

# High Quality Development Path of Internal Audit in State-owned Enterprises

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## Abstract

In order to improve operational efficiency, ensure the safety and integrity of assets, and effectively prevent various risks, the sound and perfect internal control system has become one of the important tasks faced by listed companies in China. Internal audit of state-owned enterprises refers to the behavior of audit institutions and auditors established within state-owned enterprises, who, in accordance with relevant national regulations and internal rules and regulations of state-owned enterprises, independently supervise the authenticity, legality, and effectiveness of business management activities according to certain procedures and methods. The quality of audit in state-owned enterprises directly affects the financial condition of enterprises. This article mainly discusses how to improve the quality of internal audit in state-owned enterprises. By analyzing the current situation of internal audit quality in state-owned enterprises and the important role of audit work in enterprise development, specific measures such as innovating audit systems, improving audit service functions, strengthening audit and internal and external supervision of diversified equity reform are proposed, aiming to improve the current quality of internal audit in state-owned enterprises.

## Keywords

**Internal Planning; Supervision and Management of State-owned Enterprises; Quality of Internal Audit.**

## 1. The Role of Internal Audit in State-owned Enterprises

The role that internal audit can play in the operation and management of state-owned enterprises is reflected in several aspects:

Firstly, it can promote the improvement of the corporate governance system. In the process of deepening the reform and development of state-owned enterprises and building a modern enterprise system, a modern governance system and governance capabilities are crucial. Internal audit can objectively evaluate the effectiveness of state-owned enterprise governance, promote the improvement of enterprise governance system, and enhance its governance capabilities. In the operation of state-owned enterprises, there are many related interest groups, and different groups represent different interest needs. Fair internal audit evaluation can achieve the protection of the rights of all parties, and can also mobilize the enthusiasm and initiative of enterprise management to participate in corporate governance. With the help of internal auditing, it is possible to supervise and manage the entire operation process of state-owned enterprises, standardize the operation of power, and form a modern corporate governance system.

Secondly, it can ensure that enterprises do a good job in risk prevention and control. The business models of state-owned enterprises have the characteristics of diversification and complexity, which also makes their management more difficult. Internal audit can take risks as

a guide, combine the implementation of enterprise economic activities and management processes, coordinate risk management work, collect risk information in internal control, re evaluate it, determine the main risks, and do a good job in risk warning, thereby improving the risk prevention and control capabilities of state-owned enterprises.

Thirdly, it is possible to improve the decision-making system of the enterprise. In China, state-owned enterprises are the mainstay of the national economy. Guiding, its business scope is concentrating towards national important industries and key fields. Enterprises need to ensure the scientific, standardized, and reasonable decision-making in their development. Internal audit can take into account the changing factors in the future development of enterprises, provide real business information to management, help them better grasp the business dynamics of enterprises, and adjust the direction and fields of state-owned capital investment, Assist management personnel in effectively improving their decision-making level and quality.

## **2. The Current Situation and Problems of Internal Audit in State Owned Enterprises**

In recent years, the reform of state-owned enterprises in terms of company system, shareholding system, corporate governance structure, and employment system is constantly deepening. However, under the group control mode, internal audit, as an important means of corporate governance supervision and promoting enterprise value appreciation, still faces many difficulties and problems, mainly manifested in the following aspects:

### **2.1. Unreasonable Level Setting of Internal Audit Management**

Most state-owned enterprises under the group management and control mode only have internal audit institutions set up at the group level, and some have not separately set up joint offices with other departments; Companies with ownership at all levels basically do not set up independent internal audit institutions. Most of them specify a part-time or full-time person in the discipline inspection department, risk control department or financial department to be responsible for internal audit, so as to connect the internal audit transactional work at the group level. The internal audit of the same level and its subordinate companies has not been carried out independently, forming risk exposure, such as the mandatory review of leaders leaving office without review. A few companies have established internal audit institutions or dedicated internal auditors, but their independence is not strong, and they are constrained by the management and various aspects, which greatly limits the performance of their functions.

### **2.2. Inadequate Closed-loop Management of Internal Audit**

Closed loop management is a process of planning, execution, inspection, and effectiveness, which can be divided into audit planning, audit implementation, audit report, and subsequent audit stages when applied to internal audit. Specifically, there are issues in the audit plan stage, such as rough audit plans, replacing audit plans with departmental annual summaries, and not adjusting audit plans in a timely manner when significant changes occur in the actual situation. During the implementation phase of the audit, there are situations where the professional competence and experience of auditors are not strong. During the audit report stage, there are issues such as insufficient communication, incorrect identification of audit issues, inaccurate definition of audit responsibilities, and weak pertinence and operability of audit recommendations. In the subsequent audit stage, there are issues such as ineffective rectification of audit issues and lack of serious accountability for audit responsibilities, resulting in weakened audit effectiveness.

