

On the Relationship among Internal Audit, Internal Control and Corporate Governance

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Abstract

In the modern enterprise system, the internal control system has become an effective tool for the gradual improvement of corporate governance, internal audit in corporate governance has been constantly given a new task. The research of internal audit, internal control and corporate governance, the relationship between internal audit and internal control on the position and role of the corporate governance, help to promote the interaction between internal audit and internal control, to further improve the corporate governance structure, avoid the risk of the company, to maximize the value of the company has a realistic significance.

Keywords

Internal audit, Internal control, Corporate governance, Relationship between.

1. Introduction

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2. The question raised

Since the reform and opening up, the reform and innovation of the property rights system of state-owned enterprises, with the modern enterprise system as the carrier, have made remarkable achievements. At present, weak external supervision and inadequate internal governance are not only the basic national conditions of state-owned enterprises in the establishment of the modern enterprise system, but also the biggest challenge facing the development of the international capital market. Some ACTS of cheating investors, such as accounting fraud and statement whitewashing, have not only damaged the interests of investors, but also seriously shaken the confidence of investors and the credibility of the capital market. Therefore, corporate governance has never been so widely concerned and valued as it is now, and people realize that only by establishing a complete governance system can the problems of fraud, corruption and mismanagement be completely solved. In this system, internal audit and internal control are essential components.

3. Internal audit, internal control and corporate governance

Internal audit is an independent evaluation activity established within an organization, and as a service to review and evaluate the organization's activities, the purpose of which is to assist the management members of the organization to effectively perform their duties, control costs and expenses, achieve services for enterprise management, and maximize economic benefits. In response to changes in

internal audit theory and practice, the international institute of internal auditors (IIA) redefined internal audit in 1999 as "an independent, objective assurance and advisory activity designed to increase the value of an organization and improve its operations. It USES a systematic and professional approach to evaluate and improve the effectiveness of risk management, control and governance processes to help organizations achieve their goals. This new definition extends the scope of internal audit to risk management and corporate governance, believing that internal audit is necessary to evaluate and improve the effectiveness of risk management, control and governance processes. The ministry of finance, China securities regulatory commission, China audit office, China banking regulatory commission and China insurance regulatory commission jointly issued the basic standards for enterprise internal control in July 2008. The regulation will first be implemented by listed companies on July 1, 2009, and will encourage other large and medium-sized enterprises that are not listed to implement it. According to the code, internal control is a series of control activities jointly implemented by the board of directors, management and all employees, aiming at reasonably ensuring the realization of the basic objectives of business management. The objectives of internal control include: corporate strategy, efficiency and results of operations, authenticity, reliability and integrity of financial reports and management information, safety and integrity of assets, compliance with national laws and regulations and relevant regulatory requirements. Corporate governance, understood in a narrow sense, means that the owner is mainly the shareholder to the operator of a supervision and balance mechanism. That is, through a system arrangement, to reasonably allocate the rights and responsibilities between the owner and the operator. If understood from a broad perspective, it refers to a set of institutional arrangements concerning the distribution of corporate control rights and residual claims, including laws and cultures, which determine the realization of corporate goals. From the perspective of main functions, the scope of corporate governance can include: shareholders, board of directors (decision makers); Management (executives); Auditors (including internal auditors, external auditors and other supervisors); Other stakeholders (such as customers, suppliers, creditors and employees). From this perspective, internal auditors should have a place in corporate governance. Because the important tool that communicates company management each function main body is accounting information system. Therefore, the accounting information system itself is a part of the corporate governance structure, and accounting information more seriously restricts and affects the effectiveness of other institutional arrangements in the corporate governance structure. The authenticity of the accounting information provided by the accounting information system is a prerequisite for the normal operation of the internal and external incentive mechanism, and an effective audit supervision system is the key to ensure the realization of this prerequisite. The external audit carries on the audit to the company's financial statements, and issues the audit opinion to its fairness, thus plays the role of enhancing the credibility of accounting information. Internal audit is inside the company and has a thorough understanding of the company's internal control, management and business activities, and risk management. Compared with external auditors, internal audit plays a deeper and broader role in corporate governance.

