

Research on the Internal Control Audit of Enterprises

Yulin Hao^{1, a}

¹Northwest University of Political Science and Law, Xi'an 710000, China

^a742657002@qq.com

Abstract

With the development of socialist market economy and the deepening of the reform, enterprises play an increasingly important role in promoting China's economic development, and the key to the success or failure of enterprise management is the level of internal control management. Internal control audit can not only help enterprises to check and fill in internal control deficiencies and promote their improvement, but also improve enterprise process management and enable enterprises to continuously improve their own soft power. On the basis of expounding the relevant overview, methods and procedures of enterprise internal control, this paper puts forward some existing problems and imperfections, and puts forward the corresponding countermeasures, in order to provide some guidance for the practical work of enterprise internal audit.

Keywords

Internal Control; Internal Control Audit; Procedures and Methods; Suggestions.

1. INTRODUCTION

In recent years, many financial fraud cases have appeared at home and abroad, and some famous enterprises have exposed scandals. From the Enron incident that shocked the world, to the incident of Wanfu Shengke and Zhangzi Island in China, to the financial fraud cases of Kangmei pharmaceutical, all of them are more or less related to the defects of internal control. A complete and effective internal control system can not only help enterprises improve economic benefits, but also timely find the possible impairment factors in the operation and management of enterprises. It is one of the essential conditions for the survival and development of enterprises. With the rapid development of market economy, the operation risk of the company has also increased. Under the dual pressure of the huge personnel system and strict assessment indicators, some high-level state-owned enterprises have exaggerated their income and profits; of course, some private enterprises conceal and transfer income in order to avoid tax. They use internal control loopholes to manipulate financial data and whitewash financial statements for different purposes. Based on this, internal control audit came into being to correct the manipulation of financial data and whitewash financial statements for different purposes in time.

2. OVERVIEW OF ENTERPRISE INTERNAL CONTROL AUDIT

2.1. The Connotation of Enterprise Internal Control Audit

The internal control audit in China is an implementation mechanism based on enterprise, supplemented by government supervision and audited by intermediaries. Enterprise internal control audit is a modern audit means to identify the effectiveness of the design and operation of internal control through the review, control test, substantive procedures and evaluation of

the internal control system of the auditee. The main work includes confirming and evaluating the defects and defect grades of enterprise control design and control operation, analyzing the causes of defects, and putting forward suggestions to improve internal control on this basis.

2.2. The Object of Enterprise Internal Control Audit

The object of internal control audit mainly focuses on the five elements of internal control, namely control environment, risk assessment, control activities, information and communication and supervision of control. Since the effectiveness of internal control is the realization of internal control objectives, the main purpose of enterprise internal control audit is to confirm and evaluate the effectiveness of enterprise internal control, mainly including design and operation.

2.2.1 Design Effectiveness

The precondition for the operation of internal control is the design of it. The objective of internal control risk assessment can be achieved only when all internal control designs are effective and consistently implemented. The audit on the effectiveness of internal control design mainly tests whether the internal control related to the enterprise's internal level and business level is sound, and whether all risk points are designed according to relevant specifications, so as to judge whether there are defects in the design of internal control.

2.2.2 Operational Effectiveness

Operational effectiveness is a powerful guarantee for achieving internal control objectives.

Internal control, when well designed, can achieve the objectives of internal control risk assessment only if it is implemented correctly and consistently. The effectiveness of internal control operation is to check whether the internal control is implemented in accordance with the designed internal control system and whether it is not implemented as required, so as to judge whether the enterprise has internal control operation defects.

2.3. The Characteristics of Enterprise Internal Control Audit

2.3.1. Internal Control Audit Is Risk-oriented

Through the implementation of risk assessment procedures, internal control audit summarizes the overall situation based on the information of financial statements, combined with the actual economic operation of the enterprise, timely finds major errors or defects in the enterprise's internal control, and takes effective countermeasures.

