

Constructing a Triangular Linkage Model of Government Audit, Social Audit, and Internal Audit to Promote High-Quality Development of Audit Services

TANG Pengzhan

Nanjing Audit University, Nanjing, China

It is a complex and important topic to study the linkage mechanism of government audit, social audit, and internal audit in the context of China's high-quality economic development. The implementation of measures, such as establishing a sound and perfect organizational safeguard mechanism, strengthening project collaborative audit mechanism, enhancing the mechanism for utilizing audit results, and establishing an audit and rectification joint mechanism can promote the efficient operation of the audit supervision system and the high-quality development of audit services.

Keywords: government audit, social audit, internal audit, triangular linkage model, high-quality development

Introduction

With the high-quality development of China's economy, the audit supervision system faces new opportunities and challenges. Government audit, social audit, and internal audit, the three main bodies of the audit supervision system, have different responsibilities and advantages, but there are also limitations at the same time. Therefore, building a synergistic triangular linkage model among the three has become an important way to promote the high-quality development of audit services.

The Respective Positions of Government, Social, and Internal Audit

The Position of Government Audit

Government audit, also known as state audit or public audit, refers to audit carried out by government audit institutions. The main body of government audit is the State Audit Office and local audit institutions at various levels. Characterized by statutory, independence, macroscopic, mandatory, and authoritative features, government audit is based on the authority stipulated in the Constitution and the law to audit and supervise the financial income and expenditure and related economic activities of the government at all levels as well as state-owned enterprises and public institutions. At the same time, it exercises the right of audit supervision independently, without interference from other administrative institutions, social organizations, and individuals.

Through government audit, it can expose and reflect the problems existing in economic activities, safeguard the financial law and discipline, strengthen the construction of honesty, improve the level of economic management, and increase economic efficiency. At the same time, it can also provide a reliable basis for government decision-

making, promote the implementation of macroeconomic control policies, and ensure the sustained and healthy development of the economy and society.

The Position of Social Audit

Social audit, also known as certified public accountant audit, refers to an audit activity in which a legally established social audit organization accepts a commission from the client to independently review and issue audit opinions on the financial statements of the audited entity and its related information. The main purpose of social audit is to conduct objective and fair audits and issue audit opinions on the financial statements, related economic information, and economic activities of the audited organization. Through social audit, CPAs can help enterprises to understand their own financial position, operating results, and cash flow, to provide independent and objective opinions and recommendations, to provide support for corporate decision-making.

Characterized by independence, objectivity, impartiality, and professionalism, social audit plays an important role in maintaining the order of the market economy, protecting the interests of investors and promoting the development of enterprises. Through social audit, it can find and correct errors and fraud in the financial statements of enterprises, and improve the quality and reliability of financial statements; it can find problems in the operation and management of enterprises, and put forward opinions and suggestions for improvement, so as to promote the improvement of the operation and management of enterprises; and it can reveal the risks and problems of enterprises, and provide investors with a basis for decision-making, so as to protect the interests of investors.

The Position of Internal Audit

Internal audit is an independent, objective validation and consulting activity, which is designed to add the organization's value and improve its operations. It helps organizations achieve their objectives by applying a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In addition to this, it strengthens and improves the organization's internal control system by monitoring and evaluating the soundness, reasonableness, and effectiveness of the system.

Internal audit reviews and evaluates the truthfulness, completeness, legality, and fairness of the organization's accounting, financial, and other information in order to ensure the truthfulness and completeness of the organization's financial information, and to prevent financial malpractice and fraud. It makes recommendations for improvement, provides support for the organization to improve its governance structure and optimize resource allocation, and ultimately improves operational efficiency and effectiveness.

Therefore, internal audit is not only an important part of an organization's internal control, but also a critical tool for organizational risk management. Through internal audit, organizations can identify and correct problems in a timely manner, improve management and operational efficiency, and thus achieve their goals.

