

# Research on Financial Internal Control System based on Integrated Audit

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**Abstract:** In 2010, China began to force listed companies to implement internal control audits. At present, the implementation of internal control audits is of concern but lacks in-depth research. By analyzing the relationship between the internal control audit level and the audit quality of financial statements under integrated audit, it is concluded that integrated audit can improve audit quality and reduce financial restatement under the existing environment in China, and the higher the level of internal control services, the financial statements The better the audit quality, the less likely it is that financial restatements will occur.

## 1. Introduction

From the perspective of internal control auditing, the audit quality of financial statements is a basic dependent variable, and it can also reflect the efficiency and effectiveness of the former from one aspect. Intuitively, the implementation of internal control audits should help improve the quality of financial statement audits, but under the conditions of integrated auditing, the problems will become more complicated, and the relevant understanding may also be divided. The Guidelines do not impose mandatory requirements for integrated auditing. However, from the current auditing practice, most listed companies employ the same accounting firm for integrated auditing. This aspect is beneficial for auditors to effectively integrate resources and improve audit efficiency and effectiveness; on the other hand, it may also pose greater challenges to auditor independence and professional competence. In this case, the impact of the internal control audit level on the audit quality of financial statements becomes an interesting and complicated reality. Audit service levels can be more intuitively reflected through audit fees, which can be supported by theoretical analysis and empirical testing of the relationship between audit fees and audit quality by many scholars. For the measurement of the audit quality of financial statements, this paper believes that financial restatement can be used as an effective substitute for the audit quality of financial statements, which is also supported by some scholars. Therefore, the impact of the internal control audit service level on the audit quality of financial statements can be reflected by the relationship between internal control audit fees and financial restatements.

## 2. Relationship between internal control audit and financial statement audit

The financial statements are the language of communication between the company and the outside, and are the expressions of the accounting form of the company's financial status, operating results, and cash flow status. The financial statement audit is a business activity entrusted by the investor and used by the third party to evaluate the authenticity and reliability of the relevant statements in the financial statements. Financial reporting Internal control auditing is an external evaluation mechanism and procedure to ensure that the internal control system plays its due role. The relationship between internal control audit and financial statement audit is as follows: If the auditor's unqualified opinion on the internal control report of the enterprise indicates that the possibility of material misstatement in the financial statements of the enterprise will be reduced; if the auditor publishes the internal control report of the enterprise is not When retaining opinions, the possibility of misstatement of corporate financial statements increases. If the auditor issues an unqualified audit opinion on the financial statements of the enterprise, there are two possibilities for internal control of the financial report of the enterprise. First, the internal control design of the

enterprise is good and effective, and plays an active role in preventing and correcting the major misstatement of the financial statements. Second, there are loopholes in internal control, but auditors find problems and correct them in the process of auditing financial statements. At this time, auditors will issue non-qualified opinions on internal control of enterprises. However, if the auditor issues non-qualified opinions on the financial statements of the enterprise, then the internal control report of the enterprise must have major defects, and the internal control audit report must be non-unqualified.

### **3. Internal control audit and financial statement audit integration strategy**

The internal control audit and the financial statement audit belong to the reasonable assurance assurance business based on the responsibility of the responsible party. The homogeneity of this kind of business makes the two have the basis of integration. Auditing of financial statements is to provide auditors with auditing opinions on the fairness and legality of information provided by the company's financial statements through specific audit procedures and methods in accordance with the provisions of the auditing standards, in order to improve the reliability of the company's financial statements. When auditing financial statements, the company's management needs to identify the transactions, accounting treatments, account balances and other matters reflected in the financial statements. The essence of the CPA audit is to audit the management's identification and statement, so it is based on the responsibility of the company's management. The party recognizes the business. The CPA completes the audit process. The unqualified opinion of the audit does not complete the possibility of excluding the company from material misstatement. Therefore, it is a reasonable assurance assurance business that is higher than the management's determination and cannot guarantee the reliability of the financial statement information. The internal control audit is a business activity in which the certified public accountant accepts the rationality of the internal control design of the enterprise and the effectiveness of the internal control operation and verifies the audit opinion. The management shall explain the integrity and reliability of the internal control system of the enterprise, and determine the effectiveness of the internal control. The certified public accountant shall audit the statement and determination of the internal control of the enterprise management and issue an audit opinion.

The close relationship between internal control audit and financial statement audit enables internal control audit and financial statement audit to support each other. The audit results of financial statements can help auditors to identify possible loopholes in internal control, and the results of internal control audit can help auditors. Optimize audit plans and audit procedures. Integrated auditing can effectively reduce the accounting firm's business volume, reduce operating costs, improve auditing efficiency and reduce audit risk. At the same time, the evidence collected during the audit process and the tests carried out are valid for both types of audit activities. Therefore, it is an economically feasible system that takes into account the common interests of the audit unit and the audited entity. It is used in the United States, Japan, etc. It also proves the rationality of this model.