2.3.2. The Focus of Internal Control Audit Is Whether The Design And Operation of It Are Effective

In the internal control audit, all existing misstatements and problems, regardless of their nature and amount, indicate that there are problems, defects or loopholes in the design or operation effectiveness of the enterprise's internal control, so they need to be paid attention to by the auditors.

2.3.3. The Scope of Internal Control Audit Includes All Aspects of Enterprise Operation And Management

Because internal control audit focuses on the effectiveness of internal control design and operation, and the enterprise's internal control runs through all links of enterprise operation and management, the scope of internal control audit is not limited to the review of accounting books and financial data, but all aspects of enterprise operation and management.

2.3.4. The Purpose of Internal Control Audit Is Not to Find Fraud

The premise that the enterprise's internal control can prevent, find and correct mistakes and frauds in time is that the internal control is well designed and runs effectively. Therefore, for

internal control audit, finding fraud is not its real purpose, but checking whether internal control is effective.

2.3.5. Internal Control Audit Is Directly Related to The Quality of Financial Statement Audit

Generally speaking, for enterprises with well-designed and effective internal control, the relevant data of their accounting books and financial statements will more truly and timely reflect relevant transactions or events. Therefore, if an enterprise can attach great importance to internal control audit, constantly adjust and improve the design of internal control, and ensure its consistent and good operation in the enterprise's operation and management, the data presented by the enterprise in the audit of financial statements can also more truly reflect its operating results.

2.3.6. Internal Control Auditors Only Need to Guarantee The Effectiveness of The

In the traditional audit of financial statements, auditors express audit opinions on whether the financial statements are prepared in accordance with the applicable preparation basis of financial reports in all major aspects. Certified public accountants need to provide reasonable assurance on whether the financial statements are free from material misstatement. In the internal control audit, certified public accountants only need to provide guarantee for the effectiveness of the enterprise's internal control, and have the responsibility to disclose the major defects of non-financial report internal control noted in the process of internal control audit.

3. PROCEDURES AND METHODS OF ENTERPRISE INTERNAL CONTROL AUDIT

The purpose of enterprise internal control audit is to test the effectiveness of internal control design and operation. The focus of audit is to review all control links in the enterprise system, so as to find out the weak links of control in the enterprise system.

3.1. Understanding and Documenting the Internal Controls of The Company

This is the first step of enterprise internal control audit, which obtains the audit evidence of the effectiveness of enterprise internal control through inspection, observation, inquiry and re execution.

3.1.1. Inspect

Inspection is usually used to confirm whether the control is implemented. For example, for the control of investigation and follow-up of deviation report, the written instructions added by the personnel responsible for investigation and follow-up in the deviation report, the marks left by the management during review, or other marks can be used as evidence of the implementation of the control.

3.1.2. Observe

Observation is an effective way to control the test run without leaving written records. For example, for the control related to the separation of responsibilities, certified public accountants need to obtain first-hand evidence. They should not only obtain information about the division of responsibilities through inquiry, but also observe the daily work flow of enterprise employees, and confirm that the division of responsibilities control is implemented according to the regulations through field observation.

3.1.3. Inquiry

The certified public accountant obtains information related to internal control through discussion with relevant personnel of the auditee. For example, ask about the business approval process of relevant employees to understand the internal control system established by the auditee and its implementation.

3.1.4. Re-Execute

Auditors shall redo all or selected parts of an internal control system according to the business process of the auditee to verify whether the established control measures are implemented. For example, when testing the control of the management's review of the bank balance reconciliation table, according to the test purpose, the certified public accountant can check whether the bank balance reconciliation table exists, browse whether the reconciliation matters have been properly handled, and check whether there are the signatures of the preparer and approver on the reconciliation table.

3.1.5. Walk-Through Test

Walk-through test refers to the process of tracking transactions in the financial reporting information system. This is an audit procedure often used by certified public accountants to understand the business process and related control of the audited entity. In risk management, under normal operation conditions, input the initial data into the internal control process, go through the whole process and all key links, and compare the operation results with the design requirements to find the defects of the internal control process. Conduct a walk-through test on representative transactions and matters. By reviewing the previous audit, we can understand the causes of the problems found in the previous audit and whether they have been corrected and improved.

