Evolution and Thinking of the Accounting Supervision Mode of China’s State-owned Enterprises

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Abstract—State-owned enterprise is an important and indispensable component of China's national economy. Transformation and innovation of accounting supervision mode of State-owned enterprises play a decisive role in building and improving China's modern enterprise system. China's current accounting supervision model of state-owned enterprises is continuously innovating. It's theoretically and practically significant to study the evolution of accounting supervision mode of state-owned enterprises, summaries experiences and further improve the accounting supervision system.

The evolution of accounting supervision mode of New China's state-owned enterprises has gone through four important stages, the financial supervision stage, the stage of supervision of the accounting process, the triple accounting supervision stage, and the comprehensive accounting supervision stage. Moreover, background, development process and characteristics of different stages are different. At the present stage, there are many problems in accounting supervision mode, including multiple monitoring, defects of system design, form over substance, tendency of government intervention in the economy, lack of incentive and control mechanism. All these problems should be solved by implementing mode combination management, improving the efficiency of the accounting supervision, making clear the limit of accounting supervision, setting incentive and control mechanism.

Index Terms—Accounting supervision mode, Appointing accountants system, Dispatched board of supervisors, Outside directors system

I. INTRODUCTION

State-owned enterprises are a product of China's traditional planned economic system. During the first thirty years of New China, the state-owned enterprise is the only form of economic organization. In 1984, the "planned commodity economy" was first proposed. In 1993, a socialist market economic system was established. Since the period from 1984 to 1993, state-owned enterprises are still being the main force of China's national economy, a direct way of state intervention in the economy, an important tool of compensating for market failures. Practice has proved that state-owned enterprises has always been playing a pivotal role in the development of China's national economy and the establishment of well-off society.

State-owned enterprise fully reflects the nature of China's socialist public ownership. It's an indispensable part of the national economy, and the largest contributor to state revenue. Its dominant position in the national economy is unshakeable. Some data indicate that, in 2007 and 2008, the amount of taxes paid by state-owned and state-holding enterprises accounted for 33.73% and 34.24% of total national fiscal revenue over the same period. With the establishment and improvement of modern enterprise system, the state-owned enterprises have become a well-deserved leader in all walks of life. They are responsible for setting industry standards, and lead the development of the industry. Preferential economic policies granted for state-owned enterprises, such as tax relief, credit concessions, debt-equity swap, Social Security assistance and so on, help state-owned enterprises develop rapidly and healthily. Data from Chinese Enterprise Confederation and China Entrepreneurs Association showed that state-owned enterprises have been the Top 14 in 8 consecutive years and possessed most of the top 50 in every selection activity, since the Top 500 Chinese Enterprises Selection Activities started in 2002. In the selection held by Fortune, China Petrochemical Corporation, China State Grid Corporation, China National Petroleum Corporation have been the top 50 of Fortune 500 company in 5 successive years, and with a rising rank year by year. Moreover, China Petroleum and Chemical Corporation was the top 9 of Fortune 500 companies in 2009.

However, as China's state-owned enterprises grew out of the old planned economic system, there are still many problems. Firstly, subsidiary, grandson company, branch company, joint ventures and joint-stock company cluster, and interests, blood relationship, family relationship, business relationship are complex, which lead to insider control, thus accounting supervision failed. Secondly, small scale, ordinary main business, large industry span, wide range of geographic scope make management risk increasing. Once again, the investors are absent, and state assets lose seriously. In addition, managing the economy with administrative means usually does not take economic performance as the core of management, thus leading to many false accounting and distorted accounting information. Simultaneously, basic accounting work is not solid, the quality of accounting personnel is poor, accounting risk is difficult to control, etc. These
problems have seriously hindered the development of state-owned enterprises. Hence, it’s necessary to strengthen the accounting supervision, consolidate the dominant position of state-owned enterprises, plug the loopholes of the state-owned assets, to make sure the value of state-owned assets preserve and increase.

II. THE PROCESS AND FEATURES OF EVOLUTION OF ACCOUNTING SUPERVISION MODE

Objectively speaking, the New China’s accounting supervision of state-owned enterprises developed slowly in a long period. During the period from the sixties of last century to the mid-seventies, its development once slid into stagnation. The accounting supervision of state-owned enterprises didn’t develop rapidly until the late nineties of last century.

