

## **Studies on Relevant Issues of Modern Risk-oriented Auditing Theory and Practice**

**Yu'na Si**

Xijing University, Xi'an, Shaanxi, 710123, China

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**Abstract:** After CPA system was launched, separation of the ownership and the right of management was realized and economic responsibility became clearer. The current risk-oriented auditing as an auditing mode has played a certain role of supervision and management. With the constant change in economic environment, CPAs must have thorough understanding of audit work. Despite of the independent operation of auditing work, auditing unit exists as an integral part of society rather than an independent subject. Once separating the auditing unit from the social and economic network, CPAs cannot have an accurate positioning of the auditing unit, nor can they have an adequate understanding of the overall performance. For a comprehensive control of the financial operation, CPAs should consider enterprise operating risks, give full play to a risk-oriented role in auditing work and carry out detailed analysis of enterprise operating risks. This paper will carry out studies on issues related to modern risk-oriented auditing theory and practice.

### **1. Introduction**

After entering into the 20th Century, in early 1990s, social economy has developed into a fast-growing stage. Enterprises are faced with diversified economic conditions in the environment of market economy and their business activities are becoming more and more complicated. Defective management system in enterprise makes fraud unavoidable, which inevitably will result in public doubts about CPA's design, ability and their professional technical level. Without a trusting attitude towards auditing industry from the public, auditing firms will face tremendous risks. To regain public trust with full of confidence in audit industry, it is necessary to get public expectation deviation of auditing results. It requires the audit industry to adjust audit mode so that auditing can be carried out scientifically and reasonably. And auditing risks will be lowered accordingly.

### **2. Inherent connotation of risk-oriented auditing**

The so-called "risk - oriented audit" means that system theory gives full play to its guiding role in auditing management and implements the strategic management. It is necessary to connect the upper level and lower level in specific management work. The auditing unit should start from the basic level and make judgements on risks from the professional perspective. The risk control ability of the auditing unit should be evaluated. The audited unit should take effective measures to control audit risks, own the capability to identify risks, combine with additional procedures to lower the remaining risks so that auditing work can be accepted during specific implementation. Risk-oriented auditing as a new audit method, as well as a technology should play a fundamental role while carrying out auditing on enterprise strategy and operation status, realize procedural auditing and evaluate the auditing work.

### **3. Advantages of modern risk-based auditing**

#### **3.1 Modern risk-based auditing has strengthened auditing risk control and auditing efficiency**

Risk audit plays a role of improving the efficiency of auditing work and ensure auditing

effectiveness. Not limited to reducing auditing capital investment, auditing work aims at reducing risks. The most important point for auditing work is to discover valuable clues to carry out auditing work based on analysis with clear target. Application of modern risk audit mode can help to timely discover risks existing in enterprise operation so that enterprise can adopt customized audit mode to carry out auditing orderly and improve auditing efficiency.

### **3.2 Modern risk-based auditing can help to reasonably allocate auditing resources**

By applying modern risk-oriented auditing mode, the important elements of auditing can be reasonably determined. To give full play to the risk-oriented role in auditing work, it is necessary to analyze risks and conduct evaluation work well so as to realize reasonable allocation of audit resources.

### **3.3 Modern risk-based auditing has advantages in auditing procedures and auditing methods**

Auditing personnel should have a comprehensive understanding of units being audited, adopt appropriate auditing methods, and collect plenty of evidence while conducting auditing work. They should affirm from different perspectives when analyzing the data and making judgments so as to improve the quality of auditing work and make audit opinions more impartial and accurate. It is necessary to analyze numerous materials and work out the auditing procedures while carrying out auditing work so as to improve auditing quality and efficiency, reduce auditing risks accordingly. CPA's full play can help to maximize the value of auditing work, which is also the goal of auditing work. Exerting the function of modern risk-oriented auditing can optimize auditing work, which is also a good way for auditing personnel to carry out auditing work and improve auditing efficiency.

## **4. Problems existing in the application process of risk-oriented auditing**

### **4.1 The comprehensive quality of auditing personnel varies**

Auditing units that play a modern risk-oriented role in the process of conducting auditing work should analyze risks in the front, which can help to gain a comprehensive understanding of the internal accounting system of audit institutions, but also can expand the scope of auditing from the scope of auditing units to other industries. The legal environment and business environment should be expanded accordingly. It has set higher requirements for the professional level of auditing personnel who need to have extensive industry knowledge of the industry and master corresponding legal knowledge with rich experience. In view of the current work situation of auditing personnel, different levels of professional quality, different degrees of mastery and application of professional technology lead to different auditing effects. Auditing personnel lacking experience in auditing work will lack judgment when carrying out auditing work, which will inevitably influence auditing quality.

### **4.2 The capital investment into auditing work is high**

Conducting auditing work by modern risk-oriented approach requires CPA who undertakes the auditing work to receive professional ability training so as to gain certain professional theoretical knowledge and own strong knowledge application capability, realize auditing work innovation. To enhance CPA's professional competence, regular training work should be carried out and capital is indispensable. CPA training is necessary after auditing work enters the planning procedure and specific implementation procedure. The scope of work, responsibilities and the degree of auditing should be clarified in the training. As auditing work is gradually refined and carried out, it is necessary to increase the amount of capital investment in auditing work accordingly. In the environment of market economy, with the increasingly fierce competition in the accounting market, CPAs with high professional level are irreplaceable in the industry. However, CPAs usually cannot recover the invested costs when carrying out design work, which will restrain the modern risk-oriented auditing and inevitably influence auditing quality.