3.2. Preliminary Evaluation of The Soundness of Internal Control

The soundness of internal control is the basis and premise for auditors to implement compliance test procedures in the next step. It refers to whether the internal control of the enterprise is perfect, whether it can control the risk of the enterprise, and whether it can achieve the goal of internal control. Confirm internal control risks and determine whether internal control can be relied on. Based on the investigation and understanding of the control environment, control procedures and accounting system and a preliminary understanding of the internal control of the auditee, a preliminary evaluation should be made on the internal control risk and the degree of dependence of internal control.

3.3. Implement Compliance Test Procedures to Verify The Effectiveness of The Design And Implementation of Internal Control

The purpose of the test is to determine the effectiveness of the internal control system. Its basic objects include internal control design test and internal control execution test. Design test is to test whether the control policies and procedures of the auditee are reasonable and whether they can prevent, find and correct major misstatements or omissions at the recognition level. The test is whether the audit unit has played a control role. Through the preliminary evaluation of internal control, we can basically grasp the strength and weakness of the internal control of the audited unit, and determine a premise for the compliance test.

3.4. Evaluate The Strength of Internal Control

Only after the internal control compliance test is completed, the auditors will find out whether the internal control system of the auditee is available, if so, whether the internal control design is sound and whether it has been implemented, which internal control systems have been effectively implemented, which internal controls have not been implemented or ineffective, which internal controls are effective, which internal controls are ineffective, and which are the weak links of internal control. Evaluate control risks, determine the areas with weak internal control, expand audit procedures and formulate substantive audit plans.

3.5. Develop A Substantive Audit Programme

The results of the previous evaluation can be used to formulate a substantive audit plan. The implementation of the substantive audit plan provides the basis and standard for improving the enterprise's internal control.

4. PROBLEMS IN ENTERPRISE INTERNAL CONTROL AUDIT

4.1. Insufficient Attention to Internal Control Audits by Enterprises Themselves

Internal control is an important modern management mode that runs through all links of enterprise management. Internal control audit can not only help enterprises to check and fill in internal control deficiencies and promote their improvement, but also improve enterprise process management and enable enterprises to continuously improve their own soft power. However, some enterprise managers lack a correct understanding of internal control audit and are not aware of the importance of internal control audit to enterprise development. Therefore, they fail to design and implement internal control in accordance with the requirements of regulatory authorities, which brings certain difficulties to certified public accountants in the implementation of internal control audit.

4.2. Weak Risk Management Awareness among Business Managers

Some enterprise managers still focus on the level of financial data and how to increase enterprise benefits. There is a lack of relevant understanding of the necessary conditions for sustainable operation of enterprises such as risk management and risk assessment, and the awareness of risk management is weak.

4.3. Lack of Scientific Assessment Mechanism for The Internal Audit Department of Enterprises

For enterprises, the internal audit department is different from the front-line revenue generating department. It is very different from other functional departments in function. However, the nature of the value-added effect produced by the internal audit department in the actual business is different from that of other departments. If the internal audit department can complete its own work with due diligence, design an internal control system suitable for the enterprise and put the control system into operation, and the control can promote the improvement of the economic benefits of the enterprise, find out the impairment factors of operation and management in time and dredge the closed links of enterprise management, so as to promote the overall development of the enterprise, then the value-added effect of the internal audit department in the actual business will be much higher than that of other departments.

4.4. Lack of Independence of Some Auditors

Because most of the evidence required by certified public accountants for audit needs to be obtained from the enterprise, auditors rely on the audited enterprise to a great extent. In practice, due to the long-term cooperation between some accounting firms and enterprises, the professional suspicion that should be maintained is relaxed in the audit work. In addition, the certified public accountants performing internal control audit may, out of consideration of economic interests, make a desperate choice to collude with the auditee, conceal the defects existing in their internal control, and issue an internal control audit report contrary to the true meaning, resulting in the failure of internal control audit evaluation.

