Discussion on Transformation and Upgrading of Internal Control in Institutions of Higher Learning in China^{*}

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Abstract - With the vigorous development of institutions of higher learning in China, more and more corruption is exposed in institutions of higher learning and the transformation and upgrading of internal control in institutions of higher learning becomes more and more important. In the past, the construction of internal control in institutions of higher learning focused on accounting control or financial control and showed some limitations. With the macro-environment of internal control as the background and based on Specification on Internal Control in Administrative Institutions (Trial), this paper analyzes the current situations of several factors like internal environment, information and communication, internal supervision, etc. in institutions of higher learning and puts forward several countermeasures for improvement and optimization.

Index Terms - Internal control; internal environment; information and communication; internal supervision

In recent years, with the economic development and social progress, institutions of higher learning in China have begun to flourish. However, more and more leaders in institutions of higher learning fall a cropper for corruption, and the corruption in education system becomes even more violent, with enrollment, capital construction, procurement, scientific research fund, school-run enterprises, etc. as the hardest hits of corruption in institutions of higher learning. Since January 1, 2014, institutions of higher learning in China uniformly implemented Specification on Internal Control in Administrative Institutions (Trial) (hereinafter referred to as Basic Specification), which provides a good opportunity and important guarantee for promotion of construction of internal control in institutions of higher learning in China. Therefore, the transformation and upgrading of internal control in institutions of higher learning is a matter of great urgency and it is high time for it.

1. Rebuilding of Connotation and Objective of Internal Control in Institutions of Higher Learning

A. *Rebuilding of Connotation of Internal Control in Institutions of Higher Learning*

In the past, when mentioning internal control in institutions of higher learning, people often thought of internal accounting control or financial control and thought that it was the duty of finance department or audit department and had nothing to do with other departments. Even now, there are several institutions of higher learning which, with understanding of internal control still remaining at the conceptual level, do not know the concept and border of

internal control in institutions of higher learning. Most of the construction of internal control in institutions of higher learning is for emergency and has a lack of top-level design and unified understanding [1]. The objective, subject and range of internal control in institutions of higher learning are narrow in the whole and have much limitation.

Institutions of higher learning are a kind of public institutions providing teaching and scientific research and having a nonprofit nature, which are established for cultivating talents, serving the society and inheriting the culture. The main businesses of institutions of higher learning are various economic activities centering on teaching and scientific research, for example, enrollment and employment, education, scientific research and discipline construction, procurement, capital construction and logistics, etc. The Basic Specification indicates that the internal control in administrative institutions refers to that “to realize the control objective, the unit prevents and controls the risks of economic activities through developing systems, implementing measures and executing program”. In accordance with the Basic Specification and in combination with the nature and business features of institutions of higher learning, internal control in institutions of higher learning shall be a process conducted by the administrators and faculty of institutions of higher learning and actively participated in by the students in institutions of higher learning, aiming to realize the control objective of institutions of higher learning, that is, internal control in institutions of higher learning is a full-participation, full-course and full-scale control implemented in the institutions of higher learning.

B. *Rebuilding of Objective of Internal Control in Institutions of Higher Learning*

In the past, the research of scholars on the objective of internal control in institutions of higher learning often referred to the research on internal control in enterprises and used the theories like COSO internal control framework and risk management framework for reference [2]. Different from the enterprises taking maximizing the finance of shareholder as objective, institutions of higher learning do not aim at profit and have a somewhat property of public goods. Therefore, the objective of internal control in institutions of higher learning is different from that in enterprises. Just as stipulated by Basic Specification, the objective of internal control of administrative institutions emphastandards effectively protecting and utilizing the public assets and effectively

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preventing frauds and corruption to increase the efficiency and effectiveness of public services. In increasing the efficiency and effectiveness of public services, the main businesses of institutions of higher learning are teaching and scientific research, through which the objective of serving the public is realized. Therefore, the objective of increasing the efficiency and effectiveness of public services of institutions of higher learning can be embodied as increasing the efficiency and effectiveness of schooling, that is, increasing the efficiency and effectiveness of teaching and scientific research. To be more detailed, currently institutions of higher learning in China are divided into two categories: application-oriented ones and research-oriented ones, institutions of higher learning of these two categories differ in the emphasis on teaching and scientific research, the application-oriented institutions of higher learning pay more emphasis on developing applied talents while research-oriented institutions of higher learning pay more attention to developing scientific manpower and scientific research innovation.

