



# State Audit's Supervision, Guidance and Utilization of Internal Audit in China

**Die Ying**

Nanjing Audit University, Nanjing 211815, Jiangsu, China

DOI: 10.32629/memf.v3i2.777

---

**Abstract:** In the relevant regulations and practices of the use of internal audit by state audits, there are problems that the functional boundaries of audit institutions' supervision and guidance of internal audit are ambiguous, and the methods and degrees of internal audit use lack legal constraints. These problems will undermine the independence and objectivity of internal audit and affect the quality and authority of state audit. This article focuses on considerations for determining this boundary.

**Keywords:** state audit, internal audit, supervision and guidance

---

## 1. Introduction

From the concept of “full coverage of audit” to the requirement of “expanding the breadth and depth of audit supervision and eliminating blind spots in supervision”, it’s not difficult to see that state audit, as the immune system[1] of national governance, is not only required to spread horizontally and broaden its coverage, but also to go deep vertically to ensure the quality of state audit.

From the perspective of “full coverage of audit”, academic circles have carried out in-depth research from “full coverage of state audit” to “full coverage of internal audit”, from the basic connotation to the realization path. After examining the relevant research, it seems that in the process of state audit using internal audit, the definition of functional boundaries of audit institutions to supervise and guide internal audit will have an important impact on the effectiveness of using internal audit power and results. The way and degree of audit also affect the quality and efficiency of state audit, which is rarely mentioned and studied in the literature.

Regulations of state audit Office on Internal audit (hereinafter referred to as the “Regulations”) is a departmental regulation at the legal level. But when used as the basis for the audit agency to supervise and guide internal audit, it’s weak. Meanwhile, according to the Constitution and Audit Law, the function of audit institutions is audit supervision. Internal audit in Regulations means “internal audit that falls under the supervision of the audit institution according to the law”, which is consistent with the audit supervision object of the audit institution. When an audit institution conducts audit supervision, under the perspective of “full audit coverage”, its audit work will inevitably involve internal audit of the supervised object. Therefore, internal audit in Regulations is an extension of state audit work, and the audit institution's supervision and guidance of internal audit business of the unit is constitutional and legal[2].

## 2. Principles for the supervision and guidance of audit institutions

### 2.1 The principle of overall planning

This principle means that the audit institution should proceed from the overall situation, supervise and guide the key issues of internal audit, and at the same time take care of the general issues. In the process of the department’s supervision and guidance, an inevitable contradiction is the lack of audit resources and the complexity of guidance and supervision objects[3]. It’s obviously impractical to supervise and guide internal audit of the specified units with the power of an internal organization. It’s recommended that audit institutions draft relevant regulations or work rules in a generic manner to reduce redundant and meaningless work caused by excessive refinement. When drafting the relevant rules, care should be taken to avoid excessive intervene in internal audit. If audit institution intervenes rashly, it will go against the original intention of its guidance and supervision, and be counterproductive. It’s suggested that internal regulations and work implementation plans should be drafted by the unit, and audit institutions check and supervise in principle. Regarding the supervision of the performance of internal audit duties and the quality of business, it is recommended to formulate advanced standards. Finally, when guiding internal audit, audit institution should pay attention to the fact that internal audit varies from unit to unit. Therefore, from the perspective of economic efficiency and the degree of benefit of supervising and guiding internal audit,

the supervision and guidance of internal audit by audit institutions should follow the principle of overall planning.

## **2.2 The principle of ensuring the independence and objectivity of internal audit**

This principle means that when audit institution supervises and guides internal audit, it should pay attention to avoid negative impact on the independence and objectivity of internal audit. Independence is the soul of internal audit and the basis of trust, and the objectivity of internal audit is the basis of its authority. Objectivity and independence complement each other and together constitute the important value connotation of internal audit. Under the circumstance that the both of them cannot be guaranteed, the function of “confirmation and consultation” of internal audit cannot be carried out, its work results have no reference value, and its existence meaning is lost. Then, the use of internal audit will have a negative impact on state audit. Therefore, when supervising and guiding internal audit, audit institutions should pay attention to the methods of supervision and guidance, and try to avoid negative impacts on the independence and objectivity.

## **3. How and to what extent audit institutions use internal audit**

Based on Provisions, audit institutions should effectively utilize the strength of internal audit. Compared with “internal audit results”, “internal audit strength” is a broad concept. It can refer to the strength of the personnel of internal audit agency and the entire institution. Thus, the way and extent of the use of internal audit power by audit institutions will: directly affect the independence of internal audit and internal audit rules and regulations of the unit; indirectly affect the effect of state audit integration of internal audit. So, when using internal audit, audit institutions should always pay attention to manner and the degree.