The Current Status and Relationship between Government, Social, and Internal Audit

The Current Status of Government Audit

According to the China Business News reported, in 2023 National Audit Work Conference, Secretary of the Audit Office of the Party Group, Auditor General Hou Kai's work report mentioned that "the first 11 months of 2023, the country audited a total of more than 56,000 units," which can be understood that the audit workload is quite heavy. As for staffing, the administrative establishment of the Audit Office is 682, according to the State Council's institutional reform program and the document of the State Council's Notice on Institutional Settings

(Guo Fa [2008] No. 11), which was approved by the First Session of the Eleventh National People's Congress. More specifically, the local, in the case of the Lanzhou Municipal Audit Bureau, there were 149 staff on the establishment at the end of 2023. In fact, this Audit Bureau has 116 administrative staff, six handymen, nine career staff, one retired staff, one long-term support staff, and 43 temporary staff. Tianshui City Electronic Data Audit Center fully funded career staffing has 18 people, the actual staff has 15 people, approved at the beginning of 2024. Nanning Xingning District Public Investment Audit Center career staffing has 10 people, the actual staff has eight people. In summary, this shows that government audit staffing is also quite tight.

On the other hand, the government audit task is also arduous. In deploying the audit priorities for 2024, the Audit Commission has focused more on key areas and major projects: auditing the implementation of major regional planning strategies and the construction of major investment projects, as well as key areas such as finance, state-owned enterprises and state-owned capital, foreign trade and foreign capital. Similarly, the local audit plans are the same. According to the 2024 audit project plan of Yichun Audit Bureau, the audit projects of each local area usually include a number of categories, such as audit of budget execution and draft final accounts, audit of economic responsibility of leading officials, audit of state-owned enterprises, and audit of government investment projects. To summarize, this further illustrates the diversity and complexity of government audit work.

The Current Status of Social and Internal Audit

According to the relevant news released by the Ministry of Finance and the Audit Office, as of December 31, 2023, the number of practicing members of the Social Audit CPA reached 102,017 members. There are nearly 300,000 internal auditors, and most enterprises have a three-five year rotation system for internal auditors, a system that may further affect the number of internal auditors, as the rotation may cause some internal auditors to leave the position, but new auditors will also be added. To summarize, social audit and internal audit, under the leadership of government audit, have made great development and progress over the years, and the number of practitioners has been increasing, which at the same time has resulted in the situation of varying performance levels.

Complementarity and Optimization of Audit Resources

Government audit is limited in the number of units that can be audited each year due to a lack of audit resources, accounting for about 10 per cent of the audit scope of the Audit Office. In contrast, there are a large number of social audit organizations, for example, the official website of the China Institute of Certified Public Accountants shows that there are more than 8,000 accounting firms, which is much higher than the number of listed companies that need to be audited on an annual basis (about 3,000). Therefore, it is entirely possible to achieve complementary audit resources. By purchasing social audit services through government audit, it is possible to optimize the allocation of audit resources, reduce audit costs, and improve audit efficiency on the basis of the principle of focusing on costs and benefits. The government audit itself is more focused on the supervision of public funds, state-owned assets, and state-owned resources, while social audit can focus on the audit of the financial status and economic efficiency of state-owned enterprises and institutions. By linking up, the complementary nature of the audit scope can be ensured and the audit coverage expanded.

The SOX Act, formally adopted on July 30, 2002, as a milestone event in the development of internal audit, requires listed companies to strengthen their internal control systems and improve the accuracy and reliability of financial reporting. The role of independent audit committees was emphasized, requiring them to conduct independent reviews of financial reports. This promotes the mutual collaboration and supplementation between

internal audit and social audit, and improves the efficiency and effectiveness of audit work. At the same time, all types of state-owned enterprises, institutions, and party and government organizations have gradually been equipped with internal auditors, who, under the leadership of government audit and with the help of social audit, can link up to carry out audit work.

Finally, government audit and its agencies, through the formulation of laws and regulations, regulatory policies, and guidelines, guide and supervise the operation of the social audit profession and the internal audit profession. At the same time, under the guidance of government audit, industry associations, such as the China Institute of Certified Public Accountants and the Institute of Internal Auditors, are established and led as self-regulatory organizations of the industry, which are responsible for formulating industry self-regulation norms, promoting technical progress in the industry and improving the quality of industry services. The responsibilities of the government in terms of audit guidance include:

(1) Formulating regulations, policies, and guidelines related to social audit and internal audit, clarifying the objectives, tasks, duties, and authorities of internal audit, and providing institutional safeguards for social audit and internal audit;

(2) Supervising and guiding the implementation of social audit and internal audit, assessing and supervising the quality of internal audit results, and ensuring the legality and effectiveness of social audit and internal audit;

(3) Strengthening the construction of social audit and internal audit teams, improving the operational quality and professional skills of social audit and internal audit personnel, and providing talent support for social audit and internal audit.