2. Upgrading of Internal Environment of Institutions of Higher Learning

A. Optimization of Corporate Governance Structure of Institutions of Higher Learning

“The type of governance structure of institutions of higher learning decides the type of “internal control ecology” of institutions of higher learning and its result”[3]. Governance structure, as the environment and foundation of internal control, will have a great influence on the effectiveness of internal control. The problem of governance of institutions of higher learning comes into being due to the separation of the ownership of contributor of institutions of higher learning and the operation and management right of legal person of institutions of higher learning. At present, institutions of higher learning in China generally face severe governance problem. In 2014, the Ministry of Education, together with the National Development and Reform Commission, the Ministry of Finance, the Ministry of Human Resources and Social Security and other ministries and commissions, started to research on and develop Implementation Plan on Deepening Comprehensive Reform in Education Field. To improve the governance structure and actively establish modern university system, institutions of higher learning in China formulated University Statutes in succession, and several institutions of higher learning also introduced the system of board of directors, the faculty congress system, the system of student senate, etc. So far, about over 100 institutions of higher learning have established the board of directors or similar institutions, which mainly undertake the functions of financing and external liaison. All of these are effective measures to improve the governance structure of institutions of higher learning. However, in specific implementation, the author thinks that the following problems shall be paid attention to:

Firstly, the role of the board of directors of institutions of higher learning shall be defined. Several scholars think that the board of directors of institutions of higher learning in China

shall act as the supreme decision-making body and high authority of institutions of higher learning, just like those in the western countries. But Mr. Chen Hanshi, overseas Chinese leader in Thailand, doubts that what the board of directors of institutions of higher learning in China shall do without electing president, hiring professors and awarding degrees. However, this paper holds that the role of the board of directors of institutions of higher learning in China is closely bound up with the ways of investment and system background of institutions of higher learning. Since institutions of higher learning in China are mostly invested by the government and the president responsibility system under the leadership of the Party Committee is the legal university governance structure of China, the board of directors of institutions of higher learning in China surely will not be equal to those in foreign countries. The board of directors of institutions of higher learning in China shall be permitted to voice its opinions on “three importance and one greatness” matters and participate in the important decision making of institutions of higher learning on the existing basis to realize the purpose of supervision.

Secondly, through the construction of modern university system, the internal governance structure of institutions of higher learning in China will be composed of the Party Committee and its standing committee, president office will, academic committee, faculty congress, student congress and board of directors (board and council) to form a systematic modern university system. Next, how to make an explicit power division and duty allocation in these organizations is the key to university governance. The division of university power shall be regulated in the university statutes as well as avoid artificial obstruction and interference. The power is restrained through explicit system, thus effectively restraining the interference of command means.

Thirdly, since institutions of higher learning undertake more social responsibilities, they shall receive the supervision from each stakeholder. The stakeholders of institutions of higher learning include the government, administrators, faculty, students, alumni, parents, banks, media, the public, etc. At present, except that the government and administrators can participate in the decision making or supervision of institutions of higher learning, it is difficult for other stakeholders to participate in the management and supervision of institutions of higher learning. It is even difficult for some stakeholders to obtain relevant information, let alone supervision. Thus institutions of higher learning are required to make more effort in information transparency and disclosure to proactively disclose various information of institutions of higher learning, actively solicit the opinions of each stakeholder and give response in a centralized way at regular intervals, thus establishing a supervisory mechanism with broad participation of stakeholders.

