

Research on the Integration of Financial Reports Audit and Internal Control Audit

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Abstract. With the introduction of China's internal control audit guidelines, it marks the basic construction of internal control audit system based on the reality of China and the experience of developed countries, but there are no specific operational guidelines, which is not conducive to the full implementation of internal control audit in China. On the one hand, China's auditing theory community has launched a heated discussion on whether to conduct integrated audit or double independent audit. On the other hand, the cost-benefit principle makes improving auditing efficiency and reducing auditing cost become the goal of auditing business. Therefore, this paper aims to find out the key points of integrating the two kinds of audit and analyze them. Discusses the advantages of integrated audit for dual independent audit, and briefly discusses related strategies for integration. Finally, it proves that integrated audit can play the greatest role in these aspects: increasing the guarantee degree of the effectiveness of internal control, meeting the growing needs of investors for financial information, promoting the healthy development of capital market, and reduce the heavy financial burden faced by enterprises in hiring CPAs for financial reports and internal control audit respectively.

Two Integration Strategies of Audits

Necessity Analysis of Integrated Audit

When conducting integrated audits, the evidence collected can be mutually evidenced, not only to help reduce costs but also to better identify hidden problems. For example, if there is a major flaw in internal control, then the information in the financial report may also be wrong; the relevant account in the same Financial reports audit.

Feasibility Analysis of Integrated Audit

Analysis of Audit Business Quality. When auditing financial report, auditors should evaluate the possible risk of misstatement after they have a preliminary understanding of the audited enterprises. A key step in this process is to know its internal control. At this point, we can have a rough understanding of the internal control of the enterprise. At the same time, if errors are found during the substantive process, it indicates that there is a certain problem in the corresponding internal control; through the mutual proof with the internal control audit results, we can find some defects which are not seen in the internal control audit in time, and effectively reduce the audit risk.

Audit Process Analysis. There are many similarities between financial report audit and internal control audit in the specific operation. The similarities in the process between the two businesses can be regarded as the key point in the integrated audit. The first step of financial report audit is to understand the basic situation of the audited enterprise, the internal control of the audited enterprises is the main concern, and finally determine which audit procedure to use; the top-down thinking is commonly used in internal control audit, Initially, look at the financial reports of the enterprise, then

find out the focus of this business, and finally determine the internal control to be tested. Through the above audit process, we can see that there are still some differences and overlaps between the two audits in the specific implementation process. Therefore, in this way, the procedural similarities between the two can be maximize utilization, and even if there are some differences, it is convenient to make effective arrangements. The commonalities in the audit procedures can avoid the repeated evidence collection from audited enterprises, which is conform to the principle of Cost-Efficiency, and increase the feasibility for integration.

Analysis of Audit Efficiency. When conducting an integrated audit, auditors can make mutual use of audit evidence through effective integration arrangements. Specific operations are as follows: 1. When auditing financial reports, it is necessary to take into account the evaluation of effectiveness during internal control, and associate with the arrangements and operations that may affect the execution of procedures. 2. When determining whether the internal control is effective, it mainly considers the results obtained after the effectiveness test in the Financial reports audit. 3. If a major error is reported during the substantive process, it will definitely impact the effectiveness. It can be seen that the results of the two auditing work can be utilized and verified mutually, which greatly reduces the time for collecting evidence, effectively improves the efficiency of auditing, and can draw audit conclusions quickly.

The Integrated Implementation Process of Two Audits

Integration Thought

Important Integration Points. The integration of internal control audit and Financial reports audit can be considered separately from objectives, plans, methods, procedures, evidence and reports.

Overview of Process Steps. There are three key integration points for these two audits to be integrated. Among them, the risk assessment stage and the control evaluation stage need special attention. Therefore, after considering these two important stages, the business procedures for the integration of the two auditing businesses are: (1) preliminary business activities; (2) Prepare a plan for integrated audit; (3) procedures for risk assessment; (4) Use top-down thinking to select the control that needs testing; (5) control testing; (6) substantive testing; (7) considering fraud; (8) risk control; (9) report issuance.

If the above nine steps are divided into four stages, it will be more convenient to guide the operation activities. the four stages are: organizational planning, specific implementation, defect control and report issuance. The first stage includes steps (1) and (2) for basic preparation; the second stage includes steps (3), (4), (5), (6), (7) for specific implementation; the third stage is step (8) which is the most important step in the evaluation control stage; and the final stage is step (9) for issuing audit reports.

Integration of Audit Plans

Initial Stage. In the planning stage, we should pay attention to the following points: first, we should take into account the particularity of each customer and carry out the corresponding control procedures for the specific audit work; Then, a consensus should be reached on the audit business documents; through the above steps, the trust of the customer is guaranteed, and the ability of the accounting firm to carry out the business. In this case, the auditor can accept the commission, and the necessary activities can reduce the risk.

In the initial stage of integrated audit, auditors need to communicate with the senior management of the two businesses separately. Through communication, customers can understand that the integrated audit business is different from the single auditing business room conducted in the previous year. In order to prevent the misunderstanding and uncooperative of the customers at the stage of business development, it will affect the smooth development of the audit work. After accepting the Certification Commission from the enterprise, the firm and the audited enterprise sign

the business agreement of integrated audit in time, agree on the matters needing attention of both sides, and ensure the timely and orderly development of the certification business.

Overall Audit Plan. When integrating auditing, the basic process is still in accordance with the format and process of Financial reports audit, but auditors should consider the needs of both Financial reports audit and internal control audit to formulate the overall audit plan. In the process of integration, CPA should reflect the characteristics of internal control in the overall plan, and collect the evidence of internal control design and implementation according to the industry characteristics and business environment of the enterprise, and consider the audit situation in previous years.