A. Financial supervision stage(1949-1961)

Background

After the founding of the People's Republic of China, the pressing task of accounting is to restore and establish the normal accounting order, formulate and present a unified national accounting system by industry. State-owned enterprises of the time consisted of three parts, public enterprises, confiscated bureaucrat-capitalist enterprises, commandeered and acquired foreign enterprises in China, which were established in revolutionary base areas. And financial supervision has replaced the accounting supervision. In June 1951, Finance and Economic Committee of the Government Administration Council enacted Tentative Procedures of Assets Liquidation and Valuation of State-owned Enterprise, and Tentative Procedures of Fund Assessment of State-owned Enterprise, which required the assets of existing state-owned enterprises should be verified, inspected and evaluated. Later, the Annual Property Inspection approach of State-Owned Enterprises, and Decisions on Strict Control of Financial Management were successively promulgated. They have played an active role in strengthening financial management, cost management and financial supervision of state-owned enterprises.

Features

1) Financial supervision was the core. At this stage, China implemented the budget management system. The concept of accounting and the concept of finance are not strictly distinct, and they often collectively referred to as the accounting work. Funds of State-owned enterprise were uniformly appropriated by the Finance Departments. Allocation, use and balance of funds are the main accounting business of these enterprises. Supervision over accounting was incorporated into the financial supervision. The state tracked and monitored the use of enterprise funds. The essence of the accounting supervision is monitoring the flow of funds, namely the financial supervision. At the same time, some financial supervision systems were established, for example, the uniform transfer price of fixed assets and raw materials, the financial examination and approval system, and the provision that required the profits of enterprises except for deserve retention should all be paid the State in full.

2) Financial supervision was of the top-down form. Stated-owned industrial and mining enterprises are divided into three categories, those directly managed by the central ministries and commissions, those temporarily entrusted to the local people's government or military authority management, and those assigned to local people's government or military authority management. Simultaneously, Finance and Economic Committee of the Government Administration Council was instructed to divide management responsibilities of existing plants and enterprises, and establish regulations on investment loans of these plants and enterprises. The power of financial supervision over enterprises naturally fell on the Financial and Economic Committee. Later the power was gradually transferred to the central ministries and commissions, local people’s governments, and military offices. The vertical system of accounting was established, to facilitate the implementation of strict financial supervision.

3) The main content of supervision were liquidation and assets check. Liquidation and assets check were designed to ascertain the property, clean up and standardize confiscated bureaucrat-capitalist enterprises and commandeered and acquired foreign enterprises in China. This work was later listed as the annual accounting activity of state-owned enterprises. Liquidation and assets check have strengthened the financial management, economic accounting and supervision of appropriation of state-owned enterprise.

4) Financial supervision is simplistic. In the late fifties, influenced by the thought of decentralizing management authority, in the process of decentralization and simplification of enterprise accounting, accounting order was chaotic, financial supervision function greatly weakened, accounting without accounts appeared, which includes the statements instead of account form and the documents instead of account form. And some necessary financial examination and approval system, and assets supervision and measurement system were abolished.

B. Stage of supervision of the accounting process(1962 — 1991)

Background

In the early sixties, China implemeneted the principle of "adjustment, consolidation, enrichment and improvement" on the national economy. With the pilot of "Industrial 70", the State has enacted the working rule of cost management and accounting of state-owned enterprises, the accounting regulation of extracting enterprise incentive fund, liquidation and verification of assets, and practicing economy. These measures laid the foundation of rectifying the accounting order and strengthening the supervision of the accounting process.

Process

In May 1962, China held the first national accounting conference, which promoted the recovery and improvement of accounting systems and strengthened the supervision of accounting processes. In July 1965, China promulgated the Outline for Reform of Enterprise
Accounting(The Draft), which pointed out the direction of accounting reform, improved the accounting of state-owned enterprises, and examination and approval system of financial revenue and expenditure, and strongly encouraged the mass participate in accounting and accounting supervision. In the "Cultural Revolution" period, accounting paralyzed and accounting supervision failed. In October 1980, China held the second national accounting conference, which pointed out that accounting should reflect the accounting records, but also account economic performance and monitor economic activities, and practice the supervision over the entire process, which required accounting supervision be infiltrated into every aspect and process of enterprise production and business activities. In May 1985, the Accounting Law of People's Republic of China came into effect. The law standardized accounting system, emphasized the importance of internal accounting controls and government supervision. In December 1990, the State Council promulgated the "General Accountants Ordinance", which gave a series of accounting supervisory authorities to the chief accountant of large and medium-sized state-owned enterprises, for example, examining and approving the financial revenue and expenditure, correcting violations, organizing economic accounting, managing accountants.