The Need and Possibility of Synergies between Governmental, Social, and Internal Audit

The Need for Synergy

Government audit, internal audit, and social audit play different roles in the audit supervision system, each with its own advantages and shortcomings. However, the synergistic linkage between the three can optimize the allocation of resources, form a synergy of supervision, and realize the value added of the audit system as a whole.

With the requirements of comprehensive coverage of audit supervision, the expansion and improvement of the scope of audit responsibilities, it is difficult to rely solely on an audit subject to fully realize the full coverage of audit supervision. The synergistic linkage of government audit, social audit, and internal audit can eliminate the blind spot of supervision and expand the breadth and depth of audit supervision.

These three synergistic linkage can play a complementary role of the advantages of different audit subjects, specifically: the government audit has mandatory, authoritative, and independent characteristics; internal audit in the enterprise status is gradually enhanced, becoming an important part of the corporate governance mechanism; social audit has the flexibility and professionalism and other advantages. The synergistic linkage among the three can give full effect to their respective advantages and realize complementary advantages.

The Possibility of Synergy

Unification of audit regulations. Government audit, social audit, and internal audit should all follow the relevant laws, regulations, and standards in the audit process to ensure the legality and standardization of the audit work.

Unification of audit standards. Through linkage, it is possible to promote the unification and coordination of government audit, social audit, and internal audit in terms of audit standards, audit procedures, and audit

methods, so as to improve the overall quality and efficiency of audit work.

Unification of audit objectives. Although the specific objectives of government audit, social audit, and internal audit are different, their common objectives are to improve the operational efficiency of organizations, ensure compliance, and reduce risks.

Therefore, in terms of underlying logic, jurisprudence, and regulations, as well as operations, government audit, social audit, and internal audit are complementary and synergistic in many ways, and have the potential to improve the overall effectiveness and quality of audit work by strengthening linkages and cooperation, and by taking advantage of their respective strengths.

A Triangular Linkage Model of Government Audit, Social Audit, and Internal Audit

There has been a lack of a clear framework for how government audit, social audit, and internal audit can be linked. We have researched a triangular graphical model to serve as a bridge and to provide a basis for in-depth research on the development of high quality among the three.

Overall, the triangular linkage model is a comprehensive framework aimed at improving audit efficiency, ensuring audit quality, and strengthening supervision. The following is the specific composition and operation of the model, which divides the areas in which the three can work together into six major areas “A”, “B”, “C”, “E”, “F”, and “G”, three cores, and nine linkage rules.

