

Research on the Purchasing Internal Control of the TH Shipping Group

Wenchang Li^{1, a}, Zeyu Qian^{2, b, *}

Department of Economics and Management, Jiangsu University of Science and Technology, Zhengjiang, Jiangsu, China

^ajs_liwenchang@126.com, ^b592331819@qq.com

Keywords: Purchasing Management; Internal Control; Risk Control

Abstract. Purchasing business plays an important role in manufacturing industry. Imperfect implementation of any link of internal control in the whole process of procurement business may lead to problems such as poor quality of purchased funds, high prices and corruption of purchasing personnel. Similar problems will also bring immeasurable losses to enterprises. Especially for the ship industry, the purchase of materials, steel structures, equipment, outfitting and so on will directly affect the quality and safety of ships. Taking TH Shipping Group as an example, this paper specifically analyses the control objectives and internal control risks of the ship industry in the procurement process, and puts forward suggestions and measures for improving the supervision of the formulation and implementation of enterprise internal control standards. It provides reference for similar enterprises to achieve the goals of reducing costs, improving profits and enhancing core competitiveness.

Introduction

TH Shipping Group was founded in 1954. After more than 60 years of development, TH Shipping Group has become a large modern civil-military integration enterprise integrating shipbuilding, ship repair, ocean engineering, large-scale steel structure processing, metallurgical equipment and large-scale hydroelectric equipment manufacturing. It is a representative shipbuilding and processing enterprise in the industry. The defects of internal control execution in its purchasing business and the optimization can provide theoretical support and reference for the internal control of purchasing materials, equipment and outfitting in the same industry.

For any manufacturing enterprise, the procurement link of upstream and downstream suppliers is the most important link between production and sales. The scientificity and standardization of procurement internal control system and its efficient operation have a vital impact on the survival and development of enterprises. Based on the defects of TH Shipping Group internal control of procurement found in the evaluation, this paper puts forward corresponding solutions. Practical and scientific improvement of procurement internal control system provides a strong guarantee for enterprises to reduce costs and improve profits.

Characteristics of Purchasing in Shipping Industry

In the specific implementation of procurement process, in view of the ship industry, a series of particularities such as large single product, many parts, high cost, long cycle, etc. Although TH Shipping Group has set up corresponding internal control criteria for material procurement with common characteristics, it is still inevitable that internal control criteria will be violated based on the actual situation and group interests.

Due to the particularity of the shipbuilding industry, the procurement of related materials, equipment, steel structure and outfitting parts will be limited by the technical barriers of upstream and downstream suppliers. Some parts and components have only a few suppliers in the market, which makes it impossible for the procurement business to evaluate or review suppliers effectively in the process of implementation.

The Objectives and Risk Points of Internal Control of Purchase in Shipping Industry

Objectives of the Purchasing Internal Control. Procurement refers to the purchase of materials (or services) and payment of related activities. The quality and price of purchasing materials, the selection of suppliers, the conclusion of purchasing contracts, the transportation and acceptance of materials and other supply chain conditions, to a large extent, determine the survival and sustainable development of enterprises. Procurement mainly includes supplier management, procurement plan, procurement application, procurement implementation, procurement acceptance and payment. Internal control in procurement process plays the role of normative guidance, so it is very important to clarify the objectives of internal control in each process.

Table 1 Purchasing Process Internal Control Objectives

Process name	Control objectives
Supplier Evaluation Management	Real-time management and comprehensive evaluation of suppliers are carried out, and suppliers are reasonably selected and adjusted according to the evaluation results.
Supplier File Management	Establish archives management for suppliers, and update and adjust suppliers archives in time according to the evaluation results.
Purchase plan	Material purchasing plan is reasonable and combined with production plan and design plan.
Procurement application	The application for unplanned procurement is appropriately examined and approved to ensure the rationality of procurement requirements.
Procurement implementation	1.Establish purchase reference price to ensure reasonable purchase cost. 2.Make full use of the advantages of centralized ordering, reduce procurement costs and improve cost performance. 3.Reasonable selection of procurement methods according to market conditions and procurement plans. 4.Ensure quality and quantity procurement from the list of qualified suppliers.
Purchase acceptance	1.Ensure that the material received meets the standard and is stored in time and accurately accounted for. 2.In the process of acceptance, find out the reasons and deal with them in time.
Purchase payment	1.Ensure that the purchase payment is accurate and validly approved. 2.Ensure that accounts payable are recorded accurately and long-term accounts payable are cleared in a timely manner.

