

Internal controls still missing

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The awareness of internal controls has increased among the listed companies on the mainland in the past year but the implementation is still weak, with only 44 percent establishing sound internal controls, Deloitte reported yesterday.

In May, Deloitte Touche Tohmatsu, one of the top global audit firms, surveyed 126 senior executives and board representatives from listed companies. This was the second survey by Deloitte to track the awareness and readiness of listed mainland companies for internal controls. The first one was conducted in June 2007, with 86 respondents.

Danny Lau, national leader of enterprise risk services of Deloitte China, said: "Our second survey indicates that Chinese companies are facing the internal control paradox: the heightened awareness of regulatory requirements is not met by an increased level of commitment to implement an internal control system."

According to the survey, over half of the respondents (56 percent) still have either no internal control system in place or their systems are not up to par.

As for the main obstacles for implementing internal controls, four out of five respondents said the lack of a practical internal control framework or model is a big problem.

The Chinese authorities have, in fact, been working on this. On June 28, the Ministry of Finance, China Securities Regulatory Commission, the National Audit Office, China Banking Regulatory Commission and China Insurance Regulatory Commission jointly announced the Basic Standard for Enterprise Internal Control, which requires listed companies to comply from July 1, 2009. Unlisted large and medium-sized Chinese companies are also being encouraged to adopt the standard.

"The standard is a major milestone in the development of internal controls for Chinese companies. It's an important guideline and three detailed rules are on the way," said Allan Xie, partner of enterprise risk services of Deloitte China, (China Daily)

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- Opinion

