuous optimization and improvement of the financial accounting of each subsidiary. Such as investment return rate and asset appreciation status indicators can be used as important evaluation bases. They can also be divided into cash ratio, liquidity ratio and net assets yield specific indicators, in order to evaluate financial status of each subsidiary, promote each subsidiary set suitable goals, and at the same time, they can facilitate the group company to monitor and guide each subsidiary (Catherine, 2020).

### **3.4. Improve the Financial Information Control System**

The construction of the financial internal control system of subsidiary compa-

nies under the financial centralized management system of group company should also focus on the effective use of specific financial information control system, so as to better ensure the optimization and implementation of various financial accounting work and internal control. With the continuous innovation and development of current information technology and financial accounting management mode, the corresponding financial information control system is also constantly improved. Group companies should appropriately choose the matching financial accounting information management mechanism based on their own actual financial accounting management situation. The group company should build safe and reliable computer network system with each of its subsidiaries, in order to realize the sharing and actively use of financial and accounting data, and to ensure better supervision and control on each subsidiary and avoid severe financial accounting information leakage problems. This shows, the construction and improvement of group company's financial information control system not only need unified scientific financial and accounting management rules and regulations, but also need to pay attention to the standardization of the financial and accounting management hardware and software, in order to make the financial information more safe and efficient, and create good conditions for financial internal control system (Muwema & Phiri, 2020).

### **3.5. Improve the Financial Supervision and Control System**

The construction of the financial internal control system of a subsidiary of a group company also needs to focus on the improvement of the financial supervision and control system. The operation of this system is directly related to the implementation of the follow-up internal control work, and plays a prominent role in guiding the relevant work. Based on the building and perfection of financial supervision and control system, The group company should focus on financial inspection mechanism first of all, request to build perfect feasible financial check system, guide the finance director and related financial check staff to do necessary inspections on subsidiary financial accounting situation, request each subsidiary to report and submit the financial and accounting information timely, so as to find the problems and defects and to achieve the ideal rectifying effect. In addition, the internal audit is also an important part of the supervision and control system. The construction of financial internal control system of subsidiary companies should focus on the internal audit function, requiring that relevant personnel can carry out detailed audit analysis on subsidiary financial accounting information, and correct false financial statements and errors timely.

## **4. Key Points for the Construction of Financial Internal Control System of Subsidiary Companies of Group Companies**

### **4.1. Basic Accounting**

In the construction of the financial internal control system of a subsidiary of a group company, the basic accounting should be regarded as an important link,

which requires to realize accurate accounting of the subsidiary financial accounting basic information, so as to better discover the existing deviation problems. Under the background of unified financial accounting system, each subsidiary company can set accounting items and specific details in strict accordance with the requirements of the group company head office, and avoid adding or deleting at will, so as to promote the efficient and orderly implementation of basic accounting work. In the basic accounting work, the accounting statement is also a key focus and important basis, the relevant internal control staff should require each subsidiary to accurately fill in, and then can rely on the corresponding details for a proper comparative analysis, to achieve the purpose of due accounting inspection. When the group company conducts basic accounting for each subsidiary, the application of the internal reconciliation system is also extremely effective. It can check and proofread the subsidiary's income and expenditure and capital flow in detail, and then ensure the basic accounting work is more efficient and orderly on the basis of analyzing whether the capital trend is scientific and reasonable. For example, checking and proofreading the balance of each subsidiary is a key link, which can better find out the inaccurate accounting records, and timely correct and deal with them (Ntwali, 2020).

#### **4.2. Capital Management**

The construction of the financial internal control system of the subsidiaries of a group company also needs to focus on the capital management, which requires the internal control personnel to conduct a strict review on the capital status involved in the financial accounting of the subsidiaries of a group company. In conducting the capital management, the group company should first pay attention to the practice of the two-line system of income and expenditure, which requires each subsidiary company to carry out capital business in strict accordance with the income and expenditure account stipulated by the head office, and severely crack down on the problem of opening accounts in multiple accounts and random income and expenditure funds. It also requires subsidiaries to transfer funds to the group company's finance timely in strict accordance with the requirements of the financial centralized management system to avoid delays and retention problems. In order to realize the strict and orderly control of funds, the problems such as capital lending activities and cash on hand in each subsidiary are severely cracked down. In addition, in the financial internal control of a subsidiary of a group company, the capital management can also rely on the comprehensive budget management system, which requires comprehensive supervision of the budget preparation and implementation of the subsidiary, and requires to carry out standardized assessment of its implementation and detailed evaluation based on the above-mentioned assessment indicators, in order to better guide the subsidiaries to optimize the management and use of capital, consciously avoid violations, and constantly improve the efficiency of capital use.