Risk of Control on Purchasing Internal. Internal control mainly consists of internal environment, risk assessment, control activities, information and communication, and internal supervision. Risk assessment is an important link in the implementation of internal control. It refers to the process of identifying and analyzing the risks related to the realization of the objectives of a company. It includes goal setting, risk identification, risk analysis and risk response. It is a process of identifying, scientifically analyzing and evaluating various uncertainties affecting the realization of control objectives in time and adopting coping strategies. In the process of internal control, effective identification of internal control risk is also an essential link.

Firstly, there are some internal control risks in supplier management. Failure to evaluate suppliers may lead to inappropriate selection of suppliers and high quality and price of purchased goods. In addition, the supplier files are not updated in time, resulting in inaccurate evaluation results, and in the procurement business caused by the loss of funds or procurement of goods do not meet the quality requirements. As well as the procurement in the list of non-qualified suppliers without proper approval, may lead to unreasonable procurement or procurement of substandard quality.

Secondly, in the process of procurement planning, there may be internal control risks, such as procurement planning has not been approved, which may lead to over-scheduled procurement. Unplanned procurement applications without proper approval may lead to unreasonable procurement or over-budget procurement, resulting in redundancy of procurement materials or inability to meet work needs.

Thirdly, when purchasing department employees apply for purchasing, there will also be internal control risks. For example, the lack of centralized ordering or avoidance of centralized ordering for bulk and key materials with strong versatility leads to ineffective reduction of procurement costs.

Fourthly, there are internal control risks in the signing of procurement contracts. The contract has not been effectively examined, the content and terms are incomplete, the expression is not rigorous, and inaccurate, which may lead to damage to the legitimate interests of the company. Failure to specify delivery time with suppliers in the contract may lead to inadequate delivery preparation.

Fifthly, if the internal control risk in the procurement implementation fails to formulate a reasonable procurement method for the purchase of important materials, it will lead to unreasonable procurement price and quality problems, which may cause financial losses of enterprises. Insufficient transportation preparation or failure to insure the goods may result in damage to the company economic interests. Imperfect preparation of relevant documents for legal inspection and commodity inspection, failure to declare and pay taxes in time in accordance with regulations, may lead to the failure of import business to be completed smoothly.

Sixthly, in the process of procurement acceptance, the acceptance criteria are not clear and the acceptance procedures are not standardized, which may lead to the performance of procurement materials not meeting the requirements and cause losses to enterprises. The accuracy of financial data is affected by the failure of timely storage and accounting processing. The abnormal situation existing in the acceptance shall not be handled and material losses shall be purchased.

Finally, the payment link is also the hidden place of internal control risk. Payment audit is not strict, which may lead to the loss of enterprise funds. After payment, inconsistencies between relevant accounting records and relevant purchasing records, warehousing records, lax payment audit and lax control of payment amount may lead to capital loss or credit damage of enterprises.

Incompatibility of Purchasing Internal Control Responsibilities. Each link of internal control has its corresponding executor and supervisor, in order not to appear similar to both referees and athletes, but also for internal control can be more effective implementation. It is indispensable to clarify the incompatibility of various responsibilities. The incompatibility of responsibilities in the three procurement processes of supplier management, procurement implementation and procurement contract management is listed below.