B. Upgrading of Campus Culture of Institutions of Higher Learning

The campus culture of institutions of higher learning is deemed as the strength of character and is an embodiment of “soft element” of internal control in institutions of higher

learning. The campus culture is embodied as a kind of value form and cultural atmosphere, which mainly refers to the schooling philosophy, mission, value orientation, image, leadership style, standard of behavior, management art, etc. The construction of campus culture of institutions of higher learning constitutes that of material culture, institutional culture and spiritual culture. The material culture belongs to the hardware of campus culture; the institutional culture is the internal mechanism of campus culture, including the rules and regulations of institutions of higher learning, etc.; the spiritual culture is the belief and value standard recognized by all the teachers, students and staff.

With the construction of new campuses, new teaching buildings and labs as well as the upgrading and improvement of hardware and software in institutions of higher learning in China in recent years, the campuses of many institutions of higher learning take on a brand-new look and the material culture is advanced on the whole. However, in the construction of institutional culture and spiritual culture, the practice and climate of administrative bureaucrats in some institutions of higher learning are still severe, the interference of the administrative departments in teaching and learning is great and the respect for teachers and students in institutions of higher learning is still far from enough. In such a cultural atmosphere, the faculty and students in institutions of higher learning have no voice, therefore they surely will be unable to perform the supervision duty and unable to form identity for the development objective and schooling philosophy of institutions of higher learning, thus causing great damage to the realization of the objective of internal control in institutions of higher learning.

Therefore, institutions of higher learning shall pay attention to the cultivation and accumulation of campus culture, highly praise the positive and free spirit and advocate harmonious campus culture, especially, the de-administration needs to be got rid of to prevent administrative bureaucracy from polluting the campus. On one hand, rigorous scholarship, education administrating and management administrating shall be advocated. Through institutional construction, the teaching and scientific research of the teachers are guided and the power of the administrators is regulated and restrained to form a situation where the behaviors have regulations, the work has procedures, the assessment has standards, the implementation has strength and the power and responsibility are matched[3]; on the other hand, on the premise that the faculty and student are fully respected and the dignity of the faculty is guaranteed, the spirit of responsibility, entrepreneurship, innovation and dedication shall be advocated, the sense of responsibility and the sense of mission of the teachers and students shall be enhanced, thus individual potential and team spirit shall be given play to surrounding the development objective of institutions of higher learning.

3. Reconstruction of Information and Communication Channel of Institutions of Higher Learning

Through a good information and communication channel,

the leadership shall be able to fully grasp the development status of the school and to timely listen to the problems reflected by each side, the functional departments shall be able to realize information sharing, the faculty shall be able to timely obtain and feedback information and other stakeholders shall have opportunity to obtain information. However, at present, the information channel of several institutions of higher learning is hindered and the communication becomes a mere formality. The faculty either can't learn about the problem due to inefficient communication or dare not to reflect the problem because of all kinds of worries, which leaves room for arbitrariness and black box operation and brings some hidden troubles for corruption in institutions of higher learning. In addition, generally, institutions of higher learning are often relatively closed, with no mechanism of information disclosure established, thus disclosure and communication of stakeholders like media, alumni, the public, etc. are lacked.

To construct an unhindered information and communication channel, this paper holds that at least the smoothness of the information and communication channels of two dimensions shall be guaranteed. Two dimensions refer to the interior and exterior of institutions of higher learning, the interior is that the information is delivered smoothly between the leadership, the functional organizations, the faculty and the students; the exterior is that an information and communication channel is established between institutions of higher learning and alumni, media and the public. These two dimensions can be guaranteed by establishing internal information system and external information disclosure mechanism respectively.

A. Optimization of Internal Information System

Although currently each college and university has its own information system, for example, e-card system, financial information system, educational administration system, student status management system, books management system, asset management system, etc. However, the information exchange and sharing between systems is ineffective, the problem of non-uniform standard and fragmentation of data is prominent and the phenomenon of fragmented system and information isolated island is relatively severe. This makes each functional department and secondary college waste a lot of time on data collection and sorting, with severe repetition and waste, the data can not be fully and effectively analyzed and utilized to compile internal report, thus the effectiveness of management and supervision of information system is limited.

This paper points out that the information system shall consist of office system, internal management system and internal supervision system. The office system is mainly used for handling the business activities keeping the daily operation of institutions of higher learning; the internal management system can compile and transmit internal reports by collecting data generated in the office system to provide basis for decision making of administrators; internal supervision system is used for information feedback and supervision of faculty.