4. How to view the relationship among internal audit, internal control and corporate governance dialectically

First, internal control and internal audit are the internal needs of corporate governance. Corporate governance is the eternal proposition of modern enterprise system. Corporate governance is very strict and complicated system engineering, requirements enterprise production factors, factors of property rights and the rights and responsibilities of stakeholders, the rational matching and the division of labor, power checks and balances, incentives and supervision mechanism of strict and careful operation, through the complete system of institutional arrangements and control program, make the enterprise of people, logistics, capital, information can be in accordance with the established in the execution of flow rate, flow velocity and flow direction starting, running, stop. The separation of ownership and control is one of the most prominent features of the modern enterprise system. With the birth and development of joint-stock companies, the authorization and agency from shareholders

to employees has become the core relationship between internal and external stakeholders. In order to prevent the possibility of target displacement deviation, even the interests of principal and agent to avoid possible agents for their own interests and damage the interests of the principal, the so-called "moral hazard", in the corporate governance theory and practice, all kinds of operating performance of agent management, effective supervision and control system arrangement and control mechanism is designed and developed, and gradually formed a "relational framework, system arrangement and control mechanism" the unity of the three corporate governance structure.

Second, internal audit is an important means of internal control. The fact proves, joint-stock company was listed on the stock market, not be equal to modern enterprise system already established, if do not have company management, or company management is not in place, it is not the modern enterprise system on true sense. Former auditor-general li jinhua paper summarizes advantages and disadvantages of the internal audit work, internal audit at the present time of "heavy light supervision and service, business process results light, heavy financial light, heavy compliance light efficiency, heavy single light system, heavy current light is long-term, heavy and light advice, heavy independent light interaction", stressed several times "the internal audit activity is very important, for your units and departments to strengthen management, improve business efficiency, establish a good order, this is the main target of the internal audit activity", put forward to "the internal audit as a control system, Rather than an inspection system ", "internal audit to give priority to in order to benefit audit and management audit", "internal audit to give priority to with beforehand, make audit", "internal audit to give priority to in order to embody Chinese characteristics" new concept of internal audit, such as for internal control, internal audit in pointed out the direction of the position and role of the corporate governance.

Third, internal control is the core of corporate governance. Corporate governance is not only a static organizational structure and control mechanism, but also a dynamic spiral process towards perfection. At the beginning of corporate governance, the goal of governance is to prevent "moral hazard", and the governance means mainly rely on the role of capital market and the accounting control of social intermediaries. With the speeding up of global economic integration and the development of multinational companies, people shift of attention from the risk of moral hazard to the management risk, operation risk, be on the merger risk, because these risks to the enterprise survival and development has the vital significance, the goal of corporate governance from the shareholders and the company also benefit maximization, promoted to maximize the value of the company. All these urgently need to establish the internal mechanism of self-restraint, self-control and self-supervision within the enterprise, form a joint force with the external constraint, control and supervision, and jointly assume the responsibility of establishing a scientific and rigorous corporate governance mechanism and completing the task of corporate governance. According to the information disclosed at the 2006 audit meeting of sinopec group corporation, in sinopec's operation and management, some units have not strictly implemented the national laws and regulations and the rules and regulations of the group company, and have privately set up "private Treasury", borrowed money and guaranteed money. Violating the regulations of the headquarters on material procurement management, increasing procurement costs and accepting rebates; Illegal use of enterprise funds and supplementary pension funds for stock speculation and entrusted financial management, the formation of greater capital risk and other problems. Although the causes of these problems are various, the lax internal control system, inadequate internal audit and inadequate internal supervision are important factors that cannot be ignored. From this, we can see the importance of the dialectical relationship among internal audit, internal control and corporate governance.

5. Objectives of internal audit, internal control and corporate governance: risk management

Risk management is the main responsibility of internal audit. With the advent of the era of risk management oriented internal control, the focus of internal audit has also changed. In addition to traditional internal control, modern internal audit pays more attention to effective risk management

mechanism and sound corporate governance structure. Under the concept of risk-oriented internal audit, the annual audit plan is linked to the risk strategy at the top of the company. Internal auditors ensure that their audit plan is consistent with the business plan by analyzing the current risk, and change the audit process using risk management principles. Risk management became a key process in the organization, enabling internal audit efforts to focus not only on test control, but also on identifying risks and testing ways to manage them. In the risk-oriented internal audit, control is still important, but analyzing, identifying and revealing key operational risks is the focus of internal audit. Internal control and risk management are increasingly linked. In determining internal control policies and, on this basis, assessing the composition of internal controls in a given environment, the board should think deeply about many risk management issues. It is the responsibility of the management to implement the risk control policy. In the process of performing its duties, the management shall identify and evaluate the risks faced by the company and implement the internal control policy designed and operated by the board of directors.

