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A Study on Internal Control and Risk Prevention in Public Institutions under the Revised Accounting Law of the People's Republic of China

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Abstract: The revised Accounting Law has set out new requirements for internal control and risk prevention in public institutions, such as the elevation of the legal status of internal control, the strengthening of collaborative supervision, increased legal liabilities, the promotion of accounting informatisation, and the institutionalisation of evaluation mechanisms. As of early 2026 (more than a year after the implementation of the revised Accounting Law), some public institutions still face issues such as a lack of awareness regarding internal control, non-standardised budget management, inadequate risk control in key areas, and insufficient internal supervision and IT support.In light of this, an internal control system compliant with the requirements of the revised Accounting Law should be established by strengthening staff awareness of internal control responsibilities, consolidating budget preparation and execution management, focusing on risk prevention and control in key areas, and improving supervision, evaluation and information support. This research holds practical significance for enhancing the governance capabilities of public institutions and ensuring the safe and efficient operation of public funds.

Keywords: The Revised Accounting Law; Public Institutions; Internal Control; Risk Prevention; Optimisation Pathways

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1. Introduction

Following the amendments to The Accounting Law of the People's Republic of China (here in after referred to as the revised Accounting Law)adopted at the 10th Session of the Standing Committee of the 14th National People's Congress, internal control was formally incorporated into the statutory provisions for the first time. The law explicitly states that 'all units must establish and improve internal accounting supervision systems and integrate them into their internal control frameworks', thereby laying a solid legal foundation for the development of internal control systems in public institutions.As the core entities responsible for public service functions, the level of internal control within public institutions is directly linked to the efficiency of fiscal fund utilisation, the security of state-owned assets, and the advancement of the modernisation of the national governance system. As of early 2026 (more than a year after the implementation of the revised Accounting Law), some public institutions still have inadequate internal control mechanisms, risk prevention and control measures that lack specificity, and inconsistent evaluation criteria, falling short of the requirements of the revised Accounting Law and Opinions on Further Strengthening Financial and Accounting Supervision Work.Against this backdrop, exploring the binding constraints imposed by the revised Accounting Law on the internal controls of public institutions and identifying pathways for optimisation, whilst analysing the practical effectiveness of internal control systems in preventing financial risks and regulating the exercise of power, holds significant theoretical and practical significance for enhancing the level of internal governance within public institutions and strengthening the prevention and control of corruption risks.

2. The Revised Accounting Law Sets Out New Requirements for Internal Control and Risk Prevention in Public Institutions

2.1 The Legal Status of Internal Control Has Been Significantly Elevated, and the Requirements for Institutional Development Have Become More Stringent

The revised Accounting Law incorporates internal control into statutory provisions for the first time, explicitly stipulating in Article 25 that ‘all units shall establish and improve their internal accounting supervision systems and incorporate them into their internal control systems’. This amendment signifies that internal control is no longer merely an internal management measure or a working guideline issued by the finance department, but has been elevated to a statutory and mandatory obligation[9] .For public institutions, on the one hand, it is necessary to fully integrate the existing internal accounting supervision system into the organisation’s overall internal control framework, thereby achieving effective coordination between accounting supervision and internal governance; on the other hand, the new Act has added ‘other requirements stipulated by the finance department of the State Council’ as the fifth item in the requirements for internal accounting supervision systems, thereby reserving legal scope for the continuous improvement and dynamic adjustment of internal control systems in the future.At the same time, the new law formally integrates the two concepts of ‘internal accounting supervision’ and ‘internal control’ at the legal level, requiring public institutions to shift their focus from merely the reliability of accounting information itself to establishing mechanisms that safeguard the reliability of such information, thereby forming a framework for internal control characterised by horizontal collaboration and vertical coordination [8].This change imposes higher requirements on public institutions in terms of institutional development and implementation; they must comprehensively review, revise and refine their existing internal control systems in accordance with the provisions of the new law.

