Exploring and Analyzing on Internal Audit of the Private Enterprises
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Keywords: Private enterprise, Internal Audit, Rule

Abstract. Private enterprise internal audit comes up with the development of the private enterprise, it’s an important part for enterprise on self-discipline and self-supervision, and plays vital role on accomplishing and developing modern enterprising system. At present, most private enterprises are lack of internal audit management and rule, and the future development is badly hindered. So to enhance internal audit on private enterprises is getting more and more important on improving operation management and enterprising economical benefit.

The Significance of Private Enterprises to Carry out Internal Audit
Risk reduction on enterprising operation

During the processing of manufacturing and operating, a company would always face a lot of risks, internal audit is a department formed by company, the staffs in this department are very familiar with all businesses of the company. Also they are aware of the comprehensive manufacturing and operating condition anytime, by serious and detailed investigation and auditing to obtain the company’s latest managing condition to find out the hidden risks in time and also do risk assessment, implement managing method on risk control, to minimize the company operation risk. On one hand, to achieve the goal of minimizing and controlling the operation risk, to do analysis assessment on self-developing situation and the same industry developing thread, as well as to find out the potential risk which stops the company’s constantly development, and inspect the company strategic target, grasp the potential risk range within the company’s control. At the same time to comprehensively assess the company risk management, in the effective methods to lower the risk and accomplish risk control, also come with the related improvements, to reduce the operation risks of a company. On the other hand, internal audit can help to reduce the company’s potential risks during operation by effective assessment on enterprising choice. Different companies have differences on cultural atmospheres, management objectives and job aims, which would have direct influence when a company performs risk management. When implementing risk management, the company shall be based on the own situation to come up with the risk control methods which fitful to the company. One of the main content of internal audit is to do fitful assessment on company risk management mode and company activities mode, to minimize the company operational risk. Usually the large-scaled and financing from the market company would choose formal quantitative risk management, and the small-scaled company with easy business mode would choose simplified risk management.

Besides, on implementing internal audit, the staffs of internal audit concern on the internal controlling system of all departments, as well as to seek for the management loophole related to manufacturing, purchasing, selling, financing and HR managing, to find out and assess operation risk, and effectively control risk. The company can divide and deepen the internal audit into every detailed link of the company management to find out the risk management loophole, and describe on all detailed links of the company operation. When the company processing internal audit, according to the rate possibility, to find out and prevent the risk to occur during the process of company operation management, and prevent the risk via macro decision-making, to reach the goal of reducing company operation risk, promote company on constantly development, and bring the company bigger economical benefit.
Enhance enterprising internal control ability

On processing the internal audit in internal system, the company can effectively enhance company internal control. The internal audit staffs can take advantage of walk through the internal control processing by crossing test, and master the related detailed condition by this, to confirm if the related internal control exists. For example sales and gathering recycle is to walk through the whole contents of inspecting, observing, consulting and auditing, from accepting customers orders, credit audit, sales order forming, delivery, gathering, accounting and so on, to confirm if the internal control setting is good, to inspect if the internal control processing is well implemented, and do assessment on related internal control. Thus to be clear if the internal control system is fitful, and find out if the company internal control with flaws or loopholes, promote the company to improve and accomplish internal control system, enhance the company internal control ability, and company development.

During the processing of internal audit, the audit staffs gather the operation management system, regulations and methods related to the company, test the company internal process of the validity, as perfection and related control spot by control test, as well as to dissect on the tested information, to comprehensively and scientifically do assessment on the company internal control system of the integrity and validity. By control test to do assessment on company internal control system, to be aware of the company internal control system of the integrity and validity, to formulate related improved methods related to weak points and out-of-control point, and constantly complete the company internal control system, and enhance the enterprising internal control ability.

Remit the Problem on Information Asymmetry and Agent Problems

Now the modern companies management mode is divided by ownership and right of management, the shareholders and management layers about their benefits only, so the related financial files and operation information has different requires. To well master the company recent operation situation the management layer wish to well master the latest company operation situation, to be able to make the correct decision. While the shareholders prefer files related to benefits, so they can make correct decision on stockholder’s meeting according to the actual situation, to maximize the benefit. Meanwhile, the company customer prefer the real financial statement to decide whether to go on cooperating with the company, cause they can judge the company operation situation, prospect and other aspects. Internal audit is based on the requirement on each files from each subject, to supervise on files and be sure the correct of the files. The internal audit staff takes the requirement standard on internal audit of the independence and objectivity to audit the company financial statement, which can avoid the management layers of tampering the financial statement due to their requirements, and also guide, supervise them to express company operation situation objectively, and enhance the company financial data facticity, reliability. So the internal audit department can deal with the files which may influence the company benefit, as well as to supervise the management layer, to avoid them damaging company benefit due to their number one. To supervise the financial statement, the internal audit staffs are protecting benefit of everyone’s, and also to ensure the company can be steadily developed.