**Features**

1. After the first national accounting conference, the accounting profession had been warmly discussing the functions of accounting. Inspired by the Marx’s argument that bookkeeping is a "process control and a summary of ideas", many experts and scholars concretize the "process control" into the "supervisory function" of accounting, naming accounting has the function of supervising operation activities of the state-owned enterprises. "Accounting process supervision" thus gradually replaced the "financial supervision"

2. Encourage employees of state-owned enterprises to participate in accounting and accounting supervision. A new internal supervision mechanisms of accounting has been established, which combined professional accounting and mass accounting.

3. The essential meaning of the accounting turned into "management activities perspective" from "management tool perspective". The status and role of accounting supervision have been improved in economic activities of state-owned enterprises.

4. A dual monitoring system, which is a combination of the internal accounting supervision of state-owned enterprises and external accounting supervision of national economic management departments, has been gradually established.

**C. Triple accounting supervision stage(1992—2004)**

**Background**

In the late eighties, accounting reform was once again incorporated into the agenda of national economic development strategy. "Accounting Reform Outline" was promulgated in July 1991 after nearly seven years of repeated discussions and revisions. The outline identified the direction of reform of accounting management system, strengthened the supervision function of accounting over economic management, established and developed the socialist accounting supervision system. The third national accounting conference in 1999 has further unified accounting reform ideas, formed a consensus, and created favorable conditions for sequential great changes of state-owned enterprises accounting system.

**Process**

In this stage, accounting supervision mode of state-owned enterprises was being innovated constantly. The triple accounting supervision mode, which consists of dispatched board of supervisors system, appointing accountants system and internal audit system, was built, thus the triune accounting supervision over the whole process of enterprise accounting started.

In order to meet the needs of the socialist market economy and become compatible with internationally accepted practices, the Ministry of Finance issued the "Enterprise Accounting Standards" in 1992. In a few years’ time, 30 specific standards and exposure drafts has been successively promulgated. From then on, China's accounting reform has entered a new stage. The promulgation of "Certified Public Accountants Law of the People's Republic of China" in 1993 established Certified Public Accountants' legal status in carrying out accounting supervision over state-owned enterprises. In April 1997, the Ministry of Finance issued "The Provisional Regulation of Certified Public Accountant Audit of Annual Accounting Statements of State-owned Industrial and Communications Enterprises", which further improved the accounting supervision system of state-owned enterprises. In 1999, The Standing Committee of PRC National People's Congress made a large revision on "The People's Republic of China Accounting Law". The new law was revised to seven chapters and fifty-two articles from six chapters and thirty articles of the old law. The new "People's Republic of China Accounting Law" standardized the accounting behavior of enterprises, made clear that head of unit was the first responsible person of accounting and accounting supervision, and established accounting supervision system that consists of enterprise internal supervision, intermediary social supervision and government supervision.