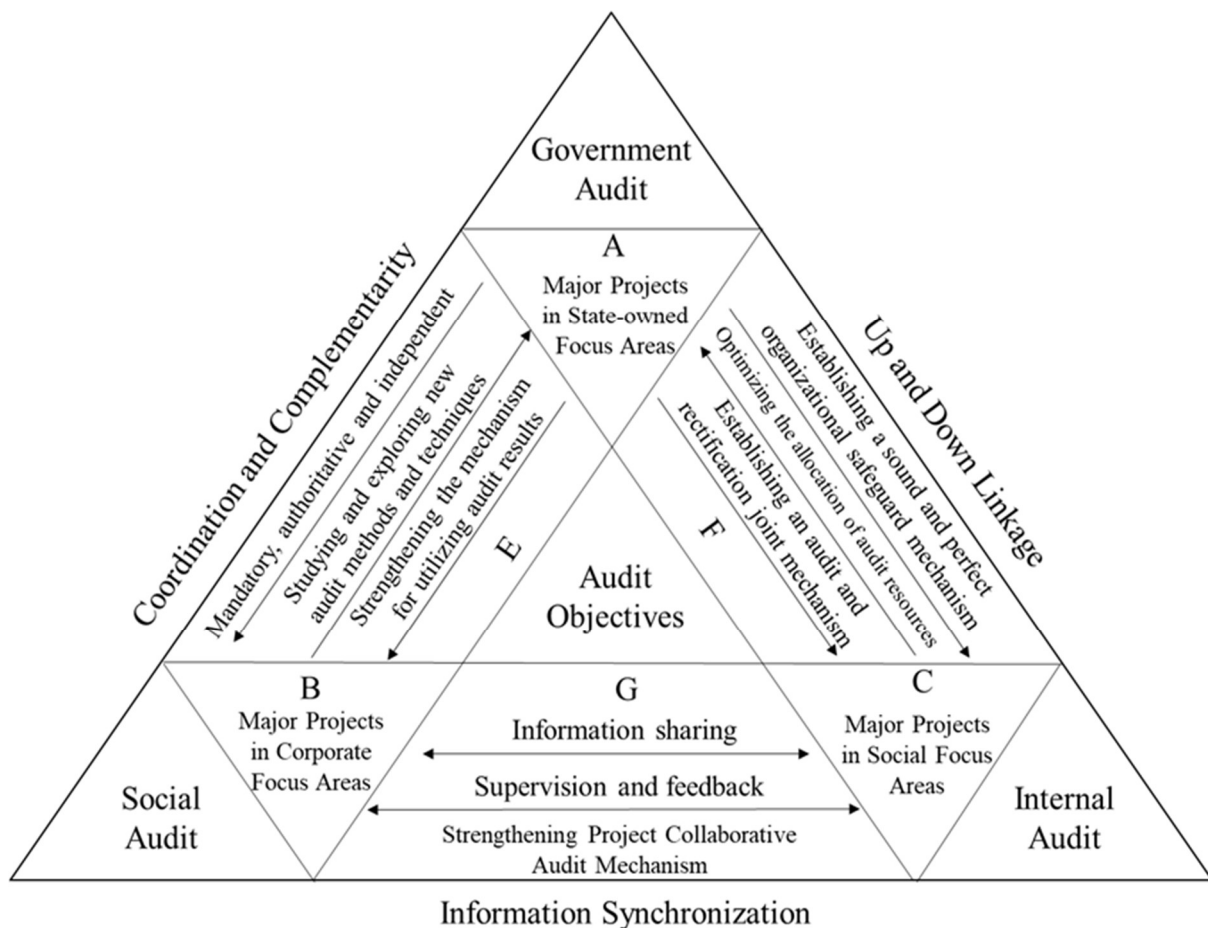


Figure 1. Triangle linkage diagram.

Area A

Under the model, government audit has become more focused on audit major investment projects that affect the country's economy and people's livelihoods, maximizing the use of national audit resources. For example, focusing resources on audit major regional planning, strategy implementation, and construction of major investment projects; focusing on audit the big data industry in view of the importance of the big data industry in the modern economy; auditing the reform tasks in key areas, paying close attention to the implementation and progress of the major reform tasks in key areas such as finance, state-owned enterprises, and state-owned capital, and foreign trade and foreign capital; auditing people's livelihoods, organizing the national audit authorities to carry out audits of pensions, medical care, compulsory education, and other livelihoods; and conducting economic responsibility audits of leaders of regions, departments, and units.

To summarize, the key areas of focus of government audits cover a wide range of economic, social, and environmental aspects, with the aim of ensuring the effective implementation of government funds and policies, and promoting high-quality economic development and sustainable social progress.

Area B

Under this model, social audit, also known as independent accountant audit, is a fiduciary audit for the purpose of providing labor services. It takes certified public accountants who have been audited and approved by the relevant government departments as the main body. The key work duty of social audit is to accept the commission, independently carry out the business in accordance with the law, and provide the professional activities of audit services to the society for a fee. The field needs to focus on how to ensure independence, objectivity, not only responsible for the entrusted enterprise, more for society. The area needs to focus on how to ensure independence, objectivity, and responsibility not only to the entrusted enterprise, but more so to society.

Area C

Under this model, internal audit is conducted by full-time auditors within departments and units, mainly auditing and supervising the internal operation of the enterprise in this unit, and paying more attention to compliance and internal self-discipline under the larger model. Specifically, the first priority of internal audit is how to ensure compliance from the enterprise's own needs in conjunction with the compliance red line requirements. On this basis, operational performance audit to help enterprises win the first opportunity for development is also a focus of internal audit.

Area E

Under this model, when government audit and social audit are linked, government audit can purchase social audit services, which can achieve the optimal allocation of audit resources, reduce audit costs, and improve audit efficiency on the basis of the principle of focusing on costs and benefits.

(1) Integration of audit power. Government audit power is relatively limited, while social audit institutions have a large number of professional auditors and technical resources. Through linkage, the professional strength of social audit can be fully utilized to expand audit coverage and improve audit efficiency.

(2) Audit cost-effectiveness. When government audit purchases social audit services, it can realize the optimal allocation of audit resources on the basis of the principle of focusing on cost and benefit. This not only reduces audit costs, but also improves audit quality.

Synergy of audit scope and objectives.

