

Original Research Article

Research on the optimization of M company's internal control system

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Abstract: Internal control serves as a crucial institutional framework for enterprises to mitigate operational risks, enhance management efficiency, and ensure strategic implementation. As manufacturing enterprises increasingly embrace globalization, digital transformation, and diversified operations, the functions of internal control have expanded beyond traditional financial compliance to encompass areas such as strategic execution, risk early warning, data governance, and supply chain coordination. Using Company M as a case study, this paper examines its current internal control system, identifies areas for improvement in strategic alignment, group governance, digital risk management, supply chain control, and evaluation mechanisms, and proposes corresponding enhancement strategies. The study concludes that Company M should further evolve its internal control framework from a compliance-oriented model toward one that is strategically embedded, data-driven, and value-creating, thereby strengthening its risk management capabilities and sustainable development potential in complex environments.

Keywords: internal control; risk management; group governance; digitalization and intelligence

1. Introduction

Internal control is a vital component of the modern corporate governance system. For large manufacturing enterprises, internal control not only ensures the accuracy and reliability of financial reports and asset security, but also guarantees the standardized operation of business activities such as procurement, production, sales, research and development, investment, mergers and acquisitions, and overseas operations^[1]. In recent years, increased uncertainty in the external environment has led to more complex sources of risk for enterprises: On one hand, fluctuations in raw material prices, international trade disputes, exchange rate volatility, and intensified global market competition impose higher demands on operational resilience; on the other hand, the rapid integration of digital, intelligent, and artificial intelligence technologies into corporate operations enhances management efficiency while introducing new risks related to data security, system permissions, algorithmic decision-making, and business process reengineering.

As a leading manufacturing enterprise in China, Company M boasts a large operational scale, diverse business types, and a high degree of globalization, making its internal control system highly representative. Studying Company M's internal control system helps understand how large manufacturing enterprises establish risk prevention mechanisms amid digital and intelligent transformation as well as global expansion, and provides valuable insights for similar companies to optimize their internal controls. This paper analyzes the current state, existing issues, and optimization pathways of Company M's internal control system based on publicly available data.

2. Company profile of M and the current state of its internal control system

Founded in Shunde District, Foshan City, Guangdong Province, M Company is a global technology group operating across smart home solutions, industrial technologies, building automation, robotics and automation, energy, healthcare, and smart logistics. The company maintains a balanced business strategy serving both consumer (ToC) and enterprise (ToB) markets, offering smart home products and services to consumers alongside commercial and industrial solutions for corporate clients. By 2025, its annual revenue is projected to exceed RMB 450 billion, with net profit attributable to shareholders of the listed company surpassing RMB 43 billion, placing it among industry leaders in terms of operational scale and business complexity.

From an organizational governance perspective, Company M has established a relatively comprehensive corporate governance structure. The company comprises a shareholders' meeting, a board of directors, and management teams; the board includes specialized committees such as the Strategic Development Committee, Audit Committee, Nomination Committee, and Compensation and Performance Evaluation Committee; and it has implemented systems covering information disclosure, related-party transactions, external guarantees, external investments, fundraising management, and internal auditing. These institutional arrangements provide fundamental organizational support for the effective operation of the company's internal controls.

From the perspective of the internal control organizational framework, Company M continuously updates and improves its internal control system in accordance with regulations such as the "Basic Standards for Enterprise Internal Control." A risk-based internal control management structure is established through collaboration between the Audit Committee and the Internal Audit Department to oversee and evaluate the company's internal control practices. Public information indicates that the total assets and operating revenue of the entities covered by the company's 2025 internal control evaluation accounted for 70% of the corresponding figures in the consolidated financial statements. No material or significant deficiencies were identified in either financial or non-financial reporting internal controls during the reporting period, and the internal control audit report issued a standard unqualified opinion.

From a business operations perspective, M Company's internal control systems have been extensively integrated into processes spanning procurement, production, sales, R&D, finance, and information systems. Particularly in digital operations, the company has advanced channel digitization, logistics visualization, service process digitization, and R&D management digitization, applying information systems across areas such as order management, inventory control, warehousing and distribution, after-sales services, customer engagement, and R&D management, thereby establishing a technical foundation for enhancing control efficiency and operational transparency. Overall, M Company has developed a comprehensive internal control framework capable of supporting its large-scale, multi-business, and cross-regional operations.

3. Issues in company M's internal control system

3.1. The dynamic alignment between internal control and strategic transformation still requires strengthening

In recent years, Company M has steadily transformed from a traditional home appliance manufacturer into a global technology group, continuously expanding its business scope with increasing emphasis on new sectors such as B2B services, robotics and automation, new energy, and healthcare. These emerging businesses are characterized by rapid technological iteration, complex customer profiles, lengthy project cycles, and significant variations in business models. The traditional internal control framework, primarily focused on financial compliance and process management, may prove inadequate in addressing the new risks arising from this strategic transformation. Therefore, internal controls must be deeply integrated throughout the entire process of strategy formulation, resource allocation, and business innovation.

3.2. Coordinated control of subsidiaries faces significant challenges in the context of corporatization and globalization

M Company operates across multiple countries and regions, with numerous subsidiaries, R&D centers, and manufacturing facilities. Variations in legal frameworks, tax systems, employment practices, business customs, data compliance requirements, and cultural environments across regions often lead to inconsistent implementation standards, delayed risk information reporting, and increased oversight costs for headquarters. Particularly during overseas operations, cross-border mergers and acquisitions, and localized operations, achieving a balance between uniform rules and local adaptability poses a significant challenge for the group's internal control system.