In order to strengthen accounting supervision of state-owned large enterprises, in May 1998, the State Council decided to implement special inspector system in 500 large state-owned enterprises. In July of the year, "Special Inspector Provision" was issued. Special inspectors were appointed by the State Council. They exercised powers of supervision and performed financial supervision responsibilities on behalf of the State, but they didn’t participate or intervene in enterprise production and operation activities. Special inspectors’ key duties are evaluating unit head’s implementation of Party principles and policies, whether compliance with national laws and regulations, and operating performance, checking accounting information and all operation-related information, so as to verify whether the financial reports
of the inspected unit truly reflect its financial position and monitor whether the inspected unit infringe the interests of state-owned capital owners. The implementation of special inspector system marked that the accounting supervision of state-owned enterprises has upgraded to a new level. Since then, the innovation of accounting supervision model of state-owned enterprises started. Lately, special inspector system evolved into dispatched board of supervisors system. In March 2000, on the basis of summing up the experience of implementing special inspector system, the State Council formulated and promulgated the "Interim Regulations on Board of Supervisors of State-owned Enterprises". The regulation pointed out that key state-owned large enterprises must establish the dispatched board of supervisors system. Board of supervisors are assigned by the State Council. They exercised supervision over the preserving and increasing of the value of state-owned assets of the key state-owned large enterprises on behalf of the State, and they exercised financial supervision as the core. Board of supervisors supervised the financial activities of enterprises, management behavior of company leader in accordance with relevant laws, administrative regulations and the provisions of the Ministry of Finance, to make sure that the state-owned assets and interests of their owners are not violated. Board of supervisors does not participate or intervene in decision making, and operational and management activities. At that time, special inspector was transferred to be the chairman of board of supervisors and assistants were transferred to full-time supervisors. One group of people (a chairman of board of supervisors, four full-time supervisors) played board of supervisors, being responsible for accounting supervision for two to four enterprises at the same time. There were a total of 60 such board of supervisors groups, which served the board of supervisors of more than 180 central enterprises.

In September 2000, Ministry of Finance and Ministry of Supervision jointly issued “Comments On Trial Accountant Assignment System”. Appointing accountants system was implemented in state-owned enterprises from then on. Appointing accountants system grew out of the reform of accounting personnel management system that carried out in Xiangfan City, Hubei Province in 1988, then being improved gradually. Appointing accountants system is such a accounting personnel management system that property owners uniformly assign accounting personnel to their owned enterprise and public institution and uniformly manage their appointment and removal, disposal, assessment, rewards and punishment, wages and benefits. The implementation of appointing accountants system can guarantee the independence of accountants, give full play to the accounting supervision functions, ensure the authenticity, accuracy, completeness and reliability of enterprise accounting information, and improve the quality of accounting personnel. In practice, the appointing accountants system of state-owned enterprises was being innovated continuously. Appointing accountants system was first implemented in the state-owned small and medium enterprises, then extended to local state-owned enterprises and the central enterprises after experience had been gain. The appointing forms were various. At first, the form of appointing director of accounting was mainly adopted, namely appointing people in charge of the accounting bodies and accounting manager to state-owned and state-holding enterprises. Then the form of appointing the chief accountant or financial director was adopted. The appointing body was either government administration, such as the financial sector, Economic and Trade Commission, the State-owned Assets Supervision and Administration Commission, etc., or property management departments, such as state-owned capital management agencies, state-owned holding companies, etc. Initially, appointed personnel were recommended from within the enterprise and appointed or employed by appointing bodies. Later, appointment system was implemented, which required personnel appointed by appointing bodies should be from social selection or recruitment. In November 2005, fifteen central enterprises openly recruited the chief accountant at home and abroad, which triggered the boom of open recruitment of the chief accountant or financial director of central and local state-owned enterprises at home and abroad.

In April 2003, State-owned Assets Supervision and Administration Commission of the State Council formally was established. It was authorized by the State Council to fulfill the responsibilities of investor on behalf of investors of state-owned assets, to supervise state-owned assets of central government-owned enterprises, to strengthen the supervision and management of state-owned assets. Later, the provinces and municipalities have also set up State-owned Assets Supervision and Administration Commission, fully supervising and managing local state-owned enterprises. After the establishment of the State-owned Assets Supervision and Administration Commission, the supervision of state-owned enterprises accounting has been stepped up. In order to strengthen the internal supervision and risk control of central enterprises, regulate internal audit work, and protect financial management, accounting and production management of enterprises consistent with national laws and regulations, in August 2004, the State-owned Assets Supervision and Administration Commission of the State Council promulgated the "Interim Measures on Management of Internal Audit of Central Enterprises", and the central state-owned enterprises and local enterprises established internal audit bodies, were equipped with full-time auditors, developed responsibilities and standardized audit procedures. Internal audit means internal audit bodies monitor and evaluate financial revenue and expenditure, financial budget, financial accounts, asset quality, business performance of the enterprise and its sub-enterprises, and authenticity, legitimacy and effectiveness of construction project, or related economic activities, in accordance with national laws and regulations, financial accounting systems and internal regulations of the enterprise. Internal audit is essentially
still a accounting supervision, a kind of accounting supervision alienated from accounting business process and implemented by specialized audit agency of enterprises. State-owned enterprises should check the effectiveness of internal control procedures, timely identify problems and correct irregularities, prevent and mitigate operational risks in accordance with relevant state regulations and internal auditing standards, to preserve or increase the value of state assets.

