

A Literature Review of Government Audit in China

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Abstract

This paper sorts out the relevant literature on government auditing in China. It focuses on the introduction of existing research from two aspects: the role of government audit on government governance and the role of government audit on enterprise management. Existing research has verified that government auditing does have certain external governance effects, such as managing corruption and promoting corporate innovation. In the future, in-depth research will be needed from the aspects of enhancing theoretical research and improving empirical methods.

Keywords

Government Audit; Literature Review.

1. Introduction

The understanding of the nature of auditing continues to deepen as auditing develops and its role and responsibilities in national economic activities change. The first view believes that because auditing originates from accounting activities, in which accountants undertake the task of bookkeeping, auditing plays the role of auditing, that is, auditing is an activity that supervises accounting activities and has an “endorsement” nature; the second view believes that The separation of ownership and management rights of modern enterprises, audits came into being in order to meet the needs of owners to supervise managers, that is, audits arise from fiduciary economic responsibilities, of which government audits arise from public fiduciary economic responsibilities^[1]; the third view holds that the government Auditing stems from the need of national governance, which belongs to the supervision and control system in the national governance system^[2], and is also an endogenous “immune system” in the national governance system with functions of prevention, disclosure, and resistance. This approach can help Achieve good governance of the country^[3]; then, how does government audit achieve national governance? At present, many domestic and foreign scholars' research on government audit and national governance can be divided into two categories from the focus of attention, namely government governance and enterprise management.

2. Literature review

2.1 Government audit and government governance

At present, there are many kinds of researches on government auditing to promote government governance, with different perspectives.

In terms of theoretical research, some scholars take the perspective of the types of government audit projects as a starting point, and believe that natural resource audit is a special audit form of deep integration of environmental audit and economic responsibility audit^[4], and the evaluation index of government performance audit should be established as soon as possible. Half of the effort is devoted to performance audits, and the other half is well done in traditional fiscal revenue and expenditure audits^[5]; Government audit can be used as an extension and extension of the financial supervision system, and measures can be taken from three levels of system, organization and method to achieve the goal of audit supervision^[6]. Some scholars specifically pointed to the perspective of government auditors and pointed out that due to the small number of audit departments at all levels of government and the serious lack of non-economic and accounting professionals, in order to meet the most basic audit coverage, they can only focus on not an all-round way of working^[7].

Regarding empirical research related to government governance, scholars have mainly paid attention to the influencing factors of government audit quality, the functions and functions of government audit.

Scholars discussed the influencing factors of audit quality from three aspects, namely the audit subject, processing measures and intensity, and audit environment. The influencing factors of the first aspect include the level of auditing organs and cross-office auditing. The research of Wang Fang et al.^[8] found that due to the fact that the stationed bureau comes from the department where it is located, its independence is poor compared with the central special agency, so the audit quality of the agency is low; However, Zheng Shiqiao^[9] and Bi Xiuling^[10] pointed out that the phenomenon of audit compromise resulted in the auditing execution efficiency of the stationed offices being significantly higher than that of the special agency. On the other hand, Wang Fang [8] believes that the audit quality under the "cross-audit" approach is higher than the audit quality under the "non-cross-audit" approach, and Xiang Rong^[11] has a different view. He used 2000-2004 The analysis of the implementation of government audit projects suggested that cross-audit off-site audits should be reduced, because this approach exaggerates the interference of the local environment with audits, and it does not bring good results for audit projects.

Regarding the measures and intensity of audit processing, scholars have found that the greater the amount of punishment decided by the audit in the previous year, the less the problems found this year due to its impact^[12-13].

Environmental factors that affect audit quality can be divided into external environmental factors and internal environmental factors. External environmental factors mainly include public participation awareness^[14-15], central government audit requirements^[15], regional marketization degree^[16-17], etc. For example, Lin Bin^[16] divided government audit performance into three aspects: discovery, suggestion and rectification. He found that provinces and cities with higher marketization degree had better performance in three types.

The internal environmental factors mainly include the quality of auditors and the term of leadership. The research of auditors found that the higher the qualifications of the auditors, the more the audit results, and the influence of auditors of different ages on the audit results. In addition, contrary to consistent cognition, whether or not you have a professional background, it does not have a significant effect on audit quality^[18]. Wu Qiusheng^[19] and others have paid attention to the impact of the respective term of office of the provincial auditor and the governor on the performance of audit institutions. He found that when the governor changes faster or he is in power for a long time, the audit agency's performance is higher; if the director's term is longer, the audit agency's performance is better, and the staggered term of the governor and the director will improve the audit agency's performance. Cheng Ying^[20] further research found that the change of the term of office of the local auditors had a significant reverse effect on the audit findings of the audit department that year, but the longer the auditor's appointment, the better the effect of the audit.

