

Research on the Synergistic Mechanism of Internal Control and Risk Management in Enterprises



Qianbo Sun^{1,*}

¹*School of Economics and Management, Xi'an Shiyou University, China*

Abstract: The risks enterprises face today are complex and diverse, primarily stemming from intensified market competition driven by economic globalization. Therefore, to achieve steady and forward-moving development, research on the synergistic mechanism between internal control and risk management within enterprises is urgently needed. Internal control serves as the foundation for risk management, while risk management provides solutions for enterprises to mitigate risks. This study analyzes the internal connections between their coordinated development, elucidates the significance of internal control for enterprise growth, categorizes current risk management approaches, and clarifies their aligned objectives and collaborative relationship. However, numerous obstacles to implementation persist in practice. Targeted optimization pathways are proposed to provide theoretical foundations for future enterprise development.

Keywords: enterprise management, internal control, risk management, synergy mechanism

Introduction:

Industry competition, capital, market, and operational risks continuously impact business operations amid the rapid development of the global economy, causing market conditions to shift at a rapid pace. Historically, internal control and risk management have been managed by separate departments within traditional market operations. Their isolated implementation often renders risk mitigation ineffective against complex economic conditions. To enhance corporate resilience and foster high-quality sustainable development, this article delves into the intrinsic connection between internal control and risk management. It identifies challenges in their coordinated development and proposes targeted solutions.

1. The Intrinsic Connection Between Corporate Internal Control and Risk Management

1.1 The core and significance of corporate internal control

The core of corporate internal control lies in

establishing scientific and standardized systems and processes, constructing a comprehensive organizational structure to manage, monitor, and constrain all aspects of business operations, and achieving preemptive planning for unknown risks, real-time management during events, and post-event rectification. The core process involves the synergistic integration of five key elements: establishing an appropriate control environment, conducting timely risk assessments, controlling business activities, facilitating information communication, and implementing internal oversight. This process permeates all operational segments—including procurement, production, sales, and finance—enabling enterprises to establish a comprehensive control system. On one hand, internal control effectively standardizes business conduct and safeguards asset security and integrity. For instance, it enables the early detection and prevention of fraudulent activities, ensuring the authenticity and reliability of financial information to provide accurate decision-making support. On the other hand,

Corresponding Author: Qianbo Sun
School of Economics and Management, Xi'an Shiyou University, China

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to enhance operational efficiency and reduce costs, internal control continuously optimizes management processes by eliminating unnecessary steps. As enterprises develop, maintaining a strong market reputation becomes critical. A robust internal control system meets this requirement, bolsters investor confidence, and is indispensable for sustainable corporate growth.

1.2 Classification of corporate risk management

Risks encountered during strategic formulation and implementation are termed strategic risks. Their long-term and systemic nature means such risks, if realized, can inflict fatal damage on corporate development. Financial risks, spanning the entire lifecycle of capital raising, deployment, operations, and distribution, include debt repayment pressures from irrational financing structures, profit losses from flawed investment decisions, and cash flow disruptions caused by liquidity shortages. Market risk is primarily triggered by shifts in supply-demand dynamics, price volatility, and industry competition. For instance, bulk commodity traders may face surging procurement costs, elevated selling prices, and product stagnation due to frequent raw material price fluctuations. Operational risk typically originates internally, such as low product qualification rates caused by flawed production processes or design flaws. Equipment failures resulting from employee operational errors can disrupt production schedules. Risks arising from legal violations, contract breaches, or intellectual property infringements are termed legal risks.