Features
(1) A socialist market economic system has been established. The uniformity and versatility of accounting system has been enhanced. Enterprises of various ownership implemented the same accounting standards. Due to the inherent characteristics and status of state-owned enterprises, the State tried out and gradually introduced a number of accounting supervision modes with features of China's state-owned enterprises on the basis of learning foreign accounting supervision modes.

(2) In the late nineties, there were many new situations and new issues in China’s accounting, including some outstanding problems such as the proliferation of false accounting, information distortion, disorder , ect. At the same time, reform of local state-owned enterprise has become a trend, resulting in serious loss of state-owned assets, seriously affecting the socio-economic order and the function of accounting supervision. From special inspectors of the State Council to supervisory board chairman of state-owned large enterprises, what shocked and impressed me most is the serious loss of state-owned assets. To curb the serious decline of state-owned enterprise operation and the loss of state-owned assets, and maintain a normal accounting order of state-owned enterprises, the State strengthened the supervision over state-owned enterprises accounting. During five years'period, the multi-pronged and simultaneous measures of dispatching special inspectors and borad of inspectors and appointing accountants came ito effect, which have ensured the healthy and orderly development of state-owned enterprises.

(3) After the establishment of the SASAC, the problem of the absence of state-owned assets investors has been basically solved, and the supervision of state-owned enterprises accounting has been enhanced. The measures of dispatching board of inspectors and appointing accountants have managed people, also managed troubles. The effect of combination of internal supervision and external supervision was apparent.

(4) After the implementation of triple accounting supervision mode, the state-owned enterprises accounting order has been controlled, accounting has been standardized increasingly, the quality of accounting personnel has been improved, economic returns have been increased, and the value of state-owned assets has been preserved and increased.

D. The comprehensive accounting supervision stage(2005 - present)

Background
The implementation of the triple accounting supervision mode solved problems of the process supervision and the subsequent supervision in accounting. But for a long time, problems such as the incompleteness of the corporate governance structure of state-owned enterprises, slowly-developing morden corporate system, absent board of directors, ineffective employee representative, and the long time unsupervised and uncontroled behavior of the management , and going their own way, led many business decision faults and took great losses to the state-owned enterprises. The lack of proof of some investment projects resulted in investment losses. Some enterprises provided unauthorized external assurance, thus undertaking joint liability. Some used restructuring and reorganizationn to transfer assets and profits.Some invested in stocks and futures, which lose their shirt. It was nessery to implement the comprehensive accounting supervision system, and strengthen the accounting supervision alienated from accounting business process supervision on the basis of the better accounting process supervision and subsequent supervision, so as to standarize the behaviors of investment, reform, property transfer of enterprises, and solve the problems of state-owned enterprises from the source. Learning from the accounting supervision experience of Singapore Temasek's external board, State Asset Supervision and Administration Commission carried out the accounting supervision mode whose core is the outside director system of state-owned enterprise.

Process
In June 2004, State Asset Supervision and Administration Commission issued “Guidance on the Construction of Board of Directors of State-owned Sole Proprietorship (For Trial Implementation) ”, which required large central enterprises to carry out trial work to establish and perfect the Board of Directors, strengthen the construction of the board. The guidance clarified the responsibilities, powers and obligations of Board of directors, particularly emphasized that board of directors should decide the risk management system of company which includes risk assessment, financial control, internal audit and legal risk management, and should monitor the implementation of system.

The guidance has created external director system. Outside directors refer to as the directors who are from the outside. The outside directors only take on duties in board of directors and special committee, not responsible for implementation. When hiring outside directors, State Asset Supervision and Administration Commission can invite famous experts, scholars, and entrepreneurs, can choose from the personnel of central enterprises, can also open social selection. Outside directors should be experts or experienced people of the company's main business investment, business management, financial accounting, finance, legal and human resources management. Salaries of outside directors are determined by the State Asset Supervision and Administration Commission, paid by the company. Outside directors in initial trial should be more than two. According to development of outside directors, in the premise of a smooth transition, the proportion of the outside directors in the board members can be increased gradually.