In addition, some scholars have studied the aspects of government audit on corruption governance^[21-24], improving government transparency^[25-26] and governance efficiency^[27-28], and promoting economic development^[29-30].

2.2 Government audit and enterprise management

In accordance with the provisions of the Constitution, in addition to auditing and supervising the fiscal revenues and expenditures of governments at all levels, the auditing organ established by the State Council should also supervise the financial revenues and expenditures of enterprises and public institutions, giving play to its role in improving guidance, supervision and inspection of the management of state-owned enterprises.

Because the audit results have only been announced since 2010, there are few empirical studies, but existing studies have also demonstrated that government audits have an external governance effect on central enterprises, such as governance of corruption^[31] and promotion of corporate innovation^[32].

^{33]}, improving the performance of state-owned enterprises^[34], and supervising the investment of state-owned enterprises^[35]. Among them, Zhou Wei^[31] found that government audits can increase the probability of corruption exposure of non-efficient investment companies, and repeated audits will also help promote corruption exposure of inefficient investments. Wang Bing^[35] found that government audits can suppress excessive investment by state-owned enterprises, but repeated audits have no significant effect on them. Zhang Zenglian and Zhao Yongwen^[36] studied the relationship between government audit and the capacity utilization rate of state-owned enterprises. They used the PSM-DID model and found that after government audit intervention, the sample company's capacity utilization rate increased significantly, but they also found that repeated audits did not have a significant impact on enterprise capacity utilization. Ma Dongshan, Han Liangliang and Zhang Shengqiang^[37] studied the impact of government audits on corporate value. The study found that after the intervention of government audit, the value of the enterprise has increased, and when the role of economic responsibility audit and government audit is played together, the impact is more significant. At the same time, they classify enterprises into under-investment and over-investment groups according to their investment situation, and find that when under-investment, government audits can improve the value of the enterprise; when over-investment, economic responsibility audits against state-owned enterprise leaders has a greater impact on enterprise value.

Some scholars have studied the impact of government audits on the effectiveness of internal control of enterprises. Chu Jian^[38] used the DID model to study the relationship between government audit and internal control of central enterprises based on the results of the 2009-2015 government audit announcement. He found that the intervention of government audit can improve the operation effect of internal control in the short term. Chi Guohua^[39] and Duan Xuncheng^[40] use different government audit measurement indicators to find that government audit intervention has a lagging effect on improving the effectiveness of internal control of the enterprise, and its effect has weakened year by year and proposed frequent audit recommendations. However, contrary to the above view, Wu Yeqi^[41] found that the audited central enterprises had relatively weak performance and internal control improvement effects in the year after the audit. Furthermore, Zhang Zenglian^[42] conducted an empirical analysis of the 2007-2017 data of central enterprises by using the PSM-DID method. The study found that contrary to public expectations, after the government audit intervention, the internal control operation of listed companies in central enterprises has not been improved, but instead decline.

Some scholars have studied the impact of government audits on earnings management. Chen Songsheng^[43] took listed companies that were controlled by state-owned enterprises from 2005 to 2010 as the research object, and found that government audits can effectively suppress the company's earnings management behavior. Compared with companies that have not been audited by the government, companies that have received earnings management have a lower degree. Ruan Ying and Zhao Xu^[44] based on the financial data of 106 centrally controlled listed companies from 2010 to 2014, empirical research suggests that after the intervention of government audits, the real earnings management behavior of these companies has decreased significantly, but government audits have not suppressed accrued earnings management behavior. On this basis, Cui Yuchen^[45] further subdivided the company's earnings management into positive earnings management and negative earnings management, and found that the intervention of government audit can effectively improve the positive earnings management behavior of state-owned enterprises, but it cannot effectively improve negative earnings management behavior.

3. Summary

The research of previous scholars can be summarized as that government audit has obvious external governance effects, such as promoting innovation of state-owned enterprises, promoting performance improvement of state-owned enterprises, and supervising investment of state-owned enterprises, but the conclusions in the study of government audits on the quality of enterprise accounting information are not consistent.

To sum up, in recent years, China's research on government auditing has gradually been enriched. Scholars have adopted different research methods based on different perspectives to verify the external governance effect of government auditing. However, it should also be noted that there are still many deficiencies in the research on government audits. For example, there are few theoretical foundation studies, and many empirical research literature are technically flawed.

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