Table 2 Incompatibility of Supplier Management Responsibilities

	Supplier Primary Selection	Supplier Access	Supplier Management	Supplier Evaluation
Supplier Primary Selection		X		
Supplier Access	X			
Supplier Management				X
Supplier Evaluation			X	

Table 3 Incompatibility of Purchasing Process Responsibilities

	Procurement application	Purchase plan	Price comparison of inquiry	Price audit
Procurement application		X	X	X
Purchase plan	X			X
Price comparison of inquiry	X			X
Price audit	X	X	X	

Table 4 Incompatibility of Contract Management Responsibilities

	Contract formulation	Contract review	Contract approval	Contract execution
Contract formulation		X	X	X
Contract review	X		X	X
Contract approval	X	X		X
Contract execution		X	X	

Optimizing the Internal Control System of Ship Purchasing

Optimizing Specific Measures of Internal Control. After defining the internal control objectives and the possible risks in each link, the guidance of specific internal control measures has become the focus of the executives and supervisors in each link. In principle, procurement management is strictly implemented in accordance with the standard internal control criteria. In case of special circumstances, departments should mark the links of special matters in procurement criteria and deal with emergency situations. For example, the purchase of individual equipment over a certain amount of money should be selected by bidding for no less than six suppliers, but in fact there are only three reasonable alternative suppliers in the market.

The following two parts optimize the specific control measures according to the supplier management and procurement implementation, and provide guidance for all aspects of procurement.

Optimizing Supplier Management in Internal Control. The purchasing management department should establish a list of qualified suppliers and periodically assess them to eliminate the fittest and ensure the quality and quantity of material purchasing. Every year, under the leadership of procurement department, production department, quality, safety and environmental protection department, technical department and financial department, suppliers are evaluated from the aspects of price and quality of supply, qualified suppliers are evaluated annually, and qualified suppliers are retained; those who are not qualified are disqualified and removed from the list of qualified suppliers.

The material department will submit the evaluation results and the revised supplier list after approval by the department leaders to the competent leaders for approval. The company configures special (concurrent) personnel to manage and update the supplier files, and separates them from the purchasing department salesmen. Supplier files mainly include but are not limited to supplier questionnaires, supplier business licenses, tax registration certificates, performance evaluation forms, qualifications, etc. Every year, the purchasing department salesman contacts the supplier on his own initiative to obtain the relevant information updated after the annual inspection of industry and commerce.

Optimizing the Measures of Procurement in Internal Control. Purchasing Department compiles purchasing plan and organizes purchasing according to pre-purchasing list and material inventory. After the contractor automatically checks and subtracts the materials in the pre-purchase list, the purchase list is formed. After the pre-purchase list and purchase list are generated from the information system, the purchasing department salesman can directly make inquiries and implement purchasing.

For unplanned purchasing tasks, the demand department fills out the application form for unplanned purchasing, and purchases according to the principle of first purchasing basis and then purchasing. Purchasing department shall establish purchasing price database according to previous purchasing situation, analyze regularly and make rational use of it. In addition, we regularly study the cost composition and the changing trend of market prices of large quantities of general important materials, determine the procurement execution price or reference price, and compile monthly reference price for material procurement, which will be executed after approval by the leaders of procurement departments and departments in charge. Purchasing department executes purchasing according to production technology preparation plan.

After the arrival of the purchased materials, the salesman of the purchasing department fills in the warehouse receipt of the purchased materials, carries out the preliminary test of the materials and

signs them. The preliminary test pays attention to whether the goods received are in conformity with the name, specifications, quantity and unit price of the transport voucher, whether they are in conformity with the requirements of the purchase plan and the purchase contract, and whether the surface of the materials is damaged.

In the process of acceptance and acceptance of all materials, the procurement department salesman should be notified to find out the reasons. If the quality is not up to standard, it is necessary to contact the supplier for return processing and make relevant records. Every month, the Purchasing Department compiles the fund payment plan according to the purchasing and warehousing situation and the contract terms of last month, and then submits it to the Finance Department for revision according to the provisional evaluation. Finally, according to the revised fund payment plan, the purchasing department, the Finance Department and the chief accountant will hold the fund plan together to make the final revision. After the meeting, the fund payment plan shall be submitted to the general manager for examination and signature after being examined and signed by the purchasing supervisor and the chief accountant.