4.5. Poor Professional Competency of Auditors

With the in-depth development of market economy, the internal control audit of enterprises has developed from the financial field to the management field. In addition, the internal audit

workload is large, the content is complex and covers a wide range. The original single accounting knowledge can not meet the needs of the current internal control audit. Enterprise internal control audit needs more talents with knowledge of management, accounting, audit, taxation, law and so on. In the practical work of enterprise management, the leaders of internal control audit institutions may not have professional competence or audit professional knowledge background.

4.6. Inadequate Disclosure by Auditors of Deficiencies in Internal Control

With the development of China's socialist market economy, enterprise internal control audit has been paid more and more attention. Due to the small proportion of internal control audit compared with financial statement audit, certified public accountants, based on the cost-benefit principle, often do not conduct internal control audit comprehensively and deeply. Their audit results only meet the requirements for understanding and evaluation of internal control in financial statement audit, but are not enough to express opinions on the effectiveness of internal control.

5. SUGGESTIONS FOR IMPROVING THE INTERNAL CONTROL AUDIT OF ENTERPRISES

5.1. Increasing the Importance of Enterprises on Internal Control Auditing

Vigorously publicize the positive role of internal control audit within the enterprise. Explain the concepts and application guidelines related to the internal control system from the abstract and specific levels, and guide the enterprise management to re understand the role of the internal audit department. Actively explore the theoretical knowledge of internal control audit, summarize the deficiencies in practice, strengthen the coordination and cooperation between various departments of the enterprise, and exchange experience with the outside, so as to improve the attention of enterprises to internal control audit.

5.2. Enhancing the Risk Management Awareness of Enterprise Management

In order to do a good job of enterprise internal audit, we should first improve the risk prevention awareness of enterprise internal auditors, financial personnel and managers. First of all, we should start from the enterprise management, pay attention to the internal audit work, regularly ask about the internal audit process and problems found in the work, actively discuss the countermeasures to modify the internal control system with relevant financial personnel and internal auditors, and comprehensively analyze the possible risks in the operation process of the enterprise, And the design of the internal control system is close to the direction of reducing the business risk as much as possible.

5.3. Developing a Scientific Assessment Mechanism for the Internal Audit Department

Introduce performance appraisal mechanism. Combination of quantitative and qualitative indicators. The formulation of assessment indicators needs to consider the functions and positioning of the department, accurately and purposefully set up the assessment mechanism, and clarify the reward and punishment measures and corresponding responsible subjects. Set up internal skill assessment, continuously strengthen the professional quality and skills of enterprise internal auditors, and increase re-education and training. Create a number of high-quality and highly skilled service-oriented teams for enterprises.

5.4. Strengthening Education on Professional Ethical Level of CPAs

The improvement of CPA's professional ethics is directly related to the quality of enterprise internal control audit and financial statement audit. Therefore, auditors should establish a correct world outlook, outlook on life and values, strengthen professional ethics, and build an

audit team with high quality, high level, adhering to principles and daring to fight a hard battle, so as to better serve the internal control audit and financial statement audit of enterprises.

5.5. Increasing the Training of Professional Quality of Auditors

For enterprise internal auditors, we should strengthen training and enhance their professional skills and theoretical knowledge reserves, so that they can carry out internal audit on the premise of understanding relevant laws and regulations and timely discovering the defects and loopholes of enterprise operation and management. Enterprises should also form corresponding regulations on the training, appointment and promotion of audit talents, and should not arbitrarily arrange audit posts. It is necessary to formulate the qualification requirements and standards for audit practitioners, combined with the unified qualification certification system, strengthen high-level academic education, continuously increase professional skills, strengthen talent echelon management, and pay attention to and strengthen the diversified knowledge training of auditors. So that audit practitioners can not only form a solid audit professional foundation, but also adapt to deal with all kinds of business and complex problems.

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