2.2 The Collaborative Supervision Mechanism Has Been Comprehensively Strengthened, and the Combined Efforts of Financial and Accounting Supervision Have Been Significantly Enhanced

The revised Accounting Law sets out systematic arrangements for strengthening accounting supervision. On the one hand, it explicitly requires departments such as finance, audit, taxation and financial management to strengthen collaborative supervision and inspection, and to share inspection findings with one another to prevent duplicate audits of accounts. This provision provides a legal basis for establishing a cross-departmental collaborative supervision mechanism, requiring public institutions to ensure effective communication and coordination with different regulatory authorities when undergoing supervision and inspection; regulatory authorities will also gradually establish working mechanisms for information sharing and collaborative law enforcement.On the other hand, Opinions on Further Strengthening Financial and Accounting Supervision Work , issued in 2023 by the General Office of the Central Committee of the Communist Party of China and the General Office of the State Council, explicitly called for ‘the establishment of internal financial and accounting supervision mechanisms and internal control systems with clearly defined powers and responsibilities and effective constraints’. The revision and implementation of the revised Accounting Law serve to give legal effect to this policy directive.For public institutions, this means that financial and accounting supervision is no longer the sole responsibility of the finance department, but requires the joint participation of the head of the institution, various operational departments, the finance department and internal audit, to form a synergistic supervisory effort covering the entire process of economic activities and spanning all stages of decision-making and implementation.

2.3 Stronger Enforcement of Legal Liability and Significantly Higher Costs of Non-Compliance

The revised Accounting Law has substantially strengthened penalties for accounting offences and imposed stricter compliance requirements on risk prevention measures within public institutions. Specifically, for ten common types of accounting offences—such as failing to maintain accounting ledgers in accordance with legal requirements—the institution may be fined up to 1 million yuan, whilst the directly responsible person may be fined up to 500,000 yuan. Additional punitive measures, such as warnings and public censure, have also been introduced.For acts of financial fraud, such as forging or falsifying accounting vouchers or preparing false financial reports, the organisation may be fined up to 2 million yuan, whilst the directly responsible individuals may also face a fine of up to 2 million yuan. Accounting personnel involved in serious cases will be prohibited from engaging in accounting-related work for five years.It is particularly worth noting that the maximum fine has been raised to 5 million yuan for those who instigate or compel accountants to commit fraudulent acts. At the same time, the new law explicitly stipulates that the penalty records of those penalised for violations must be entered into their credit records, establishing a mechanism for coordinated disciplinary action based on credit records in the accounting sector to achieve a regulatory effect whereby ‘a single violation leads to restrictions everywhere’.For public officials in public institutions, in addition to the aforementioned financial penalties, additional administrative sanctions will be imposed in accordance with laws and regulations such as The Law on Administrative Sanctions for Public Employees of the People’s Republic of China, thereby ensuring that they are held fully accountable. Public institutions must integrate risk prevention awareness throughout the entire process of their economic activities, establish sound mechanisms for risk identification, assessment, response and reporting, and effectively prevent the occurrence of financial fraud and accounting irregularities.

3. Current Status of Internal Control and Risk Prevention in Public Institutions

3.1 Insufficient Awareness and Attention to Internal Control

Although the revised Accounting Law has explicitly enshrined internal control in law, some public institutions’ understanding of internal control work remains confined to the level of ‘posting regulations on the wall and filing documents away’; the problem of weak internal control awareness remains strikingly evident. Judging from the results of accounting information quality inspections conducted by financial departments in various regions for the 2025 financial year (the first full financial year following the implementation of the revised Accounting Law), many institutions exhibit significant shortcomings in the development of their internal control systems.In some cases, the heads of these institutions have not taken internal control work seriously enough, failing to treat it as a ‘top-priority initiative’ and thus failing to properly plan and advance the development of internal control systems.With regard to updating regulations, the current internal control systems of some public institutions are out of step with actual operations; some continue to use outdated systems from many years ago, failing to revise them in a timely manner in line with organisational reforms and changes in job roles; others have merely made minor adjustments to templates provided by higher authorities, without fully considering the specific operational characteristics and management realities of their own units, resulting in systems that are clearly ‘ill-suited to local conditions’[7] .The direct consequence of this lack of awareness regarding internal control is that internal control systems are effectively a dead letter, with a widespread disconnect between regulatory requirements and actual practice. For example, whilst some organisations have established internal control systems, meeting minutes reveal that these systems were disregarded immediately after the meeting, with day-to-day operations continuing to follow old habits; issues such as non-standardised approval procedures for major matters and the failure to segregate incompatible posts also occur from time to time.