As a whole, for the information system, the thought of

process management shall be reinforced and embedded into the system in the form of flow diagram, with the business process applicant, current stage and status defined; the thought of source input, uniform standard and system sharing of data shall be reinforced to enable all business transaction information, education and scientific research information, personnel information, asset information, enrollment and employment information and logistics information input into the information system database all at once for storage, sharing and utilization of the whole system.

To be specific, the internal report generated by internal management system shall cover all aspects of main business activities of institutions of higher learning. Take financial report for example, the internal financial report system of institutions of higher learning shall cover the whole process of capital operation of institutions of higher learning, including budget preparation, adjustment, enforcement and control; differential analysis of budget; budget preparation and report; source details, tax payment and risk analysis of income; amount, item and proportion of financial reimbursement of each unit and each project; main purpose and benefit analysis of expenditure; details of liability; detailed report of capital operation in high-risk field, etc. Non-IP address-tracing and anonymous report window shall be established in internal supervision system. Except for relying on information-based means, the report box shall be established for internal supervision to guarantee the power of reflection, maintenance, complaint and supervision of the faculty and the students.

B. Reconstruction of Information Disclosure Mechanism

To enable the external stakeholders like alumni, media, the public, etc. to participate in the supervision of institutions of higher learning, institutions of higher learning shall establish information disclosure mechanism to guarantee that the financial information and non-financial information of institutions of higher learning are timely and reliably disclosed to the public. The information disclosure mechanism shall also set up a feedback and report column to enable the public to better exercise the power of supervision.

4. Improvement of Supervision System of Institutions of Higher Learning

The departments performing the supervision duty in institutions of higher learning in China mainly include audit department, discipline inspection commission and supervision department. Although these departments play a role in the supervision of financial work, Party affairs and Party members and cadres of institutions of higher learning, at present, institutions of higher learning do not establish a systematic supervision system generally and do not have effective supervision for construction of internal control. After a survey on the construction of internal control in 75 universities directly affiliated to the Ministry of Education, GAO Qing-feng [1] found out that most institutions of higher learning did not specify the assessment method of internal control or did not implement the existing system and the implementation of internal control lacked a supervision evaluation mechanism.

The improvement of internal supervision system shall give full play to the supervision role of self assessment, internal audit and discipline inspection and supervision in internal control of institutions of higher learning. Supervision resources shall be integrated on the existing basis, audit committee shall be established and supervision evaluation system of “daily supervision - self assessment of internal control - internal audit - supervision of discipline inspection commission - external audit” shall be set up. Institutions of higher learning shall pay attention to self assessment of internal control, formulate the assessment system of internal control, focus on the scientificity of design and uniformity of implementation of internal control, point out the weak points and risk points of internal control and make the assessment report of internal control to submit to the competent president. To enhance the independence of internal audit, it shall be guaranteed that the audit department is directly responsible to the audit committee. The internal control weakness discovered in the supervision and inspection by the internal audit institution shall be timely reported to the leadership and audit committee of the university. In addition, given that the internal control of institutions of higher learning is still in the construction and improvement phase, the business training on the construction of internal control system of institutions of higher learning shall be enhanced to enable the audit department and discipline inspection commission and supervision department to better perform the supervision duty; meanwhile, the construction of internal control shall be publicized in all teachers and students to build a bridge for supervision of the faculty and students. At last, the supervision role of external audit shall be reinforced, especially the audit of effectiveness and economic responsibility of internal control in institutions of higher learning.

5. Conclusion

With the vigorous development of institutions of higher learning in China, more and more corruption is exposed in institutions of higher learning and the transformation and upgrading of internal control in institutions of higher learning becomes more and more important. With the macro-environment of internal control as the background and based on Specification on Internal Control in Administrative Institutions (Trial), this paper analyzes the current situations of several factors like internal environment, information and communication, internal supervision, etc. in institutions of higher learning and puts forward several countermeasures for improvement and optimization.

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