### **3.1 Audit institutions use the strength of internal auditors**

Audit institutions need to consider the following issues when using internal auditors to provide direct assistance:

Identify qualified internal auditors. The objectivity and competence of internal auditor should be considered when deciding which internal auditor can assist audit institution. When considering the objectivity, it's necessary to pay attention to whether internal auditor has relevant interests, whether he/she has other responsibilities that may affect the objectivity of internal audit, whether he/she was punished by the unit and the reasons for the punishment within a specific time. When considering the competence of internal auditors, it's necessary to pay attention to whether internal auditors can provide objective materials for the requirements of audit institutions and whether they can uphold professional ethics. If the above matters exist, it may affect the objectivity of internal auditors, and further judgment is needed to determine the negative effect and its severity.

Identify work that can be assigned to internal auditors. When deciding whether to assign this work to internal auditors, it's necessary to consider the nature and scope of the work, whether it meets the confidentiality requirements, whether it meets the audit objectives, whether it affects internal auditors' own work, and whether it conforms to the nature of internal auditors' work. The extent to which the audit agency's judgment involves planning and conducting relevant audit procedures and evaluating audit evidence. The work of audit institution that involves significant value judgments in audit work should not be assigned to internal auditors. Be careful to prevent audit institutions from transferring audit work to internal auditors in the name of using the strength of internal audit.

### **3.2 Audit institutions use the strength of internal audit agencies**

Audit institutions need to consider carefully when using the power of internal audit agencies. First of all, it has been discussed above that the nature of internal audit agency is internal functional department of the unit. Once audit institution decides to use the power of internal audit agency, it will easily lead to the confusion about internal audit agency and the deviation of its function. In addition, the function of internal audit is “determination and consultation”, while the function of audit institution is “supervision”[4]. Audit institutions should carefully decide whether to use the power of internal audit agencies.

### **3.3 The manner and extent of using internal audit results**

“Internal audit results”, as a static presentation of internal audit, have vitality only when they are utilized and implemented. The service object of internal audit is generally the decision-making level or management of the unit. Since the object of internal audit defined in Regulations is the same as the object of state audit, it is feasible for the audit results to be used by state audit. However, the difference between the goals and methods of internal audit and state audit determines that state audit must conduct targeted screening and inspection when using the results of internal audit. Therefore, state audit needs to consider the following issues when indirectly using the work results of internal audit:

When audit institution decides whether to use the results of internal audit, it needs to consider:

The status of internal audit in the unit. This determines whether internal audit agency can obtain objective, true, sufficient and complete information when conducting internal audit, and whether the objectivity and independence of internal auditors can be supported. If internal audit agency cannot obtain objective, true, sufficient and complete information, it will not be able to understand the financial revenue and expenditure, internal control, etc. of the unit, let alone make objective supervision, evaluation and recommendations. If internal audit organization and personnel cannot maintain independence, internal audit will become a mere formality and lose its function as a confirmation and consulting activity.

The methods used by internal audit organization in its work. The professionalism, normativeness, and systematicness of the method are all factors that audit institutions need to consider when deciding whether to use the results of internal audit. If internal audit is carried out in accordance with a crude and non-standard method, it cannot accurately review and evaluate the organization's business activities, the adequacy and effectiveness of internal controls. However, as a large audit, the focus of state audit report needs to be refined to reflect the direction. Therefore, the work results of internal audit without a systematic and standardized method are not meaningful[5].

It is obvious that audit institutions cannot use all internal audit results. When determining the degree of use, it needs to consider:

The degree of correlation between internal audit results and the audit purpose of audit institution. If internal audit results are irrelevant or have a very low degree of correlation with the audit purpose of audit institution, the use of such internal audit results will lead to confusion in the content of state audit work, weaken the authority and trust of state audit, and cause the already tight audit resources to be destroyed.

Whether internal audit results have been effectively used by the unit. Article 22 of Regulations prevents internal audit from being repeatedly reflected in the audit report. Based on the same purpose, in order to avoid repeated reflection, can internal audit results that have been valued by the unit and the suggestions made by internal audit that have received feedback from the unit no longer be reflected in the audit report? When defining the problems discovered and corrected by internal audit, comprehensive consideration should be given to whether the problem is an individual problem or a common problem, the unit's correction situation, correction progress and correction effect, and whether the correction is an effective correction, so as to avoid making no substantive judgments on "issues discovered and corrected by internal audits" but only formal judgments.

## References

---

- [1] Liu Jiayi. On State Governance and State Audit. *Chinese Social Sciences*, 2012, (6): 64.
- [2] Liu Ailong. Analysis of the New Round of Audit Law Revision and Improvement. *Jianghai Academic Journal*, 2017, (03): 145
- [3] Qu Tianren. A Preliminary Study on the Linkage and Integration of State audit and Internal Audit — Based on the Perspective of State audit Office's Order No. 11. *China Management Informatization*, 2019, (07): 48.
- [4] Zhou Weipei. From Assurance to Accountability — Path Analysis of State audit Services for National Governance from a Global Perspective. *Auditing Research*, 2019, (04): 4-6.
- [5] Li Xiaoxue and Zheng Shiqiao. Government Auditing Independence. Auditing System and Auditing Power Allocation. *Accounting Friends*, 2015, (20): 125.