1.3 The relationship between internal control and risk management

Internal control and risk management share common objectives, employ similar methodologies, and coordinate management control processes, creating a close interdependence. Enterprises should prioritize the synergistic management of internal control and risk management. Internal control mechanisms typically ensure lawful and compliant operations, secure asset circulation, and efficient business execution. Risk management, however, focuses on better preventing, identifying, and

addressing various risks encountered during business operations to ensure sustainable enterprise development. In summary, both ultimately aim to safeguard the enterprise's legitimate rights and interests, reduce unnecessary risks, and establish a sound internal control system that supports risk identification and response processes. For instance, to conduct a comprehensive and limited risk point investigation and provide accurate direction for subsequent identification and response, internal controls must initiate process mapping. Conversely, risk assessment outcomes provide scientific basis for designing effective internal control measures. Methodological similarities manifest in their mutual adoption of technical approaches. Methods such as authorization and approval, job organization structures, and budget accounting can significantly enhance risk prevention effectiveness—these are precisely the control methods commonly employed in internal control. Risk assessment tools within risk management, such as the risk matrix method and sensitivity analysis, also lay a solid theoretical foundation for internal control. They help enterprises precisely identify key control areas, enhancing the relevance and effectiveness of internal controls. Due to their complementary methodologies, the two form a closed-loop management model that spans from risk identification to control design and ultimately successful response.

2. Challenges in the Coordinated Development of Corporate Internal Control and Risk Management

2.1 Lack of scientific and comprehensive internal control systems

One primary factor hindering the coordinated development of internal control and risk management is the unscientific nature of internal control systems in some enterprises. On one hand, system design often blindly pursues the models of industry-leading companies without considering the enterprise's actual development circumstances, business characteristics, and future direction. This results in systems that are disconnected from real-world operations. On the

other hand, existing systems fail to effectively regulate emerging business models such as cross-border operations, and their update frequency lags behind changes in market conditions and regulatory policies. Furthermore, certain provisions lack precision and practicality. For instance, while systems may mandate enhanced expense management, they often omit clear definitions of approval standards, authority levels, and review procedures. This renders the systems not only difficult to implement but also incapable of providing effective institutional support for risk management (Zhou & Zhang, 2019).

2.2 Weak internal control oversight mechanisms

Beyond the inadequacy of internal control systems, weak oversight mechanisms also contribute to barriers between the two. First, oversight entities lack clear authority and responsibility. Some enterprises have not established independent internal audit departments or oversight bodies, instead assigning these functions solely to the finance department. This results in oversight lacking both authority and functionality. As a core functional department, the finance department handles complex daily operations, making it difficult to allocate sufficient resources for internal control oversight. Furthermore, potential conflicts of interest within the department may lead to unfair supervision. Second, some enterprises employ overly simplistic oversight methods, primarily focusing on post-event reviews of financial statements and vouchers while neglecting preemptive prevention and control of other operational activities. Finally, the absence of effective oversight feedback and rectification mechanisms prevents enterprises from maximizing the impact of oversight outcomes. Furthermore, failing to link oversight results to performance evaluations reduces oversight to a mere formality, hindering the continuous optimization of internal controls and risk management.

2.3 Inadequate integration between risk prevention and internal control

The disconnect between risk prevention and internal control is currently the primary factor

hindering their coordinated development. In most enterprises, internal control and risk management are managed by separate departments, with little recognition of the importance of establishing synergistic mechanisms between them. On one hand, when conducting risk assessments, enterprises often treat risk evaluation and internal control design as distinct processes, failing to consider risk points identified during internal control process mapping. This results in risk assessment outcomes lacking precision. Conversely, when formulating internal control measures, enterprises fail to incorporate risk assessment outcomes as reference criteria. This results in inadequate oversight of high-risk areas while imposing excessive controls on low-risk segments (Xie, 2020). On the other hand, although enterprises possess risk response awareness and develop contingency plans based on operational needs, they neglect to integrate specific response measures with internal control processes. Notably, some enterprises' risk response plans remain purely theoretical, never translated into concrete internal control activities. Furthermore, delayed information transmission has widened the gap between the two functions. For instance, the absence of effective communication channels between risk management and internal control departments prevents timely sharing of risk and control information.