As an important part of internal control, internal audit plays an irreplaceable and unique role in risk management, mainly in the following aspects: first, it can manage risks objectively and from a global perspective. Risk has the characteristics of infectivity, transmissibility and asymmetry in the enterprise. In other words, the risks caused by one department or the consequences caused by the neglect of risk management are often not directly borne by the department, but transferred to other departments, which may eventually lead the whole enterprise into trouble. Therefore, risk awareness, prevention and control need to be considered from the overall situation, and it is difficult for each business unit to do this. Internal auditors do not engage in specific business activities and are independent from the business management department, which enables them to identify risks from an overall and objective perspective and timely advise the management department to take measures to control risks. The second is to control and guide the enterprise's risk strategy. Since the internal audit department is located between the board of directors, the general manager and various functional departments, the internal auditors can act as the coordinators of the enterprise's long-term risk strategy and various decisions. Through the adjustment of long-term plan and short-term plan, internal auditors can regulate and guide the enterprise's risk management strategy. Third, the internal audit department's recommendations are more attention. The internal audit department is independent from the management department, and the opinions of its risk assessment can be reported directly to the board of directors, which will strengthen the attention of the management to the opinions of the internal audit department.

The core of corporate governance is risk management. The enterprise objectives, decision-makers and the distribution of risks and benefits determined by the institutional arrangement of corporate governance are all centered on risks. Risks directly affect the realization of goals; The control and management of risk by decision-makers directly determines whether the goal can be achieved and to what extent. The personnel in each part of the corporate governance structure need to bear certain risks allocated and obtain corresponding benefits. In addition, explained from economics point of view of corporate governance problems, whether it is mentioned in the contract theory of incomplete contract, or the information asymmetry, which are mentioned in the information economics and agency theory mentioned in the question of agency, the cause of the essence of corporate governance factors belong to risk, is the enterprise goal cannot be achieved various potential, the possibility of events. Corporate governance is the strategic response of an organization to risks. The core of its responsibility is to ensure the appropriateness of effective risk management programs. Therefore, corporate governance contains some strategic risk management factors. For example, the tone of corporate management set by the board of directors is risk preference or risk aversion; Another example is the risk attitude contained in the management style, philosophy and management philosophy of the company's top management (CEO). These strategic risk management factors are the intersection of corporate governance and risk management.

Obviously, compared with external audit, internal audit has unique advantages in improving corporate governance mechanism, especially in strengthening internal management and control. Keep pace with

The Times of internal audit, it should be around, sound corporate governance mechanism in risk control as the guidance, to supervise and inspect the effectiveness of internal control activities, thus to improve risk control ability as the goal, adhere to follow the risk, where there is a risk, internal audit go, play a bigger role in corporate governance.

6. Conclusion

The risk management framework must be coordinated with the internal control framework, and the establishment of control objectives should be embedded into some form of risk management process, so that the corporate governance can achieve results. In terms of internal control, when the field is extended to control environment and other "soft control" elements, the intersection of corporate governance and internal control is determined. At present, China's internal audit has not been combined with corporate governance, and has become an organic part of corporate governance, and it has not paid enough attention to risk management. Therefore, it is necessary to gradually improve the corporate governance structure, clarify the principal-agent relationship between external and internal enterprises, cultivate managers' sense of competition and risk awareness, form the demand market for internal audit, and create a good environment for the development of internal audit. At the same time, we should conform to the objective law of the scientific development of internal audit and consciously promote the development of risk-oriented internal audit in practice. From an emphasis on the integrity of validation and test controls to an emphasis on validation and test risk management; From the traditional emphasis on risk factors, gradually focus on future planning. Suggestions of the internal audit activity should not only strengthen control and improve control efficiency and effectiveness, and should be through the effective risk management, and evaluation and improvement of the organization's governance program, improve the management efficiency and effectiveness of the company as a whole, achieve the internal audit, internal control and corporate governance of the organic integration, further perfecting the corporate governance structure, avoid the risk of the company. Maximize the value of the company.

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