Purchasing department business personnel fill out payment application form, according to the payment approval procedure to implement the examination and approval, the payment application form will be submitted to the Finance Department, and the cashier will handle the payment. In the process of payment, the authenticity, legality and validity of purchase invoices should be strictly examined. If false invoices are found, the reasons shall be found out and promptly reported and handled.

At the end of each year, the Ministry of Finance derives detailed accounts of current accounts from the financial system (excluding the part temporarily estimated into the warehouse), carries out age analysis, designates special persons to send reconciliation letters of accounts payable to suppliers, checks current accounts such as accounts payable, notes payable, advance accounts, and so on, and analyses the differences found and handles them in a timely manner. Ensure that the number of accounting records is true, the content is complete and the period is appropriate.

Suggestions on Procurement Internal Control Management. We will offer some effective suggestions follow:

Focus on internal communication and communication Strengthen communication and exchanges within member units, and promote positive interaction between horizontal departments of each unit and between upper and lower management units. Further refine and optimize responsibilities and powers, integrate the division of responsibilities of various departments, separate incompatible responsibilities of key posts, strengthen effective and timely communication between departments, strengthen the information cycle of "generation, transmission, processing and feedback", form good communication between departments and superiors, improve information feedback mechanism, and enhance communication efficiency and effectiveness. For cross-departmental processes, we need to plan as a whole, effectively link up, ensure smooth channels of information communication, avoid multiple management, and other situations, truly achieve information sharing, timely communication and effective implementation.

Improving the consciousness of internal control of the whole staff. Internal control and risk prevention are the common responsibility of the whole staff of the unit and an important factor affecting the continuous operation of the unit. Therefore, the group company needs to continuously improve the internal control consciousness of the management at all levels and each employee of the subordinate units. Each subordinate member unit should strengthen the propaganda and consistency, regularly carry out self-evaluation and related training of internal control in accordance with the actual situation of the company, and strengthen each member's awareness and familiarity with the laws, regulations and procedures. We should attach great importance to the problems raised by the external supervision departments, actively rectify and implement them on the ground, enhance the execution ability of internal control, and form a good working habits and atmosphere in which everyone pays attention to internal control and consciously abides by it.

Summary

The particularity of purchasing category in shipbuilding industry makes this link the top priority of internal control. Although clear regulations have been made to deal with various situations, in the specific implementation process, there will still be immediate emergencies that can not be done strictly in accordance with the requirements of internal control standards. To deal with this problem, the internal control criteria should be flexibly defined according to the actual situation of each enterprise, set up special plans, and list the cases that can start special plans by enumeration. In order to better integrate the production and operation activities of enterprises in Beijing into the internal control system. It lays a solid foundation for enterprise internal control norms and sustainable development.

References

- [1] Jan. Managing Organizational Culture for Effective International Control From Practice to Theory [J]. Contributions to Management Science, 2009 (22): 202-234.
- [2] Chernobai and yasuda. Extended-enterprise systems impact on enterprise-risk management. Journal of Enterprise Information Management, 2012 (19): 97-114.
- [3] Suyono, Hariyanto. Relationship Between Internal Control, Internal Audit, and Organization Commitment With Good Governance Indonesian Case [J].2012 (9): 1237-1245.
- [4] Chernobai A, Yasuda Y. Disclosures of Material Weaknesses by Japanese Firmsafter of the Passage of the 2006 Financial Instruments and Exchange Law [J]. Journal of Banking & Finance, 2013, 37 (5): 1524-1542.
- [5] Kannan V R, Tan K C. Buyer supplier relationships [J]. International Journal of Physical Distribution & Logistics Management, 2013, 36 (10): 755-775.
- [6] Dina. Internal control quality and information asymmetry in the secondary loan market [J].Review of Quantitative Finance and Accounting, 2014, 43 (4): 683-720.