3.2 Lack of Standardisation and Enforcement in Budget Management

Budget management directly impacts the efficiency of public funds and the effectiveness of risk prevention and control, and is a core component of internal control in public institutions [1] . However, based on inspections conducted in various regions between 2024 and 2025, problems in budget management continue to occur frequently in public institutions. Inaccurate and unscientific budget preparation is one of the more prominent issues; in some units, budget preparation is insufficiently aligned with operational activities, leading to frequent adjustments or even overspending during budget execution.Irregularities in budget execution are even more widespread; some institutions fail to exercise strict control over budget expenditure, engaging in practices such as incurring expenditure in excess of the budget and misappropriating project funds[2] . Loopholes also exist in the financial write-off process, with issues such as write-offs exceeding standards or scope, and incomplete supporting documentation—all resulting from lax financial scrutiny—being relatively common. More alarmingly, a few institutions arrange expenditure without a budget in place or record transactions using non-compliant source vouchers.As evidenced by the results of accounting information quality inspections publicly released in 2025 by financial departments in multiple locations, including Shiyan and Danjiangkou in Hubei Province, the audited units were found to have engaged in irregularities such as exceeding budgetary allocations and misappropriating project funds, whilst non-compliant financial write-offs were also a prominent issue. These problems reflect that the weaknesses in the internal controls of budget management within public institutions are primarily concentrated in two areas: a lack of rigour in budget preparation and insufficient control over budget execution.

3.3 Gaps in Risk Management in Key Areas

As key operational areas within institutional internal control, asset management, government procurement and contract management continue to present significant risk exposure[7] . With regard to asset management, issues such as non-compliant fixed asset management, discrepancies between recorded and actual assets, inaccurate information on asset cards, and a failure to conduct regular asset inventories are relatively widespread[6] .In some public institutions, the basic data in asset management systems is inaccurate; asset cards are incorrectly categorised and asset names are non-standardised, yet these issues have long gone uncorrected. Furthermore, some institutions fail to record newly acquired assets in a timely manner, and disposed-of assets are not written off and cancelled in accordance with prescribed procedures, resulting in frequent instances where the actual asset base is unclear. With regard to public procurement, issues such as failure to conduct public procurement in accordance with regulations, inadequate internal control systems for public procurement, and non-standardised tendering procedures occur frequently.In some procurement cases, inconsistencies have arisen where the contract signing date is logically incompatible with the execution date, or where the contract execution date precedes the signing date, exposing serious deficiencies in the internal controls of the procurement process. With regard to contract management, issues such as lax control over contract elements and the mere going through the motions in verifying the eligibility of contracting parties are also commonplace.

3.4 Weak Internal Oversight Mechanisms and IT Support

A key factor limiting the effectiveness of internal controls and risk prevention within organisations is the inadequacy of internal oversight mechanisms. Based on inspections conducted in various regions between 2024 and 2025, it is evident that internal audit oversight is inadequate and internal control evaluation mechanisms are incomplete in public institutions. Although some public institutions have established internal control leading groups in accordance with regulations, their actual operation is often merely a formality, and post responsibilities are not effectively implemented.In an interview with journalists in November 2025, a relevant official from the Department of Accounting at the Ministry of Finance referred to the Measures for the Evaluation of Internal Control of Administrative and Public Institutions. Although administrative and public institutions at all levels have actively explored internal control evaluation in recent years, some units still face issues such as incomplete internal control evaluation mechanisms, inconsistent evaluation standards, and evaluation conclusions that lack objectivity and accuracy. At the same time, the overall level of accounting informatisation in public institutions remains low, and weaknesses in basic accounting work are hindering improvements in the effectiveness of internal controls. Against the backdrop of accounting informatisation, some organisations remain stuck in traditional manual bookkeeping or semi-electronic systems; the breadth and depth of IT application are insufficient, and they have failed to achieve effective integration between business and financial systems. Fundamental issues, such as the non-standard use of accounting headings and the incomplete attachment of source documents to accounting vouchers, continue to occur frequently. Inadequate levels of informatisation directly result in public institutions being unable to achieve real-time monitoring and automatic control of economic activities throughout the entire process, thereby increasing exposure to the risk of non-compliant operations.

