Research on Enterprise Internal Control Audit Based on Investor Information Demand

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Abstract: The development of internal control theory is closely related to the needs of internal control. At present, the research on internal control in foreign countries is often conducted from the perspective of the needs of managers and regulators, while the research on internal control in China is usually conducted from the perspective of supervisors. From the perspective of investor demand, this paper uses empirical analysis methods to explore the status and development of China's internal control theory and methods. Empirical research shows that investors have a strong demand for corporate internal control; investors have a hierarchical demand for internal management control and internal accounting control. Attaching importance to investors' needs for internal control, coordinating internal management control and internal accounting control, and establishing an internal control system dominated by management control are the development direction of China's internal control.

1. Introduction

The development of internal control theory is closely related to internal control needs. The demand for internal control can be divided into internal demand and external demand. Internal demand arises from the needs of the organization or the company's own operation and management; external demand arises from the government, the market's need for the organization or the enterprise's supervision and management. Internal control initially attracted people's attention, starting with compliance testing by independent audits, which originated from external requirements. With the development of relevant theories, internal control has gradually evolved from a component of independent auditing to a mechanism that plays an important role in the survival and development of enterprise organizations, that is, internal demand. At present, the research on internal control is mainly carried out from the perspectives of external supervision and internal management, and it is mainly based on normative research. It is important to study internal control needs from the perspective of external regulators and internal managers, but they must not deviate from the needs of investors or business owners for internal control. Investors, as a relevant stakeholder group, have a significant impact on internal control. The investor as the ultimate owner of the enterprise determines the development direction of the enterprise. The establishment of various internal corporate systems must meet the requirements of investors as a prerequisite, and internal control is no exception. Therefore, it is a useful attempt to conduct internal control research from the perspective of investors' needs for internal control, especially using empirical testing methods.

2. Internal Control

For the understanding of internal control, we can make an analysis from the basic activities of human society. The basic activities of human society are divided into two major areas: understanding the world and transforming the world. In these two activities, there are deviations, and the deviations include three major types: errors caused by lack of cognition, efficiency differences caused by insufficient effort, and fraud caused by poor motivation; internal control is precisely to control these three types of problems to be acceptable A range of institutions. The essential characteristics of internal control are different from those of external control or

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compulsory control. Initiative and internal demand are the most fundamental characteristics of internal control. Subjectivity and objectiveness are the basic prerequisites for discussing the nature of internal control.

Internal control is the use of the basic principles, concepts, and methods of cybernetics to analyze the control process of business management. It is more convenient to reveal and describe the internal operation process and results of the organization. Internal control belongs to one aspect of economic cybernetics. The method of economic cybernetics is used to analyze the operation and management processes within the organization, and to study how each unit exerts its management functions to effectively regulate and control the management process.

3. Definition and Scope of Internal Control Audit

According to China's “Guidelines for the Audit of Internal Control of Enterprises”, internal control audit refers to the accounting firm accepting the commission to audit the effectiveness of the internal control design and operation of the audited unit on a specific reference date.

The scope of internal control audits is mainly to clarify the scope of audit work of certified public accountants, that is, to audit the internal control of financial reporting of an enterprise, or to audit the overall internal control of an enterprise.

Internal control over financial reporting, that is, internal control related to the company's financial reporting, is an internal control designed and operated by the company's board of directors, board of supervisors, managers and all employees to reasonably guarantee the authenticity and completeness of financial reports and related information, and Controls related to financial reporting reliability objectives in internal controls used to protect asset security. It mainly includes the following policies and procedures: maintaining adequate and appropriate records to accurately and fairly reflect the transactions and events of the enterprise; reasonably ensuring that the company compiles financial reports in accordance with applicable accounting standards or regulations; and reasonably guaranteeing revenue, costs and expenses. Occurred, and the acquisition, use, or disposal of assets was properly authorized; reasonable assurance was provided to prevent, detect, and correct unauthorized transactions and events that have a significant impact on the financial statements in a timely manner. Controls other than the company's internal financial reporting control are non-financial reporting internal control. The comprehensive internal control referred to in this article includes internal control for financial reporting and internal control for non-financial reporting, which means that in order to reasonably guarantee the legal compliance of operations, asset safety, the authenticity and completeness of financial reports and related information, improve operating efficiency and effectiveness, and promote Comprehensive internal control designed and implemented by an enterprise to achieve business goals and development strategies. In fact, from the perspective of objectives, the objectives of internal control include reporting objectives, compliance objectives for business objectives, etc., and are not limited to providing reasonable assurance for the reliability of financial reporting. From the content point of view, internal control is not all related to financial reporting, such as production safety management, social responsibility fulfillment, environmental protection obligations, organizational structure, product quality control, human resource management, etc.