2.4 Inadequate risk management measures

The precision and effectiveness of risk management measures are crucial for fostering synergistic development between the two functions. Some enterprises lack a comprehensive understanding of risk identification, often focusing solely on traditional risks like financial and operational risks while neglecting emerging risks such as strategic, technological, and ESG risks. This results in incomplete risk prevention coverage. For instance, traditional manufacturing enterprises may fail to promptly engage in new technology R&D due to blind spots in technological iteration risk management, leading to a gradual decline in competitiveness. Second, the absence of scientific risk assessment methodologies means most

enterprises still rely on traditional qualitative approaches, such as managers judging risk levels based on experience, without utilizing quantitative assessment tools. This results in inaccurate risk evaluations that fail to provide precise guidance for risk response. Finally, enterprises currently employ single measures like avoidance or transfer, lacking targeted, differentiated response plans and failing to establish effective oversight based on risk type and severity, leading to suboptimal risk mitigation outcomes (Li, Lin, & Shu, 2021).

2.5 Shortage of multidisciplinary talent and resources

Multidisciplinary professionals proficient in both internal control processes and risk management represent a critical resource for advancing the synergy between internal control and risk management. However, most enterprises suffer from a severe shortage of such talent, creating a mismatch with actual business development needs. Research on professional capabilities reveals that internal control personnel in some enterprises possess only basic control skills—such as financial accounting and process oversight—while lacking in-depth understanding of risk management functions like risk identification, assessment, and response. Similarly, risk management personnel often lack familiarity with internal control processes and insufficient understanding of internal control systems, hindering their ability to formulate complementary risk management strategies aligned with internal controls (Committee of Sponsoring Organizations of the Treadway Commission [COSO], 2017). Furthermore, enterprises have not established robust talent recruitment and development mechanisms. Without the infusion of high-caliber, multi-skilled professionals, the existing workforce's expertise remains limited, failing to meet the demands of collaborative development. Beyond talent shortages, enterprises severely underinvest in internal control and risk management. They fail to adopt advanced digital technologies like risk management information systems or internal control management platforms, hindering timely risk data collection and

internal control process optimization. Furthermore, some enterprises view internal control and risk management as non-operational expenses, allocating inadequate resources during budgeting. This results in slow progress in establishing synergistic development mechanisms.

3. Optimization Measures for the Synergy Mechanism Between Corporate Internal Control and Risk Management

3.1 Establishing a sound internal control system framework

A scientifically standardized institutional framework serves as the cornerstone for developing synergy mechanisms. Therefore, enterprises should formulate a system framework tailored to their operational characteristics, organizational structure, and development plans to avoid homogenization. When formulating internal control systems, reference should be made to risk management guidelines. Based on risk assessment outcomes, control provisions should be refined for high-risk areas, clearly defining control objectives, responsible parties, process milestones, and evaluation criteria. For low-risk areas, control standards and evaluation benchmarks may be appropriately reduced, allowing greater focus on high-risk areas without compromising business operations. Systems are not static; a dynamic update mechanism should be established based on actual development. Systems should be promptly revised and improved in response to changes in the market environment, regulatory policies, and business expansion to ensure alignment with practical development. Finally, enterprises should prioritize employee training and awareness campaigns regarding corporate systems to ensure all staff are familiar with system provisions and understand their responsibilities. This enables systems to achieve maximum effectiveness, providing a robust and scientific institutional guarantee for the coordinated development of internal control and risk management.

3.2 Strengthening internal oversight mechanisms and performance evaluation systems

Establishing an independently operated internal oversight body ensures the impartiality of supervisory functions. For instance, creating an internal audit department that reports directly to the board of directors clarifies its authority and responsibilities in overseeing internal controls and risk management. This department can achieve oversight objectives through various means, including routine inspections, special audits, and annual audits. The oversight process should be managed through three interconnected phases—pre-emptive prevention, in-process control, and post-event rectification—to comprehensively monitor the implementation of internal control systems and the execution of risk management measures (Zhang & Dai, 2018). Second, the corporate performance evaluation system should integrate internal control and risk management performance into routine assessments. Develop scientifically comprehensive evaluation metrics based on the company's actual development, directly linking evaluation outcomes to employee compensation, career advancement, and benefits. Evaluation metrics should include internal control system implementation rates, risk assessment accuracy rates, and risk event occurrence rates. Simultaneously, establish an assessment feedback mechanism to analyze results. Promptly optimize internal control systems and risk management measures based on identified or potential future issues, creating a closed-loop management system from implementation to oversight and feedback.