4. Pathways for Optimising the Internal Control System of Public Institutions under the Revised Accounting Law

4.1 Strengthening Awareness of Internal Control Responsibilities among All Staff

In response to the issues of weak internal control awareness and a disconnect between policy and practice in some public institutions, it is essential to address both the level of understanding and the implementation of responsibilities, thereby effectively enhancing the sense of responsibility for internal control among all staff, particularly the heads of these institutions.Firstly, the provisions of the revised Accounting Law stipulating that the head of the institution is the primary person responsible for accounting work must be strictly implemented. The effectiveness of internal control development should be incorporated into the annual performance appraisal system for the head of the institution, thereby establishing a working mechanism where ‘evaluation drives development and management’. The head of the institution should regularly chair special meetings on internal control, personally overseeing the deployment of key matters relating to internal control development to ensure that internal control systems are closely integrated with actual business operations. Secondly, the internal control literacy of all staff must be enhanced through regular training.The finance department should, in conjunction with the revised Accounting Law and supporting regulations such as the Measures for the Evaluation of Internal Control of Administrative and Public Institutions, organise internal control training sessions for all staff at least twice a year. These sessions should focus on explaining fundamental internal control requirements—such as the segregation of incompatible duties, authorisation and approval procedures, and centralised management—to ensure that staff in all operational roles clearly understand their responsibilities and operational standards within the internal control processes.Furthermore, a system of rewards and penalties for the implementation of internal controls must be established. Commendations or performance-related rewards should be granted to departments and individuals who strictly enforce internal control systems and effectively mitigate risks; conversely, where internal controls are inadequately implemented, resulting in management loopholes or financial losses, accountability must be pursued in accordance with the relevant penalty provisions of the revised Accounting Law. This ensures that ‘with power comes responsibility; with responsibility comes accountability; and failure to fulfil responsibilities will be investigated’, thereby truly transforming internal control requirements from written regulations into voluntary action.

4.2 Strengthening Budget Preparation and Execution Management

In response to issues such as non-standardised budget management and weak budgetary discipline, we must be guided by the requirements of the revised Accounting Law regarding the authenticity and standardisation of accounting information to establish a comprehensive internal control system for the entire budget process characterised by ‘evidence-based preparation, rule-based execution, orderly adjustments and well-founded final accounts’[4].Firstly, scientific foresight must be enhanced. Public institutions should establish a working mechanism that integrates budget preparation with operational planning. Each operational department must reasonably estimate its funding requirements based on annual work tasks; the finance department is responsible for reviewing and consolidating these estimates, which are then submitted to the institution’s leadership for collective deliberation before being reported to the relevant authorities. For major project expenditure, feasibility studies and performance targets must be attached; ‘off-the-cuff’ budgeting must be resolutely eliminated.Secondly, the rigour of budget execution must be reinforced. The principle of ‘no expenditure without a budget, no write-off for over-budget expenditure’ must be strictly enforced; budget targets should be embedded within the financial reimbursement system and operational approval processes to enable automatic system comparisons and early warnings. For matters where budget adjustments are genuinely necessary, these must be processed in accordance with prescribed approval authorities and procedures; it is strictly prohibited to incur expenditure before completing the necessary formalities or to arbitrarily divert project funds. Thirdly, dynamic monitoring of budget execution must be strengthened.The finance department must establish a monthly reporting mechanism for budget execution, promptly providing feedback on budget implementation status and any anomalies to the heads of relevant operational departments and units[5] . Fourth, improve the assessment of budget performance and the application of results. Incorporate the standardisation of budget execution and compliance with internal controls into the performance and efficiency assessment framework, and link the assessment results to the budget allocation for the following year, thereby creating a virtuous cycle where ‘spending must be justified by results, and ineffectiveness in carrying out duties must be held accountable’[3] .