In addition to capital management, material management should also be an important part of the financial internal control system of group company subsidiaries. Similar to capital income and expenditure management, in the material management, the subsidiary should do a good job in checking in and out of the warehouse and requires more complete warehousing procedures to avoid the emergence of chaotic situation in material management and use. In the verification of material management, it is often necessary to focus on the details of bills, require to accurately analyze whether the application of various materials is normal and reasonable. Especially for disposable consumables and common office supplies, it is necessary to conduct in-depth verification and proofreading in order to timely find the problems of subsidiary in this aspect and timely correct and deal with them, which as a result plays the function of internal control.

### **4.3. Reimbursement Approval**

The construction of the financial internal control system of the subsidiaries of a group company also needs to focus on the reimbursement approval procedure. It requires each subsidiary to deal with the procedure in strict accordance with the reimbursement standards and approval process, and make detailed verification and analysis on the deviation problems in this aspect. From the aspect of reimbursement, the enterprise group corporation should form a relatively clear and unified reimbursement standard for each subsidiary, and make clear provisions for entertainment expenses, telephone expenses, accommodation expenses and transportation expenses, so as to make each subsidiary to strictly follow this standard, and correct the excess reimbursement in the corresponding statement in time. Of course, it is also necessary to pay attention to the problems such as overstatement and false statement in the reimbursement, and make in-depth analysis of the abnormal phenomena in the statements, so as to form in-depth internal control and verification effect. When the internal financial control system of subsidiaries of a group company involves the examination and approval of reimbursement, it is often necessary to focus on the examination of the reimbursement procedure. It requires to check and proofread the examination and approval procedure one by one, and judge whether it conforms to the unified requirements of the group company. As to the subsidiary whose examine and approve procedure and authority is in chaos, or whose performing is poor, the group company should deal with it in time, take it as the key point of internal control, and require each subsidiary act in strict accordance with the rules and regulations.

### **4.4. Bill and Contract Management**

The construction and application of the financial internal control system of subsidiaries of a group company should not only focus on audit analysis based on various financial accounting statements and relevant data information, but also focus on the management of bills and contracts. It is required to start with bills



and contracts to determine whether there are financial anomalies in subsidiaries. When checking and proofreading the financial accounting status of subsidiaries, more bills and invoices are often involved, so the head office of a group company should check them strictly in accordance with its own regulations. For example, when the machine invoices are required, some manual invoices need to be dealt with, to avoid the emergence of the “just make up the number” problem. If manual invoices must be used, it is necessary to apply in strict accordance with the prescribed approval procedures on the basis of clearly defining the responsible person, so as to avoid serious and disorderly problems. In addition, the contract information is also an important basis for assisting the group company to check and supervise the subsidiary’s financial status. Because contracts often involve a large amount of financial accounting information, the internal control personnel can judge the accuracy of subsidiary’s financial statements and other submission materials based on these information and materials, and timely find abnormal problems. Of course, the internal control staff should also review the legality and compliance of the contract and refuse to pay if there are hidden dangers in the contract, then avoid financial risks and protect their own interests on the basis of good handling in capital.

#### **4.5. Financial Accounting Personnel Management**

The construction of the financial internal control system of a subsidiary of a group company also needs to pay attention to the specific financial accounting personnel, take the financial accounting personnel as the core element of the internal control work, and avoid the adverse impact caused by human problems. Based on this, the post competency of financial accounting personnel in each subsidiary should be strictly examined to prevent any personnel who do not meet the qualifications of the corresponding post from participating in it. The group company should conduct regular training and guidance for the financial accounting staff of the subsidiaries, so that they can master the requirements and relevant regulations of the group company in financial accounting management, and then standardize and implement them to each subsidiary. Of course, the necessary ideological and moral education and professional ethics education for financial and accounting personnel are also indispensable. The emphasis of education is to help and guide financial accountants to improve their ideological and moral level, cultivate their accounting professional ethics emotions, establish their belief in accounting professional ethics and to abide by the standards of accounting professional ethics.

#### **5. Conclusion**

To sum up, it is an important task for the group company to supervise the financial accounting of each subsidiary, which is relatively difficult to carry out. Under the background of financial centralized management system, the group company should gradually improve the financial internal control system of each

subsidiary, check and proofread the financial accounting status of each subsidiary, relying on perfect feasible internal control mechanism, so as to find abnormal problems timely, sustain the economic interests to the largest extent, and ensure the stable development of the group company. From the present situation, to achieve this goal is still facing a variety of problems, the enterprise group needs to consider all aspects of factors for implementation of financial centralized management. With the continuous development of information technology, higher requirements have been put forward for the application of information technology in enterprise groups, which is also the trend that enterprise groups need to further explore in the future.

## Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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