## **5. Effective strategies for risk-oriented auditing in the application process**

### **5.1 Application of risk-oriented auditing can improve CPA's occupational ability**

CPA's occupational ability plays a decisive role for the quality of auditing work. When carrying out auditing work by applying risk-oriented audit mode, CPAs should keep perfecting their knowledge structure. It has set higher requirements for their auditing work ability so as to ensure design quality and give full play to the internal control role of auditing work. China's internal audit work requires auditing personnel to have solid auditing theoretical knowledge and to apply knowledge to specific audit work. More importantly, auditing personnel should be capable of innovating auditing knowledge so as to improve the value of auditing work. Most auditing staff come from financial and accounting positions. CPAs play a management role in the position and undertake design responsibility. CPA's management ability not up to audit requirements means unreasonable knowledge structure and difficulty to effectively carry out auditing work. It is necessary to guarantee the professionalism of auditing while carrying out internal audit work, which is the basic condition to improve auditing efficiency. It is necessary to pay attention to the professional auditing personnel training as design staffs play the auditing role. Some auditing personnel transferred from other departments should also be provided with professional training before taking up their posts for a good mastery of professional theoretical knowledge and sufficient recognition of their audit responsibilities. CPAs play a certain role in auditing work. However, to cultivate more professional auditing talents in the new era, talent cooperation work is required. It is necessary to optimize resource allocation, select people with professional development prospects to join auditing team and improve the overall quality of auditing team. CPAs as the leading role in auditing team should also play a guiding role in auditing. Professional industry organizations should be set up when necessary to supervise auditing work.

### **5.2 Application of risk-oriented auditing can help to improve relevant audit laws and regulations**

The application of risk-oriented audit mode to audit work requires reasonable application of relevant laws and regulations. The audit department should strengthen basic level management, organize research and planning of the risk-oriented internal audit model of the central bank, and conduct deployment of audit work of the basic level central bank from the perspective of basic level management, pay attention to improving audit system, and propose corresponding operating requirements so that auditing work can play a better role in the application process. Auditing work always advances with the times rather than remaining unchanged, and plays a certain role in promoting basic level banks' auditing work. While carrying out internal auditing work, basic level banks should strengthen the internal control management, adopt effective risk control measures and improve the auditing management function, so that auditing theory can be used reasonably and function well in practical work.

### **5.3 Application of risk-oriented auditing can help to perfect internal control system**

Enterprise internal management by applying risk-oriented auditing is inevitably related with enterprise operating risks. The application of good management mode in the enterprise operation can guarantee enterprise operation in a safe environment and lower the probability of risks to a certain degree. To conduct auditing work well in enterprise management, it is necessary to actively cooperate with auditing personnel. Both should coordinate work of all aspects. This can not only improve auditing quality but can also enhance auditing efficiency accordingly, play a certain role in avoiding auditing risks. In enterprise internal audit management, it is necessary to bring audit content into the public, and carry out auditing work transparently so as to achieve fair and reasonable internal management. Enterprise financial reports, analysis and evaluation of financial data, and accurate judgment of risks have certain relations with the quality and efficiency of auditing work. Enterprise

management personnel should keep improving internal control design, adopt scientific and effective operation mode, conduct assessment work well, and improve auditing work. To fully implement enterprise content control work, enterprise should clarify corporate governance responsibility and establish various management and operation mechanisms, including check-and-balance system and supervisory managerial mechanism, so that the internal control work can be carried out in accordance with relevant regulations. It is also necessary to operate evaluation mechanisms to fully implement enterprise internal control work.

#### **5.4 Application of risk-oriented auditing can help to continuously perfect corporate governance structure**

As China takes the legalization development road, auditing work should also be carried out in accordance with relevant laws and regulations. Law-based state governance and implementation to specific auditing work means to carry out auditing work in accordance with relevant laws so as to meet the requirements of state-owned enterprise governance system and modern governance capability in the audit environment. Carrying out auditing work concerns the development of audit target and relates too to social development and even the development of the country. Effective implementation of auditing work will be conducive to standardizing the management of state-owned assets. To enhance enterprise economic operating ability, enterprise should improve the audit level to avoid risks when making great decisions on its future development. Therefore, the ultimate goal of state-owned enterprise auditing is to guarantee no loss of state-owned resources. It is necessary to reasonably adjust corporate governance structure according to the market environment and enterprise actual development, give play to the role of risk-oriented auditing mode in auditing work, and conduct supervision and control over the enterprise. It requires to continuously optimize the internal audit organization mode of the current corporate governance structure, and adopt advanced audit technology to guarantee that auditing work can play a certain role in supervision and management. Therefore, the adjustment of corporate governance structure is crucial for both internal audit and external audit. Operation under supervision can make sure that auditing work can be carried out smoothly with audit quality guaranteed.

### **6. Summary**

To sum up, despite of supervision and management measures taken by enterprise to control the adverse phenomenon, it occurred repeatedly. It is difficult to effectively carry out auditing work in enterprise operating environment. It is necessary to give full play to risk-oriented role in auditing work according to traditional auditing mode. It has controlled the bad phenomena in the enterprise to some degree but fraud conducts in economic management cannot be found in time, which requires to innovate auditing work. The risk-oriented auditing mode can meet the audit requirements of modern enterprises.

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