In April 2005, the State Council explicitly required that
perfect the outside board of directors system of enterprises on the basis of establishing board of directors of large state-owned company. In October 2005, Baosteel Group set up board of directors, which is the first pilot of central enterprises. It used the 4 +5 mode, namely there were nine directors, 4 were inside directors and 6 were outside directors. This was the first board of directors of state-owned enterprises whose outside directors are all in place and more than half of the directors. It signed that the central enterprises have taken a new step to establish and perfect the board system. In the next year, large central enterprises of Shenhua Group, Chengtong Holdings, Railway Group, CITS Group, Medical Group, the electronic information industry group, Real Estate Group, Sinotrans Group, the Building Materials Group, Xinxing Ductile Iron Pipes, China Railway Construction Group, China Railway Engineering Group, China Agricultural Development Group, Panzhuhua Iron and Steel Group, China Metallurgical Group, Hengtian Group have also established external director system. The total outside directors were over sixtyfour, and outside directors of the twelve pilot enterprises are more than half of the whole directors. By June 2009, 24 central enterprises have established external director system, and local state-owned enterprises of many provinces and municipalities, such as Beijing, Shanghai, Jiangxi, Shandong, Jiangsu, Hunan and Guizhou, have also tried out external director system.


**Features**

1. The establishment of external director system has weakened the insider control, constrained the economic behavior of the company leader, facilitate the establishment and improvement of the modern enterprise system. State Asset Supervision and Administration Commission of the State Council directly controlled the risk of major business decisions of the state-owned enterprise and realized the antecedent supervision of accounting by controlling the board of directors.

2. As the outside directors have both rich professional knowledge and business management experience and some are senior experts of the industry, the introduction of outside directors has optimized the structure of board of directors of state-owned enterprises, and promoted the scientific decision-making of state-owned enterprises.

3. Outside directors are bound to include one accounting professional who work as director of the board's audit committee, so as to strengthen accounting supervision of state-owned enterprises and avoid the financial risk in business decision-making process.

4. Carry out the accounting supervision over major business decisions of state-owned enterprises, such as corporate reorganization, restructuring, asset restructuring, foreign investment, equity transfer, external guarantees, so as to ensure the business decision-making scientific and legal.

### III. Problems

#### A. Multiple supervision, defect of system design

The responsibilities of assigned accounting, assignment supervisor, internal audit, and external directors are to implement accounting supervision over state-owned enterprises. Assigned accountants' responsibility is to implement accounting supervision in accounting through the accounting audit and internal check system. Dispatched supervisors' responsibility is to consult accounting information and data related to business activities to access and verify the authenticity and legality of financial reports. Internal audits' responsibility is to supervizes and evaluates financial revenue and expenditure, financial budget, financial accounts, management performance of enterprises. Outside directors direct the work of the internal audit department of enterprises. Seemly they have different focuses, in fact their work overlapped, which resulted in waste of resources and increased the difficulty of accounting management and supervision.

Segregation of duties of the assigned accounting was unscientific. Assigned accountants not only engage in accounting work, but also supervise their own work on behalf of the investors. Accounting and accounting supervision rolled into one, to a certain extent making accounting supervision exist in name only.

#### B. Form over substance

The actual effect the implementation of the accounting supervision is not as good as imagined. Although some state-owned enterprises have established accounting supervision system, their accounting supervision system haven’t played its due role. The assessment, retention and promotion of assigned accountants were decided by the assigned company. Some appointed personnel succumbed to the pressure of enterprises, thus losing their accounting supervision responsibilities. Though some state-owned enterprises has established board of directors, they rarely held a meeting once a year. Some major business
decisions, such as external investment, debt-based financing, the assets transfer between the Group and subsidiaries, related-party products transactions, and security issues, were decided directly by professional division or business meeting of general manager, rather than being discussed by the board of directors

C. The tendency of government intervention in the economy

Powerful involvement in accounting supervision and management of state-owned enterprises made State Asset Supervision and Administration Commission know more and control more, thus government intervention in the economy becoming unavoidable, being back to the old management system of state-owned enterprise. Outside directors were appointed by the State Asset Supervision and Administration Commission and held accountable for the State Asset Supervision and Administration Commission, hence their behavior of making business decision will be subject to the government and easy to favor the government, simultaneously facilitating government intervention in economy and company management.