The Existing Problems of Internal Audit in Current Private Enterprises

The department of internal audit is lack of independence

The independence of internal audit is the requirement to ensure the internal audit objective, fair and powerful. The independent position of internal audit department is getting more and more important, which can promise the audit service objective. The internal audit’s function range enlarges as its degree of independence raises, or reduces. For now, most of the private enterprises’ internal audit owns low independence and authority, so they are not able to well manage the company potential risks, neither the problems seeking and analyzing. Existing of this problem would have direct influence on expectation of the audit. Independence of the internal audit works would express with only one form, which is a waste. Whether the internal audit function can be well
played, and whether the internal audit construction can be well carried out, accomplished would influence the long-term development of an enterprise, the organization mode of enterprising internal audit is waiting to be adjusted and accomplished.

**Function of internal audit is single**

Economical supervision function is the base of enterprising internal audit, the company internal audit work is mainly on seek for mistakes on data, to avoid anyone behaves affectedly, and to supervise if the company financial data information is legal, real. However it does no assessment if the company operation mode reasonable, management system is completed, daily work is effective, internal control is completed and so on. Otherwise, it rarely provides the company consulting service, nor in-time and effectively advises for the company on confirming management goal, choosing management mode and operation idea and operation methods.

With the increasing of internal management skills and completing of domestic legal mechanism in private companies, as well as the increasingly mature and popularization on financial software, the company financial account would have smaller chances to be wrong. If one company insists on single economical supervision function, as for the company, the function of internal audit would be reduced, nor the function of assessing and confirming can be effectively realized, the hedging and appreciation function would be lost. With this situation, the internal audit does not provide effective the management layer in time, thus the potential risks in operation management can’t be identified in time, nor avoid risks, the internal audit function is not well displayed.

**Management layer concern a little on internal audit, and lack of trust**

By investigating the management layer of private enterprises, it’s realized that most companies of their management layer do not realize the importance and necessity of internal audit on improving the company operation management and avoiding potential risks, nor the awareness, they even think it matters little. The staffs of management layer think the important position of a private company shall be shouldered by their relatives and friends, which is more reliable, so they think it a waste by forming up an internal audit department. Otherwise, to arrange the financial department as the internal audit department can also save labor cost. However this would have some influence on financial supervision, nor good supervision on financial staff. When the internal audit finds problems, the management layer would doubt the veracity of audit result, some management staffs would think the internal audit department brings little functions on maximizing the benefit, or even hinder the development.

There even someone thinks the internal audit would influence the management staffs on making decision, and also to blow the gab and bring some threats to the company development, which is against to the goal of maximizing company benefit. These are the reasons that why internal audit works are not supported by management layer of the private enterprises.

**Low quality of the internal audit staffs**

Since taking part in WTO, the international and global economical competition is getting more and more drastic, the private enterprises will face a series of difficulties which they never meet before. In the meanwhile, internal audit has a very strict requirement on staffs and very complicated. It requires not only on professional ethics that the work style shall be strict and highly responsible, but also to be familiar with the company operation situation and manufacturing features, to well master the professional points related to accounting, economic, management, marketing and so on. The internal audit staffs also need to keep learning to improve their professional skills. Internal audit staffs are versatile talents, to back up the company management layer.

At present, the overall quality of the internal audit staffs are low, they do not really master the professional skills and audit methods, nor the goal of audit, they just take auditing work simply as accounting works. Besides, it’s known that most private companies concerns a lot on “family” emotion and cost issue, they prefer to let family member to be on the internal audit position, however the ability and professionalism is not considered, thus the overall quality of internal audit staffs is low.
The Countermeasure to Complete Internal Audit of the Private Enterprises

Reasonable setting on internal audit institution

The biggest feature of internal audit is independent, the higher level if the leader of internal audit department stays, the more independent it is, the less difficulties and obstruction it may suffers. So the organization structure of private enterprises shall be scientifically adjusted to divide the internal audit department from financial department to a independent auditing department. Internal audit department shall not attach to any other functional departments, and the status shall be higher than others, which against to general manager directly and report the business situation, to form up the internal audit leaded by general manager directly. Internal audit department shall be responsible to general manager directly, more attach to management layer of operation management, which is good for scientific operation decision, improving company operation management skills, as well as to confirm the high status for internal audit and keep the relative independent ability of the internal audit, to effectively realize the internal audit goal. More, general manager shall be responsible to board of shareholders and board of directors about the comprehensive condition, shall master every business and operation condition of the company. However, according to the changing and complicated company businesses, and the limitation of general manager's power and ability, to relay on the power of general manager only is very hard to do comprehensive and effective supervision on the whole company operation situation. So the internal audit department plays the role of supervision and assessment of the company, as a extended function of the general manager. This can avoid the limitation and disturbing on other functional departments, and remain the required independency and effectiveness of the internal audit. It also confirms the cooperative working contents between internal audit department and other departments, as well as the authority of internal audit department.