3.3. Digitalization and artificial intelligence applications pose new internal control risks

Company M places high importance on digital and intelligent transformation, with data having become a critical resource for operational decision-making. However, with the widespread adoption of business systems, the company faces risks such as inconsistent data definitions, complex permission management, inadequate system log tracking, and insufficient explainability of algorithmic decisions^[2]. If data governance, cybersecurity, and algorithm management mechanisms are not simultaneously strengthened,

digital tools may enhance efficiency while exacerbating operational and compliance risks ^[3].

3.4. There remains room for further expansion in supply chain and ecosystem partner management

Company M has a long industrial chain that involves numerous external partners, including suppliers, distributors, installation service providers, and logistics service providers. As the company transitions from product globalization to brand globalization and localized operations, the performance of these external partners in areas such as product quality, delivery efficiency, after-sales service, business ethics, and environmental compliance significantly impacts the company's reputation and operational stability. Current internal controls that focus primarily on internal processes while inadequately monitoring external partners throughout their entire engagement cycle may undermine the group's overall risk management effectiveness.

3.5. The value orientation of internal control evaluation requires further strengthening

Internal control evaluations of listed companies typically focus on identifying significant and material deficiencies, as well as assessing the effectiveness of financial reporting internal controls, but provide relatively limited coverage for evaluating corporate operational quality, organizational efficiency, innovation risks, ESG responsibilities, and strategic execution outcomes ^[4]. For large technology manufacturing enterprises like Company M, internal control evaluations should extend beyond compliance considerations to further examine whether control systems genuinely enhance efficiency, facilitate risk early warning, and drive value creation.

4. Optimization strategies for company M's internal control system

4.1. Establishing a strategy-oriented internal control system

Company M should closely integrate internal controls with its strategic objectives, operational budgeting, performance evaluation, and major risk management to establish a closed-loop mechanism encompassing "strategic objectives – key risks – control activities – evaluation feedback." For key business areas such as robotics and automation, new energy, healthcare, and overseas OBM (Original Business Management), specialized risk inventories and dynamic monitoring indicators should be developed. Regular assessments of market risks, technological risks, compliance risks, and investment risks under new business models are essential to shift internal control focus from post-event review to proactive prevention and process-based control.

4.2. Strengthening the management mechanisms for group operations and overseas businesses

M Company should further clarify the boundaries of authority and responsibility among its headquarters, business units, regional subsidiaries, and affiliated companies, establishing well-defined authorization rules for key areas such as major investments, related-party transactions, capital allocation, contract approvals, supplier selection, cross-border data handling, and compliance reviews. For overseas subsidiaries, regional compliance manuals should be developed within a unified internal control framework, incorporating differentiated regulatory requirements aligned with local laws and regulations. Additionally, for mergers and acquisition integration projects, mechanisms for pre-investment due diligence, post-acquisition integration, cultural alignment, financial consolidation, and risk post-mortem analysis should be established to mitigate control risks associated with cross-border operations and diversified expansion.

4.3. Improving the digital internal control and data governance framework

Company M should prioritize data lifecycle management by establishing comprehensive control systems covering data collection, storage, usage, sharing, archiving, and destruction, while standardizing key business data criteria and definitions. For critical systems such as ERP, MES, CRM, SRM, financial shared platforms, and after-sales service platforms, it should enhance permission segregation, anomaly alerts, operational traceability, and regular audits. Regarding the application of artificial intelligence and algorithmic tools, clear boundaries for model usage, approval authorities, responsible parties, and manual review mechanisms must be defined to mitigate management risks associated with algorithmic black boxes.

4.4. Promoting risk control throughout the entire supply chain process

Company M should integrate suppliers, distributors, service providers, and logistics partners into

a comprehensive risk management framework, establishing mechanisms for market entry, evaluation, classification, corrective actions, and exit. In supplier management, focus should be placed on quality consistency, delivery capacity, financial health, environmental compliance, and business ethics records; in channel and service provider management, emphasis should be placed on pricing policies, after-sales quality, customer information protection, and brand reputation management; in logistics and overseas warehousing and distribution, measures should include enhanced visual monitoring, customs compliance, inventory security, and emergency response plans. By extending supply chain controls, the company can enhance its overall operational resilience.

4.5. Optimizing the internal audit and internal control evaluation mechanisms

Company M can further leverage the supervisory role of its Audit Committee and Internal Audit Department to expand internal auditing from financial and compliance audits to risk-oriented and management-oriented audits ^[5]. In addition to identifying deficiencies, internal control evaluation metrics should also encompass process efficiency, problem resolution rates, timeliness of risk alerts, consistency in policy implementation, and cost-effectiveness of control activities. The company may also utilize data analysis and intelligent audit tools for continuous auditing to promptly detect abnormal transactions, inventory fluctuations, unusual expenses, contract risks, and system access anomalies, thereby enhancing the real-time responsiveness and accuracy of oversight.

5. Conclusions

Overall, Company M has established a relatively comprehensive internal control system, with solid foundations in corporate governance, institutional development, internal auditing, and risk prevention and control. Public disclosure results also demonstrate the overall effectiveness of its internal controls. However, as the company's globalization, diversification, and digitalization continue to advance, the risk environment facing its internal controls is evolving. Moving forward, Company M should further transform its internal control system from compliance assurance to strategic support, risk early warning, and value creation, with a focus on strengthening strategic integration, group governance, data governance, supply chain extension, and evaluation and supervision mechanisms. Through continuous optimization of its internal control system, Company M can enhance its operational resilience, governance standards, and sustainable development capabilities, while also providing valuable insights for the development of internal control systems in large manufacturing enterprises across China.

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