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Optimization of Internal Control System in Public Institutions Based on the Perspective of Business Finance Integration

Zhang Hui

Nan County Transportation Bureau (Nan County Transportation Administrative Law Enforcement Brigade), Yiyang, China

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Abstract: With the continuous promotion of modernization of the national governance system in China, domestic public institutions are actively promoting the transformation and upgrading of internal control work. The integration of business and finance is the core fundamental concept of modern management accounting, which requires public institutions to closely link and organically integrate daily business operations and financial control work. This article conducts research from the perspective of integrating industry and finance, comprehensively analyzing the specific manifestations and reasons for the disconnect between industry and finance in public institutions. Corresponding optimization and improvement plans are formulated from core key business areas such as budget control, revenue and expenditure management, and asset supervision. Through multiple collaborative measures, the efficiency of internal control execution, dynamic supervision capabilities, and overall level of collaborative work among departments in public institutions have been effectively improved.

1. Introduction

Public institutions are the core entities in China's public service supply, mainly responsible for undertaking various public service related work. The management model of integrating business and finance requires public institutions to closely integrate and coordinate the development of front-line business and financial control work. It requires actual business as the core, driving the orderly development of various financial work, and also providing guarantees for the stable development of various businesses through standardized financial management. At present, most domestic public institutions have similar problems, such as information asymmetry and cognitive differences between business departments and finance departments, and obvious disconnection in work connection. The management concept of integrating business and finance can effectively solve the internal control management problems of public institutions. It requires public institutions to carry out comprehensive and systematic adjustments and upgrades from multiple aspects such as management concepts, organizational structure, process design, and digital platforms. Only by completing comprehensive optimization and adjustment can the internal control mechanism of public institutions truly integrate into all aspects of business development, changing the previous single management mode that relied solely on external supervision and constraints. This article explores in depth the specific optimization methods for the internal control system of public institutions.

2. Specific manifestations and reasons for the disconnect between business and finance in public institutions

The disconnection between business and finance is mainly manifested in three different types of internal control in public institutions, as shown in Table 1.

Table 1 Main manifestations and consequences of the disconnect between internal control and finance in public institutions

Performance type	Specific manifestations	Main consequences
Information island type	Financial personnel are unable to synchronously grasp frontline business dynamics such as project progress and contract adjustments, and business personnel also find it difficult to obtain real-time data on budget execution.	There is a significant lag in the financial audit process, and the problem of exceeding the budget expenditure of the unit cannot be detected and controlled in a timely manner.
Process fragmented type	Complete all business approval processes within the unit first, and then transfer the materials to the finance department for review; Once the financial department rejects and requests rectification, the relevant business must initiate a new approval process.	The overall operational efficiency of internal control in the unit is greatly reduced, and the overall reimbursement cycle for expenses is significantly extended, which will also lower the job satisfaction of business staff.
Target Conflict Type	The business department focuses on promoting progress when carrying out work, while the finance department adheres to compliance bottom line when carrying out work. The two departments have not established a unified internal control work goal.	The internal control mechanism of the unit is difficult to exert practical effectiveness, and departments are prone to shirking responsibility when problems arise.

Overall, the underlying reasons for the disconnect between business and finance in public institutions are mainly concentrated in three aspects: firstly, there are problems with the organizational operation mechanism. Most domestic public institutions have long solidified an inherent work mindset, which is to focus on business work and only provide auxiliary support for financial work. Many units only use the finance department as a logistics support department, without assigning the finance department the responsibility of management and supervision. Financial staff also do not have formal and fixed channels to participate in various business decision-making work in the early stage. Secondly, there are shortcomings in the construction of information systems. At present, there are still many public institutions that have not established an integrated collaborative work platform that can integrate business and financial data. The business management system and financial accounting system of the unit are independent and disconnected from each other, and the data of the two systems cannot be automatically circulated or cross checked. The internal control work of the unit can only rely on manual transmission of information by staff, and various data verification work is also carried out after the completion of business. Finally, there is a deviation in the performance evaluation orientation. The current assessment system commonly used in public institutions mostly focuses on assessing business work results, but significantly weakens the assessment content related to financial compliance. Under the influence of this assessment model, the willingness and enthusiasm of various business departments to actively cooperate with internal control management work are low[1]. The finance department also lacks corresponding management measures to constrain and regulate the work behavior of the business department. The business department and finance department do not have a unified work goal, which makes it difficult to efficiently cooperate and collaborate in carrying out their work.

3. Optimization path of business finance integration in key control links

3.1. Budget Control

Budget control is the core and top priority of internal control management in public institutions. At present, there are some common problems in the budget management of many public institutions: in the stage of budget preparation, the participation of various business departments within the unit is generally not high, and the budget plan does not match the actual work needs of the unit; At the stage of budget execution, the finance department can only grasp the overall total expenditure of funds, is not clear about the actual progress of business promotion, and cannot accurately match the real funding needs of each stage; In the stage of final accounting summary, the unit did not conduct comprehensive analysis with the joint business and finance departments, making it difficult to provide effective reference for the budget preparation work of the next year.