4. Classification of Internal Control Types and Comparison of Differences

According to different types of requirements, internal control can be divided into internal control that mainly meets external regulatory needs and internal control that meets internal management needs. If these two types of internal control are classified from internal control objectives, one can be called the control to ensure the reliability of financial reporting, that is, internal accounting control; the other can be called the control to ensure the effectiveness of operating activities, that is, internal management control. Internal accounting control arises from external regulatory requirements to provide true and reliable accounting information and ensure the safety and integrity of corporate assets. This type of internal control mainly focuses on accounting control, and accounting control focuses on the reliability of financial reports or the authenticity of information provided to the outside. Internal management control arises from internal requirements to ensure the realization of corporate strategy and improve operational efficiency. This type of internal control mainly focuses on the control of the business management process, and the focus of the control is to ensure the operational efficiency and effectiveness of achieving the strategic objectives. Internal management controls are mainly dedicated to meeting internal needs. The demand from enterprises is mainly to improve operating efficiency. In order to enable enterprises to survive and develop in the competition, internal demand entities must establish an internal mechanism within the enterprise that can ensure the efficient operation of the enterprise. In modern enterprises, the internal mechanism that drives enterprises to improve operating efficiency and achieve strategic goals is internal management control. The control objectives, control targets, and control methods of internal demand control are all focused on achieving strategy and improving efficiency, and strive to reduce the operating costs of the enterprise and improve the operating efficiency. According to the existing domestic and foreign literature on internal accounting control and internal management control, the differences between the two are mainly reflected in the control objectives, control status, control objects and control methods.

Although internal accounting control and internal management control are different in many aspects, they are also internally linked. The goal of internal management control is the effectiveness of business activities, and the goal of internal accounting control is the reliability of financial reporting. The efficiency and effectiveness goals of internal management control are consistent with corporate goals. The reliability of financial reporting for the purpose of accounting control is to ensure the effectiveness of business activities. Without the reliability of financial reporting, there will be no accuracy in decision-making and control, nor the effectiveness of business activities. The true and reliable accounting information provided by internal accounting control is an objective reflection of the implementation of internal management control. It is also difficult to achieve internal management control without real and reliable accounting information provided by internal accounting control.

5. Relationship between Investor Demand and Internal Control

An investor is an individual or institution that has the willingness to invest in a listed company and meets the access requirements of the current market regulations and has already invested or intends to invest. To become an investor, two conditions need to be met: first, there must be a subjective motivation to invest; second, there must be objective ability to implement the investment. Investors can be divided into equity investors and debt investors according to different investment methods. Investors referred to in this article are equity investors. Equity investors can be divided into short-term speculators and long-term investors according to their estimated holding time when investing. When investing, the short-term speculators are expected to invest less than one year, and the long-term investors are expected to invest more than one year.

The relationship between investors and types of internal control. From the perspective of investor needs, internal management controls can be adapted to investor needs. The purpose of investors' investment is to realize the preservation and appreciation of capital. The basis of capital preservation and appreciation is that the enterprise can effectively allocate resources and carry out business management efficiently. These are consistent with the goals and content of internal management control. Establishing internal management controls is a sufficient condition for realizing capital preservation and appreciation, which can meet the needs of investors. The main goal of internal accounting control is to provide true and reliable accounting information, which is a necessary condition rather than a sufficient condition to achieve capital preservation and appreciation. Establishing internal accounting controls for listed companies may not be able to ensure the preservation and appreciation of capital. Therefore, we believe that internal management controls can better meet the needs of investors.