Complementary audit scope. Government audit is mainly concerned with the supervision of public funds,

state-owned assets, and state-owned resources, while social audit focuses on the financial situation and economic efficiency of enterprises and institutions. Through the linkage, it can ensure the complementarity of the audit scope and realize the comprehensive audit supervision in different fields and at different levels.

Unity of audit objectives. While pursuing their respective audit objectives, government audit and social audit should ensure the consistency of their objectives and work together to improve the audit quality, reduce the audit risks, and promote the healthy development of the economy.

Sharing of audit techniques and methods.

Sharing of technical resources. social audit organizations have diversity in audit techniques and methods, while government audit may be relatively limited in techniques and methods. Through linkage, government audit can draw on the advanced techniques and methods of social audit to improve audit efficiency and quality.

Exchange of audit methods. Strengthening the technical exchange and cooperation between government audit and social audit can jointly research and explore new audit methods and techniques, and promote the innovation and development of audit work.

Sharing of audit information. Establish an information sharing mechanism between government audit and social audit to realize timely sharing and interoperability of audit information. This helps to improve the transparency and efficiency of audit work and reduce duplication.

Synergy of audit rectification and supervision. For the problems and risk hazards found by the audit, government audit and social audit can work together to formulate rectification programs and measures to ensure the effective promotion of rectification work. Through the linkage, government audit can strengthen the supervision and guidance of social audit rectification work to ensure the effective implementation and continuous improvement of rectification measures.

Unity of audit regulations and standards. Government audit and social audit should follow the relevant laws, regulations, and standards in the audit process to ensure legality and standardization. Through linkage, it can promote the unification and coordination of government audit and social audit in terms of audit standards, audit procedures, audit methods, etc., so as to improve the overall quality and efficiency of audit work.

In summary, government audit and social audit need to strengthen linkage and cooperation in terms of audit scope and objectives, audit techniques and methods, audit information and resources, audit rectification and supervision, audit regulations and standards, as well as cost-benefit and risk assessment, in order to improve the overall quality and efficiency of audit work.

Area F

Under the model, when government audit and internal audit are linked, they can share audit resources. For example, in the audit of state-owned enterprises, the government audit can utilize the results of the enterprise's internal audit to avoid duplication and improve efficiency. At the same time, government audit is mandatory and independent, while internal audit is comprehensive and integrated. The two linkages can give full play to their respective advantages and form a complementary effect.

Sharing of information. Government audit agencies and internal audit departments can establish an information-sharing system, which can help timely exchange of audit information and jointly analyze audit issues.

Cooperation in audit. Government audit institutions in the audit process can be invited to participate in the internal audit department to jointly carry out the audit. The internal audit department can also provide the necessary audit support to the government audit institutions.

Mutual recognition of results. Government audit institutions and internal audit departments can realize mutual recognition of audit results to avoid duplication of audit and waste of resources.

Guidance of operation. Government audit institutions provide business guidance and training to internal audit departments in order to improve the business level and audit quality of internal auditors.

In conclusion, the linkage between government audit and internal audit is an important measure to ensure the effective use of public financial resources and improve the administrative efficiency of the government. The in-depth development of the linkage between government audit and internal audit can be further promoted through measures such as strengthening system construction, enhancing communication and coordination, and promoting advanced experience.

Area G

Under this model, when social and internal audits are linked, the independence and objectivity of social audits helps objectively assess the organization's financial situation, while the internal, timely, and targeted nature of internal audits contributes to an in-depth understanding of the organization's operational situation. The linkage of the two can fully utilize their respective strengths and improve audit quality, while at the same time lowering costs, reducing duplication of audits, and lowering audit costs. For example, the work results of internal audit can be used as a reference for social audit, reducing the workload of social audit.

Sharing and communication of information. The establishment of an information sharing mechanism between social audit and internal audit enables timely exchange of audit information, problem identification and solutions, which helps both parties to better understand the operational status of the organization and improves the relevance and effectiveness of the audit work.

Cooperation of audit. In a specific audit project, social audit and internal audit can jointly carry out audit work and share audit resources and technology. This not only improves audit efficiency, but also ensures the comprehensiveness and accuracy of the audit results.

Mutual recognition of results. Social audit and internal audit in the audit results to achieve mutual recognition, can avoid duplication and waste of resources. For example, the audit results of internal audit can be used as the reference basis for social audit, while the results of social audit can also be used as the improvement direction of internal audit.