4.3 Focusing on Risk Prevention and Control in Key Areas

A combination of measures—‘addressing institutional shortcomings and strengthening process controls’—will be adopted to ensure that risks in key business areas such as asset management, government procurement, and contract management, where risks are particularly prominent, are preventable and controllable. With regard to asset management, the system for asset verification and valuation will be strictly enforced, with a comprehensive verification and valuation carried out at least once a year to ensure that accounts, cards and physical assets are in full agreement.For new assets, asset card registration and barcode affixing must be completed simultaneously when processing reimbursement procedures; for asset disposal (scrapping, transfer or disposal), statutory procedures such as valuation, public notice and approval must be strictly followed, with disposal proceeds remitted to the Treasury in accordance with regulations to prevent the loss of state-owned assets[6] . At the same time, information technology should be utilised to establish a full-lifecycle asset management ledger, recording information throughout the entire process of asset procurement, use, maintenance and disposal.In the field of government procurement, the organisation should formulate detailed implementation rules for internal control over government procurement, clearly defining the key control points and approval authorities at each stage, including the submission of procurement requirements, the validation of specifications, the selection of procurement methods, tender evaluation, the signing of contracts, and acceptance upon fulfilment. Projects reaching the threshold for open tendering must, without exception, be subject to open tendering in accordance with the law; where non-tendering methods such as single-source procurement are adopted, these must be rigorously justified and documented.Particular attention must be paid to preventing irregularities such as the reversal of procurement procedures, fraudulent tendering, and bid-rigging; procurement records must be retained for at least fifteen years for audit purposes. With regard to contract management, a centralised contract management mechanism must be established, with designated departments responsible for the unified management of contract numbers, ledger entries and archival storage [7].Prior to signing a contract, the legal or internal control department must review the counterparty's legal status, qualifications, creditworthiness and ability to fulfil the contract; major contracts must be collectively reviewed by the organisation's leadership team. During contract execution, the finance department shall process payments in accordance with the contractual terms and the actual progress of performance, and shall resolutely refuse payment where contractual elements are incomplete or approval procedures are missing.

4.4 Strengthening Information Support for Supervision and Evaluation

To address the issues of inadequate internal oversight mechanisms and low levels of digitalisation, a 'systems plus technology' dual-drive model should be established in accordance with the revised Accounting Law and the Standards for Accounting Informatization Work. On the one hand, internal oversight and evaluation mechanisms must be strengthened. In accordance with Measures for the Evaluation of Internal Control of Administrative and Public Institutions, a regularised mechanism combining self-assessment of internal controls with external evaluation should be established.Internal control self-assessments should be conducted annually, using a four-tier rating system of 'Excellent', 'Good', 'Average' and 'Poor', to comprehensively cover the three dimensions of organisational level, operational level and internal supervision, and to carry out both qualitative and quantitative assessments. The results of these assessments must be compiled into formal reports, submitted to the organisation's leadership team and the competent authority, and used as a key basis for budget allocation, performance evaluation and the appointment of officials.For internal control deficiencies identified during self-assessments and external evaluations, a register of issues must be established, clearly specifying the persons responsible for rectification and the deadlines for rectification, thereby forming a closed-loop management cycle of "evaluation—feedback—rectification—improvement". At the same time, efforts to strengthen internal audit capabilities should be intensified by appointing auditors with professional competence, and a full cycle audit of all financial operations should be conducted at least once every three years. Furthermore, the pace of accounting informatisation will also be accelerated. Public institutions must, in accordance with the requirements of the Standards for Accounting Informatization Work, increase investment in informatisation and actively promote the development of integrated business-finance systems, building upon the interconnectivity of business systems—such as those for budgeting, revenue and expenditure, procurement, assets and contracts—with financial accounting systems. Full electronic management of accounting vouchers must be implemented, and internal control systems established for the receipt, review, posting and archiving of electronic vouchers; electronic vouchers that are false or unlawful must be rejected in accordance with the law.Strengthen the prevention and control of security risks in accounting information systems by establishing and improving security mechanisms such as system access control, data backup, authorisation management and operation logs, to guard against the risks of data leakage and tampering. Through the use of information technology, embed internal control systems and risk prevention requirements into business processes to achieve automated control and real-time early warning throughout the entire economic activity process, thereby significantly enhancing the efficiency and accuracy of internal controls.

5. Conclusion

The implementation of the revised Accounting Law has established higher legal standards and stricter regulatory requirements for internal control and risk prevention in public institutions. The new law imposes systematic, end-to-end compliance requirements on public institutions, ranging from the elevation of the legal status of internal control to the strengthening of collaborative oversight mechanisms, and from the intensification of accountability to the standardisation of accounting informatisation and evaluation mechanisms.As of early 2026 (more than a year after the implementation of the revised Accounting Law), some public institutions still exhibit significant shortcomings in areas such as internal control awareness, budget management, risk control in key sectors, and IT support for supervision and evaluation. Consequently, it is essential to advance the transformation of internal control systems from 'formal coverage' to 'effective operation' by focusing on strengthening accountability, consolidating budget management, prioritising key risks, and improving supervision, evaluation and IT support.Only by internalising the internal control system as a conscious practice among all staff, embedding risk prevention into every stage of business processes, and utilising information technology to achieve dynamic monitoring can public institutions truly adapt to the legal framework established by the revised Accounting Law, ensure the safe and efficient management of public funds, and modernise their governance capabilities.

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