The relationship between investor types and internal control types. Different types of investors obtain capital preservation and appreciation in different ways, and different types of internal control play different roles in different types of capital preservation and appreciation. Therefore, different types of investors have different needs for different types of internal control. The value of capital preservation and appreciation obtained by investors mainly comes from two methods. One method is capital gains from the price when the stock is sold on the capital market exceeds the initial price when the investment is made. Cash dividends paid by the company. Short-term investors usually use capital gains as their main investment objective, while long-term investors usually use dividends as their main investment purpose. If short-term investors want high capital gains, investors must be able to find undervalued stocks in the capital market and buy and hold them until their prices return to normal. This requires investors to be able to use the information disclosed by listed companies to analyze and determine whether the stock price is undervalued, and the premise of analysis and judgment is real and reliable accounting information. Internal accounting control is a powerful guarantee to provide true and reliable accounting information, so short-term investors' demand for internal accounting control will be stronger. Long-term investors need to meet two conditions to obtain a dividend return: the production and operation of the enterprise is efficient; the management of the enterprise can correctly formulate a dividend policy. The establishment of these two conditions is dependent on the internal control centered on the good internal management control of the enterprise, so the long-term investors' demand for internal management control is stronger.

6. The Internal Audit Points of Enterprises Based on the Perspective of Investor Information Needs

In order to ensure the smooth development of the comprehensive internal control audit business, the relevant government departments and judicial departments should pay attention to protecting the legitimate interests of certified public accountants, define the legal responsibilities that a certified public accountant may have when conducting a comprehensive internal control audit, and clearly distinguish management responsibilities and audit responsibilities. May reduce the responsibility of certified public accountants to conduct comprehensive internal control audits. Specifically, the following points need to be clarified:

It is the responsibility of the company's board of directors to establish, improve, and implement effective internal control. The internal control audit performed by a certified public accountant only issues an audit opinion on the effectiveness of the internal control of the audited unit from the perspective of an independent third party, but it cannot replace or relieve management's responsibility for internal control. This has been clearly reflected in the "Guidelines for Auditing Internal Controls of Enterprises" promulgated in China. Article 3 of the guidelines clearly states that it is the responsibility of the company's board of directors to establish, improve and implement effective internal control and evaluate the effectiveness of internal control. According to the requirements of this guideline, the responsibility of a certified public accountant is to issue an audit opinion on the effectiveness of internal control based on the implementation of the audit. This responsibility includes two aspects: one is to issue an audit opinion on the effectiveness of the internal control of financial reporting, which reflects the professional requirements of a certified public accountant; the other is the major deficiencies in internal control of non-financial reporting that are noted during the audit process. Disclosure is a requirement of caution.

Relevant standards and audit reports should emphasize reasonable assurance to avoid reporting users 'excessive trust in the internal control of the audited unit, and increase the accountants' responsibilities and excessive expectations. Because the internal control itself has limitations and cannot provide absolute guarantees, even a perfectly designed and effectively implemented internal control system will have control deviations due to various reasons such as changes in application conditions and the environment. In addition, effective execution does not represent 100% absolute execution. Relevant laws and regulations and standards should be clear. If a certified public accountant maintains due professional care and conducts audits strictly in accordance with the requirements of the internal control auditing guidelines, even if no deficiencies in the internal control of the audited entity are found, they can be exempted unless there is evidence that CPAs have not done their job diligently.

Relevant laws and regulations and standards should consider the distinction between statutory internal control auditing and voluntary internal control auditing responsibilities. Fundamentally speaking, as long as the certified public accountant commits fraud or gross negligence in the audit process, fails to perform his due diligence, misleads the report user, and causes the report user to incur investment losses, he should bear corresponding responsibilities. Although the false statements of voluntary internal control audits and information disclosure may also mislead the investment decisions of report users and result in investment losses, in order to encourage the company's voluntary audit and information disclosure, especially to encourage the company to conduct a comprehensive internal control audit Relevant laws and regulations may provide for reducing or reducing the audit responsibility for voluntary audits.

7. Conclusion

Research on internal control must consider the needs of investors. Regardless of external regulatory needs and internal management needs, investor needs must be given priority. Western investor demand directly affects managerial demand, so internal demand has a significant impact on the development of internal control theory; China's investor demand, due to factors such as the concentration and absence of state-owned equity, mainly affects the needs of external regulators, so External demand has an important impact on China's internal control theory. With the improvement of China's economic system, especially the governance structure and equity management system of listed companies, investor demand will directly affect internal demand. To do a good job of internal control, we must pay attention to and stimulate Internal demand.

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