Enhance the function expanding of internal audit department

Now the scale of private enterprise is getting bigger and bigger, however the single supervision function of internal audit is not suitable for its developing trend, so the internal audit must be expanded and optimized. The single economical supervision of internal audit must be expanded to service function, must be turned to company internal management, decision and effect service from single “check mistake and avoid”. The working range of internal audit shall also be expanded, not only to inspect the financial data and accounting statement, but also to serve the company operation situation, internal control mechanism and other management field. By supervising the company financial situation, operation scheme, important matters decision, great program construction and so on, to promote the enterprise to improve operation management, to play the role of consulting service for company internal resources of the optimized distribution and scientific decision. Thus the internal audit can be an economical supervision, controlling, assessment and management activity which deepen into the whole operation management, to promote the enterprise to enhance internal control, improve internal management, improve enterprising economical benefit, to let the internal audit serve the company on improving operation management and realizing operation goal. To be specific, the internal audit staff can work to analyze if all kinds of operation plan reasonable, by combining current economical environment, the industrial development prospect and the developing situation of the company, taking advantage of statistics index to analyze of the implemented scheme suitable to the currently develop of the company, if the operation plan with potential risks, and how to avoid and solve risks, report the situation and suggestion to management layer, help the management layer to make scientific decision, and reduce operation risk for company. On the other hand, the internal audit staffs also need to concern on if the operation plan well executed, combine with the actual situation, supervise and analyze if the plan shall be relevant altering, supplement, report to management layer or all staffs in the form of suggestion, notice or report, to avoid risk for the company, to increase value and improve operation for company, to realize the company’s benefit maximized.
Try to improve the management layer’s awareness on internal audit

Management layer of private enterprise shall master era of touch, advance with the times, and learn the latest modernized enterprise management ideas, to totally understand with the internal audit work can bring company management more supports, to concern on internal audit and its function, play the internal audit into practice, to really serve the enterprise. To be specific, the internal audit department of private enterprise shall convene more trainings and conferences to explain people more related knowledge. It requires not only the participation of the staffs from other functional departments, but also needs the participation of management layer, to let the management layer more familiar with the importance of internal audit. For sure, if the internal audit staff can accomplish a qualified audit report to expose the weak point of the company during operation management, come up with the coping strategy, to really help the management layer manage the company better. The management layer shall be fully aware of the importance of internal audit to company operation management, to admit and enhance the statue of internal audit in company governance, and totally understand that internal audit is a operation management based on completing company, reduce operation risk, realize the goal of maximizing benefit. At the same time the management layer of the company shall construct the suitable working environment for internal audit, and reasonably impower the staffs to audit on company important events. The internal audit staffs shall also improve though highly, insist the idea of serve the company, to practice the audit work into realizing company business goal, to provide the management layer suggestion on improving operation and reducing risk by useful internal auditing report, to help the management layer on events decision, and appear the value of internal audit.

Build up an internal audit team with high quality

In the complicated economical environment, competition among private enterprises are getting more and more drastic, so the requirement on internal audit staffs are more strict. As the internal audit function changing from simply “check mistake and avoid” to company internal management, decision and benefit service expanding, the internal audit department needs to be with more versatile talents. The enterprising managers shall be based on the strategic positioning in market competition and the development requirement of internal audit, shall be highly strict on talents selection and avoid appointing the relatives, and enhance the internal audit of the independence, avoid the nepotism to form up special relationship in company, and leading to the internal audit unable to be carried out independently and objectively. Secondly to select the talents who master professional skills on finance and audit, and they need to be familiar with all business process and principle of the industry. The company needs to raise up the access threshold of internal audit, as well as the staffs rewards and salary to attract more excellent versatile talents, especially someone has advantages on a certain major, employee the experienced and high skilled staffs to enrich the internal audit department, for a good foundation of the future company works on expanding audit ranges, and maximize the internal audit’s function. Only by importing new power can the private enterprises be well and steady developed on internal audit.

References


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