Specific Audit Strategies. Comparing with the corresponding process of Financial reports audit, the integrated audit should also include the evaluation of risks, how to deal with risks and how to carry out audit in the strategy formulation stage. In the preliminary audit plan, the auditor does not need to judge which internal control may constitute major defects, but needs to judge whether each control defect is serious, and then determine the extent of impact on major defects. This means that auditors must conduct internal control audits when integrating audits, and for each determination, they should collect and obtain evidence to prove that control is valid.

Level of Importance. Only after the level of importance is determined can the risk assessment process be followed up. Two issues deserve our attention: first, auditors should determine the same level of importance for the two kinds of business after work, which will be more conducive to the integration of the development of audit business; second, the level of importance can be changed in practice according to the situation on the spot, because it is more convenient to implement. With the increase of audit evidence in the process of work, auditors need to timely evaluate whether the level of importance formulated at the planning stage can be applied to the changed situation, and make timely changes according to the needs of the site.

Implementation Stage of Integrated Audit

Risk Assessment Procedures. The risk assessment process is required for both financial report audit and internal control audit, so risk assessment is the primary integration point for integrated audit. The Risk-oriented audit model is adopted in Financial reports audit, and top-down audit method is adopted in internal control audit. In fact, both of them take risk assessment as a starting point. Therefore, risk-oriented should be paid attention to in both auditing businesses. After assessing the risk, not only can the risk of misstatement be identified, the next audit procedure can be implemented, but also the control test can be selected by the evidence provided.

Execution Control Test. The second important point is the execution of the control test. It can be seen from the above analysis that the scope of control test stage selection is quite different between Financial reports audit and internal control audit, and control test procedure is a very important part of internal control audit. Therefore, auditors are required to understand and control testing all important accounts, and the sample size is very large. However, the control test is not necessarily executed in Financial reports audit. Even if the control test is executed, the cost-benefit principle is considered, so the scope of the test is not very large. When conducting integrated audits, only a sufficient range of control tests can guarantee the issuance of appropriate audit opinions. At the same time, it should be seen that after a lot of control tests, especially when it is effective, it can reduce the workload. Therefore, in the control testing stage, it should refer to the internal control standards.

Implementation of Substantive Procedures. In the stage of Financial reports audit, auditors should conduct substantive tests. Even if the evidence collected by auditors through communication is considered valid by professional judgement, and it cannot be concluded that there is no major misstatement in the relevant field of the control.

When choosing the procedure, if the internal control of the enterprise is defective, more detailed tests should be carried out when auditing the financial reports. Correspondingly, in carrying out substantive procedures, it is necessary not only to clarify the impact of material misstatement on financial reports, but also to pay attention to internal control in the field of major misstatement. Auditors should apply the evidence obtained in the Financial reports audit to the maximum extent to evaluate the internal control. Auditors can audit the internal control of enterprises after substantive

procedures, so that the operation can use the evidence collected by Financial reports audit in internal control audit, avoiding duplication of work. When the above-mentioned integrated audit process is completed, auditors can determine whether the financial report is legitimate, fair or not, and whether the internal control is effective.

Consideration of Fraud. No matter what kind of audit, we will pay attention to the risk of fraud, which is a coherent process that runs through every stage of the audit business operations. Therefore, this is a relatively long-term work, which needs to be carried out in a special way. Whether it is Financial reports audit or internal control audit, the consideration of fraud matters is related. In the initial planning stage, CPAs should use their professional knowledge to quickly determine that the risk of major misstatement is caused by fraud. Where there may be fraud, there are such issues as related party transactions, adjusting entries of financial reports, and significant estimates of management.

In the specific operation, auditors need to use professional judgment to determine whether the existing internal control of the enterprise can handle the misstatement. If major misstatements are found in the stage of financial report auditing, CPAs may consider that this misrepresentation is also caused by fraud in internal control audit, and revise the plan in time. If there are defects caused by fraud during the internal control audit, auditors should make corresponding amendments in Financial reports audit. In addition, the assets should be checked, the relevant financial ratios, and the data of previous years should be compared and analyzed, the above analysis data can be used in internal control audit. It is particularly important to note that even if the amount of data misrepresented in the financial reports is small, once it is considered fraud, its seriousness will be very great, which will certainly affect the result of audit opinions.

Audit Reporting Stage. It is very important to communicate with management in an appropriate way if there are management-related matters. When auditing financial report, auditors need to communicate with the management of the audited enterprise in a timely and effective manner regarding the scope of the audit, the time schedule, and the major misstatements found during the audit. Similarly, when conducting internal control audit, it is necessary to communicate in a timely manner. Although there are some differences in the specific communication issues between the two, if the integrated audit is carried out, the auditee only needs to communicate with the same accounting firm.

On the one hand, auditors should judge whether the financial reports are prepared in accordance with the provisions of the standards, and whether there are artificial tampering or mistakenness in the preparation process, and finally make their own audit opinions; on the other hand, they should judge the audit evidence collected during the business development. If major misstatement is found in the Financial reports audit, but no error is found in the internal control test related to the financial report, then internal control is said to be a major defect.

Once you see a major problem with internal control, professionals should think that the financial reports provided by enterprise may be affected as well. If internal control is effective and has no impact on Financial reports audit, auditors should point out that the defects of internal control have been considered in the audit report, and these defects will not affect the final audit opinion. After the completion of the integrated audit, both the financial reports and internal control should express their audit opinions and issue audit reports separately. It is worth noting that the dates on the audit reports must be consistent.

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