3.3 Enhancing corporate risk management awareness

Beyond establishing internal control systems and oversight mechanisms, enterprises should also strengthen employees' risk management awareness by integrating risk management into daily corporate culture development. This involves disseminating risk management knowledge to all staff and emphasizing the importance of synergizing internal controls with risk management. Activities such as expert training, case studies, and knowledge competitions can foster a collective sense of

responsibility for corporate risk management among employees. Furthermore, establishing a risk information reporting mechanism is essential. Employees should be encouraged to promptly report identified risks, with rewards offered for successful reports or valuable leads. This fosters a risk management culture where all employees participate in oversight, ensuring internal control measures are effectively implemented with the support of collective risk awareness (Wang & Liu, 2019).

3.4 Building risk management measures based on internal controls

Establishing risk management measures grounded in internal controls is a core strategy for achieving synergistic development between the two. First, shift from traditional, singular quantitative control methods by integrating risk assessment with internal control processes. This involves comprehensively identifying risk points across all process stages, evaluating risk levels, and compiling a risk inventory. Building upon this foundation, innovate methods that combine qualitative and quantitative approaches. Second, develop targeted risk response measures based on internal control processes, translating macro-level risk strategies into concrete, actionable internal control systems. Simultaneously, establish an interlinked mechanism to adjust internal control measures and systems in response to changing risk levels, ensuring a dynamic equilibrium between risk management and internal control. Additionally, leverage information technologies of the big data era to build a management information sharing platform, breaking down information barriers between the two functions. This enables real-time sharing of risk and internal control information, facilitates smooth communication, and achieves efficient collaborative operations (Accounting Department of the Ministry of Finance, 2020).

3.5 Building a professional talent pool

To cultivate a robust team of versatile professionals and enhance the enterprise's talent-driven momentum, companies should establish comprehensive talent development and recruitment

systems. Implement tiered training programs to regularly equip employees with specialized knowledge in internal control and risk management. Invite industry experts to conduct lectures using case studies and simulations, deepening staff understanding of synergistic operations and proficiency in applying internal control processes and risk management tools. Simultaneously, implement a job rotation system where internal control personnel and risk management staff rotate through various departments. This enables them to gain comprehensive understanding of business processes while mastering the application of internal control systems and risk management requirements (Simmons, 2018). On another front, enterprises must clarify future recruitment and talent acquisition standards, prioritizing the introduction and cultivation of multidisciplinary professionals with expertise in internal control, risk management, finance, and law to further optimize organizational talent structures. Additionally, robust talent incentive mechanisms should be established, complemented by enhanced benefits packages. Attracting and retaining top talent through competitive compensation, educational support for children, healthcare services, clear career advancement pathways, and honorary recognition will ensure a continuous supply of skilled personnel for the high-level operation of the collaborative mechanism.

Conclusion:

In summary, achieving coordinated development of internal control and risk management through unified objectives and integrated methodologies is an inevitable choice for enterprises seeking stable growth in complex and volatile economic environments. However, numerous challenges persist in the current coordination process: incomplete institutional frameworks, insufficiently independent and authoritative oversight mechanisms, weak interconnections between the two systems, and inadequate reserves of multidisciplinary talent all hinder the maximization of synergistic benefits. This study proposes practical countermeasures to address

these issues: establishing a robust internal control system, integrating internal oversight into corporate performance evaluations, enhancing employees' risk management awareness, implementing risk management measures grounded in internal controls, and cultivating a specialized talent pool. The implementation of these initiatives holds promise for overcoming the challenges of synergistic development and achieving deep integration between internal control and risk management.

Conflict of Interest

The author declares that he has no conflicts of interest to this work.

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