Table 2 Comparison of Budget Control Process Reengineering from the Perspective of Business Finance Integration

Control link	Traditional mode	Business finance integration model	Key improvement points
Budget preparation	The finance department leads the overall preparation work, while the business department only passively completes the information filling	The business department takes the lead in sorting out the requirements, the finance department is responsible for reviewing and verifying, and both parties collaborate to carry out comprehensive demonstration	Pre sort the actual business needs and complete benchmarking verification based on historical data
Budget execution	The finance department relies on the total amount of funds to control various expenditures	Based on the actual progress of the business, dynamically match the pace of fund disbursement	Realize collaborative linkage between business and fund progress, and flexibly carry out dynamic adjustments
Budget analysis	Independently prepare and issue budget execution reports by the finance department	Business and finance personnel jointly analyze various reasons for budget deviations	Implement the management responsibilities of both parties and promote subsequent optimization work based on the analysis results

Regarding this, we can start from three aspects to optimize and upgrade budget management work, as detailed in Table 2. In the budget preparation stage, the unit can implement a work mode of collaborative preparation of business and finance. Each business department will refine the budget expenditure for each project based on their annual work schedule. The finance department needs to organize past income and expenditure data and provide corresponding expense quota standards. Two departments jointly discuss and verify whether the budget content is reasonable and necessary for implementation[2]. Units can also combine zero based budgeting and performance budgeting to carry out their work, and each budget expenditure should clearly define the corresponding work objectives and actual results after implementation. During the budget execution phase, the unit can establish a control mechanism that links budget, business, and funding. When the business department submits a funding application, it is necessary to simultaneously submit corresponding business progress materials, which mainly include project stage acceptance reports. The finance department will allocate funds based on the actual progress of business promotion, thoroughly solving the problem of idle and wasteful funds caused by early funding and projects not being implemented[3]. In the budget analysis stage, the unit will adopt a working mode of joint analysis of industry and finance. The unit will organize budget execution review meetings with business and financial personnel on a monthly and quarterly basis. For various projects with budget execution deviations exceeding the standard, staff will trace the causes of the problems and clarify the work responsibilities of relevant personnel.

3.2. Revenue and expenditure control

For public institutions, fund revenue and expenditure management is the most common task in daily internal control, and it is also the most prone to situations where business and financial cooperation are not in place.

In order to effectively improve the problems in fund revenue and expenditure management, the most crucial step is to incorporate financial supervision into the entire process of business processing. In terms of expense management, units can link business processing, budget utilization, and fund payment together. After the staff completes the business approval process, the system will automatically check whether this expenditure has occupied the budget limit. If the expenses exceed the budget or the project schedule has not yet reached the standard, the system will directly reject the application and specify the specific reasons. When encountering large project expenditures, the requirement of double review and signature must be implemented. The acceptance materials need to be confirmed and signed by the business leader and financial staff before payment can be processed[4]. Some public institutions may charge fees to external parties, and these units need to integrate their charging system with their financial accounting system. After the system is connected, the issued fee receipts will be automatically verified and cancelled, and the received funds can be directly entered into the accounts, which can completely avoid violations such as off balance sheet funds and setting up private vaults.

3.3. Asset Control

After a long period of operation and accumulation, two typical management problems have gradually been exposed in the asset control work of public institutions. The first issue is that the unit only focuses on the procurement process of assets, but neglects the daily maintenance and operation management of assets. The second issue is that the book data recorded by the financial system does not match the registration ledger of physical assets, making it impossible to achieve consistency between the accounts and the actual assets.

To completely solve these problems, it is necessary to cover the entire lifecycle process of assets from inventory filing, daily use to final disposal. In the admission process of asset procurement and warehousing, public institutions can establish a multi departmental collaborative procurement review mechanism. Firstly, each business department submits an application for asset procurement based on their own work needs[5]. The staff of the unit asset management position will first verify the remaining stock of the unit's existing assets, and then complete the procurement compliance audit by comparing it with the relevant specifications of asset allocation. Finance personnel will synchronize and verify the remaining budget amount of the corresponding project. After completing the online joint approval process for the three positions, the staff can proceed with the subsequent procurement work.

In the daily use of assets, units can implement asset identification management and cooperate with the work mode of mobile inventory. The unit assigns a unique QR code label to all physical assets, which includes key information such as asset codes, financial registration information, and ownership departments. Asset users can use mobile office devices such as smartphones to update the placement, operation status, and maintenance records of assets at any time. Financial staff can also access the complete asset ledger at any time and carry out regular verification of accounts and physical items.

In the process of asset scrapping and disposal, the unit should implement a multi departmental collaborative asset verification and appraisal process. When an asset reaches its useful life and needs to be scrapped, transferred, or transferred, staff from the business department, asset management department, and finance department need to be present together to complete the technical verification and residual value assessment of the asset[6]. All profits generated during the asset disposal process will be strictly managed by the unit in accordance with the separation of income and expenditure regulations, firmly guarding the bottom line of asset management and effectively avoiding the loss of state-owned assets.

4. Conclusion

For public institutions, the integration of business and finance is not simply about applying financial processes to daily operations, but also an effective way to help optimize internal control management and shift from single compliance to multi-party collaborative governance. In this regard, public institutions can establish a three-tier collaborative framework consisting of strategic planning, daily operations, and data information, and reorganize key management processes such as budgeting, revenue and expenditure, and assets. This can not only put control work at the forefront, connect various data, but also make the coordination of various processes smoother, completely solving the old problem of the lack of connection between business and finance. Each unit should combine its own actual situation, make full use of information technology tools, continuously promote the deep integration of business and finance, and truly integrate internal control management into daily work. This not only maintains the bottom line of business operation, but also effectively improves business efficiency.

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