### **2.3. Serious Lag in Audit Informatization**

In the current period, "Internet plus" has become a national strategy. Big data and cloud computing have been fully applied in all walks of life. Real time, standardized and integrated financial and business information systems are showing personalized and customized characteristics and are constantly upgrading. However, internal audit is far behind the tide of information technology. Some enterprises' internal audit still stays at the level of manual audit, and a few enterprises.

Only the informatization of routine audit operations has been achieved, and there is still little involvement in automated risk monitoring and early warning, big data analysis, information system auditing, etc. It cannot achieve in-depth analysis of massive data and full coverage in the audit field, seriously limiting the role of internal audit.

### **2.4. Lack of Risk Management and Value Added Concepts**

Internal audit of state-owned enterprises mainly includes forms such as financial revenue and expenditure audit, economic responsibility audit, performance audit, and special audit. From the perspective of audit time, internal audit often focuses on post supervision and neglects pre and post supervision. From the perspective of audit methods, there are many separate or specialized inspections conducted on various aspects of the company's operation and management, while there is little systematic and comprehensive analysis conducted on the implementation and sustainable development of the company's strategy. From the perspective of audit philosophy, it mainly focuses on error detection and correction, and compliance review, while helping enterprises. Insufficient emphasis is placed on improving institutional mechanisms, promoting value added, and diversifying services.

## **3. Main Measures to Improve the Quality of Internal Audit in State Owned Enterprises**

Under the current management and control model of state-owned enterprise groups, internal auditing needs to change its philosophy, reform its system, and leverage the advantages of information technology to shift from supervision to emphasizing both supervision and service, in order to assist in the value appreciation of enterprises.

### **3.1. Focusing on the Overall Situation and Overall Planning, Reasonably Setting up Internal Audit Management Levels**

The institutional mechanism is the fundamental guarantee for effectively exerting its functional role. It is necessary to adhere to the combination of top-level design and crossing the river by feeling the stones, linking up from top to bottom, consolidating the foundation of internal audit management, and ensuring its value-added role.

#### **3.1.1. Delegate Unified Management, Combine Internal and External Factors to Ensure Independence.**

The author believes that the following two steps can be taken to implement: firstly, establish an internal audit committee at the level of the board of directors of the group company, establish an independent internal audit institution, and carry out work under the direct leadership of the internal audit committee. At the same time, require each secondary company to establish an independent internal audit institution, with the group company appointing the head of the audit institution, and the group company managing, scheduling, assessing, and supervising it, Ensure the independence of institutions and personnel. Secondly, according to the needs of audit business, external professional institutions can be utilized to carry out internal audit, evaluation, and other work, leveraging the advantages of external audit independence,

objectivity, and professionalism, and comprehensively improving the quality of audit supervision services.

### **3.1.2. Resource Integration and Overall Scheduling.**

One is to uniformly allocate internal auditors when a single company engages in large-scale audits, while paying attention to avoidance and cross implementation of audits, in order to achieve comprehensive utilization of audit resources and maximize internal audit supervision services. The second is to effectively leverage the audit experience and advantages of audit methods of auditors, achieve complementary advantages with business personnel, and carry out internal audit work in a flexible, efficient, and targeted manner.

## **3.2. Circular Improvement. Strengthen Internal Audit and Overall Quality Management**

Each stage of internal audit is a small closed loop that requires continuous improvement and improvement to achieve comprehensive quality management in a large closed loop.

### **3.2.1. Fully Investigate and Evaluate Risks, and Develop an Audit Plan.**

Starting from the audit investigation, review the preliminary audit work drafts and audit reports, prepare an interview outline based on the actual business situation of the company, and cooperate with the survey questionnaire to form relatively sufficient research materials. On this basis, a detailed audit plan will be developed, and the outstanding rectification matters in the early audit will be included in the audit plan. The audit tasks at each time node will be defined, and the audit team members, division of labor and key work will be defined. The Audit risk will be preliminarily assessed. During the implementation process, reasonably evaluate risks, combine with actual situations, timely improve the audit plan, and improve the guidance and foresight of the audit plan.

### **3.2.2. Implement and Optimize Audit Plans with a Risk Oriented Approach.**

During the audit process, adhere to the risk oriented theory, such as involving legal matters, tax matters, bidding, engineering settlement, professional business matters, etc., actively consult relevant personnel to establish risk points, optimize and adjust audit key areas and methods, and promote the comprehensive implementation of audit plans.