D. Lack of incentive and restraint system

Accounting supervision is a work of professional and principled. It is easy to encounter obstacles, be marginalized, and even be subjected to the threat of unemployment and retaliation. Some delegation and assignment personnel are reluctant to take risks and take the thought of not seeking awards but not to making mistakes, which tent to weaken the accounting supervision responsibilities, and in practice the assignment body rarely investigate their responsibilities from legal point of view. On the other hand, though without forms of incentives mechanism and incentive policies, some delegation and assignment personnel have courage to uphold the principle and strictly perform their duties, thus recovering economic losses for the enterprise.

IV. COUNTERMEASURES

A. Implement mode combination management

Accounting supervision modes of state-owned enterprises are various. Full implementation of these modes would be a waste of resources, increase the difficulty of accounting management. It’s necessary to targetedly select two or more accounting supervision modes to implement accounting supervision according to operation characteristics of the supervised state-owned enterprises. The author believes that, generally, the internal audit system is a conventional system. If you want to select systems among the assigned accountant system, assignment board of supervisors system and outside director system, the number of systems chosen is better no more than two. At the same time, it’s no need to implement assigning accountant system and dispatching board of supervisors system in the same enterprise, and it’s inappropriate to promote outside director system in a large scale.

B. Improve the efficiency of accounting supervision.

Asymmetric information theory suggests that private information possessed by agents is unobservable, hidden action is unverifiable, thus the biggest problem brought is the opportunistic behavior. Therefore, it’s not necessary to emphasize the diversified forms of accounting supervision of state-owned enterprises, but necessary to emphasize the actual results, the efficiency of the accounting supervision, and limit opportunistic behavior of agents. Firstly, the appointment and assignment personnel should quickly master financial information of the enterprise such as financial results, operating results and cash flow, and be familiar with production and business activities of the enterprise. Secondly, the responsibilities must be assigned to individuals, safeguard mechanisms for implementation should be established, and someone should be assigned to track, supervise, inspect and evaluate the implementation of the system. Thirdly, establish a national accounting supervision experts database of state-owned enterprises, strengthen job training, and build a professional team of high-level and rich experience in business management. Finally, the information acquired in implementation of a variety of accounting supervision modes should be shared. State Asset Supervision and Administration Commission should organize a variety of communication meetings, on-site meetings and seminars which can attract a lot of appointment and assignment personnel to participate in, to consult problems appearing in accounting supervision and communicate measures against the problems.

C. Make clear the limits of accounting supervision

In the case of separation of ownership and management, insider control theory tells us that directors of enterprise in fact or in law control the enterprise, and make use of available information and the facility of management to gain more interests in enterprise management and decision-making. Accounting supervision is to maintain the economic order and prevent insider control to ensure normal economic activity of state-owned enterprises. State Asset Supervision and Administration Commission, the personnel appointed and assigned should clearly understand the nature and limits of accounting supervision. Accounting supervision should be based on the economic development and economic efficiency of enterprises, and focus on long-term interests of enterprises. Regulation not only should be in place, but also moderate, and should not directly interfere or participate in the daily management activities. The personnel can act as “judge,” but should not act as “athletes”, neither act as a combination of both.

D. Develop incentive and restraint system

According to principal-agent theory, as the principal need the help and cooperation of agents to accomplish the intended goal, the client will use a series of incentives to motivate agents to work hard to maximize the value of the overall agent, so as to achieve a balanced relationship between principal and agent. Under the circumstance of market economy, incentive and restraint mechanisms of accounting supervision are particularly important and
directly related to the efficiency of the accounting supervision. The subjects of accounting supervision are human beings, so they also need to be stimulated and restrained in accounting supervision activities. Incentive mechanism promotes accounting supervisory staff to continually identify problems, and actively fight against accounting fraud. Restraint mechanism makes the actions of accounting supervisory personnel do not exceed the scope of laws and regulations. To do a good job of accounting supervision, first, a law of encouraging and supporting appointed personnel to perform their duties should be coordinated. Various forms of incentive mechanisms, such as the priority in employment, option incentives and difference between the reward, should be developed. Second, the sense of responsibility should be strengthened, restraint mechanisms such as occupational ban, administrative penalties, legal liability accountability should be established, and accountability should be intensified.

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