In short, the linkage of social audit and internal audit is an important way to improve the efficiency and quality of audit work. By strengthening measures such as information sharing, audit collaboration, and results mutual recognition, the strengths of social audit and internal audit can be fully utilized to improve the comprehensiveness and accuracy of audit work.

Three Cores and Nine Linkage Rules of the Triangular Linkage Model

The triangular linkage model of government audit, social audit, and internal audit is an effective audit model that achieves optimal allocation of audit resources and improved audit efficiency through synergy, exchange of information, and mechanisms of supervision and feedback. This model helps to strengthen the financial and administrative management supervision of government audit, thus improving the service capacity and credibility of government audit. At the same time, government audit, by virtue of its credibility, can also guide and support the development of social audit and internal audit, thus enhancing the development and iteration of audit standards and techniques.

In order to realize the triangular linkage model, the key is three core and nine linkage rules. The three cores

are “up and down linkage”, “coordination and complementarity”, “information synchronization”, and the nine rules are specific methods to support the implementation of the three cores.

“Up and down linkage” requires the establishment of a sound and perfect organizational safeguard mechanism, which can optimize the allocation of audit resources, and the establishment of audit and rectification of the joint mechanism.

Establishment of sound organizational safeguard mechanism. It is necessary to set up a specialized coordinating organization or working group responsible for coordinating the synergistic linkage work among government audit, internal audit, and social audit. At the same time, an internal audit committee or internal audit leading group of each unit needs to be strengthened to ensure the smooth implementation of internal audit work.

Establishment of audit and rectification joint mechanism. For the problems and risk hazards found by audits, government audit, internal audit, and social audit should work together to formulate rectification programs and measures, and strengthen the supervision and assessment of the rectification process. At the same time, a feedback mechanism for the rectification of problems should be established to ensure the effective implementation and continuous improvement of the rectification measures.

“Coordination and complementary” need to realize the respective characteristics and advantages of social audit and internal audit, on the basis of the mandatory, authoritative and independent of government audit.

Exchange of audit methods and sharing of technical resources. Strengthening technical exchanges and cooperation among government audit, social audit, and internal audit can jointly study and explore new audit methods and techniques, and promote the innovation and development of audit work. Social audit institutions have diversity in audit techniques and methods, such as big data audit, digital audit, and other advanced technologies. Through the linkage, government audit and internal audit can learn from the advanced technology of social audit to improve the efficiency and quality of audit.

Strengthening of the mechanism of sharing audit results. The establishment of audit results sharing mechanism can realize the interoperability of audit results among government audit, social audit, and internal audit. At the same time, strengthening the transformation and application of audit results can promote the rectification and implementation of audit findings and risk prevention.

“Synchronization of information” requires the establishment of a mechanism for sharing audit results and information under the leadership of the government audit, so as to achieve timely sharing of audit information and improve the effectiveness of audit supervision.

Sharing of Information. The establishment of an information-sharing mechanism among government audit, social audit, and internal audit can realize timely sharing and interoperability of audit information. In addition, the establishment of audit results sharing mechanism can also ensure the interoperability of audit results among the three, and strengthen the transformation and application of audit results. This helps to improve the transparency and efficiency of audit work and reduce duplicate audit.

Strengthening of project collaborative audit mechanism. When developing the audit project plan, it is essential to give full consideration to rationally arranging the audit projects and audit resources, based on the respective characteristics and advantages of government audit, internal audit, and social audit. To be specific, when carrying out audit of major policies, key areas, and important industries, it is vital to enhance the efforts of coordination and integration with internal audit and social audit, so as to jointly implement the audit projects and improve the efficiency of audit. For problems and risks identified by audit, government audit, internal audit, and

social audit should work together to formulate rectification programs and measures, and strengthen the supervision and assessment of the rectification process, so as to ensure the effective implementation of rectification measures and continuous.

Conclusion

Under high-quality development, the triangular linkage model of government audit, social audit, and internal audit is an effective audit model, which is of great significance for the construction of synergistic linkage mechanism. It realizes the optimal allocation of audit resources and the enhancement of audit efficiency through synergy, information sharing and supervision, and feedback mechanisms. The implementation of measures such as improving the organizational safeguard mechanism, strengthening the project synergistic audit mechanism, strengthening the mechanism for applying audit results, and establishing the rectification linkage mechanism can promote the efficient operation of the audit supervision system and the high-quality development of audit services.

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