### **3.2.3. Flexible Communication and Compaction of Audit Conclusions.**

Communication is an art, and how to improve the efficiency and quality of audit communication is directly related to the quality of audit conclusions and audit effectiveness. Firstly, it is necessary to establish smooth communication and reporting, taking into account the relationships at the time, space, and interpersonal levels, and adopting a proactive communication strategy. Especially in the process of obtaining evidence for audit issues, concluding audit reports, and defining the responsibilities of the audited personnel, it is necessary to be cautious and cautious in implementing audit matters one by one through written verification, communication with handling personnel, and confirmation by decision-making personnel. After verifying the correctness of the matters, Objectively and fairly draw audit conclusions in accordance with relevant laws and regulations and company rules and regulations, carefully define the responsibilities of the audited personnel based on the nature and relevance of the matter, form a preliminary audit report, and send it to the audited unit for further communication and adjustment. It should be emphasized that in the subsequent communication, the author believes that formal communication should be in writing to enhance the seriousness of communication and ensure the accuracy of relevant conclusions in the audit report.

### **3.2.4. Track and Implement, Combine Points and Areas, and Consolidate Audit Effectiveness.**

Subsequent follow-up audits are a key step in ensuring audit effectiveness. We need to urge the audited unit to clarify the rectification plan, responsible person, and timeline, issue a written rectification report, conduct follow-up audits, and systematically implement the rectification measures. On the one hand, it is necessary to classify and sort out sporadic and independent single point problems based on their scope and nature, and require targeted implementation and rectification; For multiple and interrelated issues, it is necessary to deeply analyze the causes of the problems from the perspective of the audited unit's system and mechanism, and continuously improve the system. On the other hand, for issues involving the responsibility of relevant personnel, it is necessary to hold them accountable in accordance with the law and regulations, in conjunction with relevant departments, sort out the clues to the problem, thoroughly investigate and compact the responsibility, and avoid repeated trials and offenses.

### **3.3. Overall Planning, Implementing Policies based on Enterprises, and Utilizing Information Technology to Promote Industry Audit Integration**

Informatization can enable internal audits to actively participate in the evaluation and consultation function, but in order to achieve the integration of industry and audit, top-level design and overall planning must be achieved. Establish a special leadership group at the group level, gather professionals in finance, business, risk control, internal audit, and other fields, cooperate with information technology personnel, and comprehensively sort out important business control nodes, risk points, and key decision-making links based on the actual situation of each business sector. Due to the implementation of policies and steps by the enterprise, the supervision function of internal audit is nested into it to achieve automated risk monitoring and warning, truly achieving early detection and prevention of small problems, and effectively utilizing the advantages of beforehand The supervisory role in the process is to encourage internal auditors to actively integrate into the front desk business process and effectively promote deep integration of industry audits.

### **3.4. Emphasize Evaluation and Consultation to Promote Value Added**

The foundation of internal audit work is to supervise the operation and management of enterprises, with the goal of serving the sustainable development of enterprises. It is necessary to keep up with the times, transform methods, innovate concepts, and effectively play the role of evaluation and consultation.

#### **3.4.1. Innovate Methods, Transform Concepts, and Conduct Comprehensive and Systematic Supervision.**

On the one hand, internal auditing should shift from focusing on history to focusing on the current situation, from focusing on results to focusing on the process, and from post supervision as the main focus to pre, during, and post supervision throughout the entire process; Guided by the risk oriented concept, analyze high-risk areas of enterprise operation and management, and carry out targeted special audits: The internal audit department should participate in sorting out the company's business processes, analyze business risk points and integrity risk points, take targeted measures to prevent risks, and optimize business processes. On the other hand, internal audit needs to transform from a single supervision to a systematic and comprehensive supervision service, and analyzing problems must be systematic, in-depth, and long-term. Starting from the overall strategic situation of the enterprise, we should not only focus on internal control construction, business development, and management, but also pay attention to the connections between various aspects and their impact on the overall situation of the enterprise. For problems, it is necessary to go from the surface to the inside, from shallow to

deep, grasp the essence of the problem through appearances, and improve at a deeper level to promote the long-term sustainable development of the company.

### **3.4.2. Take Multiple Measures to Promote Value Appreciation.**

On the one hand, the internal audit backend should collaborate with departments such as disciplinary inspection and supervision, investment evaluation, and risk control management to carry out evaluation services such as efficiency supervision, post investment evaluation, and internal control evaluation; On the other hand, the internal audit front desk should collaborate with the business department, give more play to the consulting function, actively participate in the argumentation and early due diligence of investment projects, in order to achieve a "one heavy one big" decision-making process, and focus on providing forward-looking opinions and suggestions in terms of corporate governance, internal control, business policies, resource allocation, and benefit evaluation.

## **4. Conclusion**

In summary, in the new development environment, state-owned enterprises should increase their emphasis on internal audit work and fully leverage the role of internal audit. Enterprises should clarify their market environment, optimize internal audit work, analyze the problems existing in internal audit, adopt effective response and solution strategies, ensure the smooth implementation of internal audit work, and achieve the improvement of enterprise management level.

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