The close relationship between internal control audit and financial statement audit makes there are many places where they can be used for each other. It has the feasibility of integration at some key business points, which are as follows: (1) Consistency of audit objectives. The goal of internal control auditing and financial statement auditing is to provide stakeholders with reasonable assurance about the reliability of corporate financial information. Combining the two audit objectives can only be achieved through a single coordination process, that is, the same accounting firm Based on the risk-oriented auditing ideas, the company conducts audits of financial statements and internal control audits to achieve two audit objectives, namely, obtaining sufficient and appropriate evidence to issue audit opinions on the effectiveness of internal control of the enterprise, and issuing audit opinions on the reliability of the financial statements of the enterprise. The three-party relationship between the internal control audit of the financial report and the audit of the financial statement is consistent. The responsible party is the management and user of the audited entity, and the audit process is completed by the certified public accountant. (2) Relevance of audit

business content. There is a coincidence between the internal control audit and the financial statement audit. The auditors need to test the effectiveness of the internal control system of the enterprise when auditing the audit procedures, and use this as a basis to determine the audit focus and develop an appropriate audit program. At the same time, if the auditor finds the key misstatement in the audit of the financial statements, it indicates that the internal control of the financial report must have major defects. If the unqualified opinion has been issued on the internal control of the financial report, it should be re-audited. (3) Consistency of the audit business entity. Both AS2 and AS5 require that the financial statement audit and financial report internal control audit be completed by the same accounting firm. This is because the audit report of the financial statement audit and financial report internal control audit needs to be issued at the same time. The completion of the firm is unreasonable in terms of audit time, audit costs, and audit coordination. Responsible for two audits by the same firm is conducive to saving audit costs and reducing audit risks. Moreover, auditing practice in countries around the world shows that it is not conducive to the audit objectives to be carried out by different firms to undertake two auditing operations, simultaneously by the same firm. Conducting internal control audits and auditing of financial statements provides the basis for integrated auditing.

Internal control audit requires risk control as the orientation to implement audit procedures and control tests. Risk assessment is the basis of internal control audit. Control test is the core of internal control audit, while financial statement audit includes risk assessment, internal control test and substantive test. In the three stages, and in the risk assessment stage, the CPA is required to fully understand the internal control of the enterprise, and internal control testing is required when the substantive procedures cannot provide sufficient and appropriate audit evidence. Therefore, the internal control test becomes the integrated audit in the implementation process. Key integration points in terms of aspects. It should be noted that the internal control evaluation in the internal control audit and the internal control evaluation in the financial statement audit can be carried out simultaneously, but the scope of the two is different. The internal control of the financial statement audit is limited to the “dependent” internal control. That is, when a project in the audit of a financial statement needs to test whether the internal control is effective, the auditor conducts a validity test on the internal control affecting the project to obtain sufficient audit evidence to support the audit opinion of the financial report. Therefore, the financial statement The scope of internal control testing in audits is small, and the results may not be sufficient to demonstrate the effectiveness of the entire internal control system. The scope of internal control audit for internal control testing is greater than the scope of internal control testing for financial statement auditing. Integrated auditing can complete the entire audit control test by adding control tests that need to be “supplemented” for internal control auditing.

The audit of financial statements uses risk-oriented auditing, and the internal control audit of financial reporting uses a top-down auditing approach. Financial statement risk-oriented auditing through the inquiry, inspection documents or records, observations and other procedures to understand the high-risk areas of the evaluation report layer and the identification layer, and then develop overall audit measures for the reporting layer risks and audit procedures for the identification layer risks, including Corresponding control tests and substantive tests. The top-down audit method used in the internal control audit of financial reporting begins with understanding and testing the internal control of the company layer, then testing the effectiveness of the important account control of the report, and then the effectiveness test of the business process and transaction control. Lead the auditors to identify accounts and transactions that may result in material misstatement of the financial statements and related presentations. Therefore, the internal control audit of financial reporting is also risk-oriented. Through risk assessment to understand the internal control of the enterprise, select the scope of internal control testing, and the related auditing activities of internal control in the internal control audit of financial reporting contribute to the risk of auditing financial statements. The assessment, while the financial statement audit for risk assessment in high-risk areas, helps the internal control audit of financial reporting to focus on the focus.

#### 4. Conclusion

The research in this paper has certain policy implications: First, it is necessary to strengthen the guidance and supervision of internal control audit. The research in this paper shows that the higher the quality of internal control audit service, the less financial restatement of listed companies. Therefore, relevant departments should strengthen the implementation of internal control audits, and constantly improve relevant policies and regulations, so as to give full play to the positive role of internal control audit. Second, the integration audit conducted by the same firm is a win-win choice for both parties. It can improve the efficiency and effectiveness of auditing and reduce the occurrence of financial restatements to a certain extent. Therefore, accounting firms develop integrated auditing services. It is worth promoting and encouraging. Third, although the number of companies that disclose internal control audit fees has increased year after year, there are still companies that have not separately disclosed the amount of internal control audit fees. The regulatory authorities should improve the relevant disclosure mechanism to make the accounting firm and the economics of the audited entity. The interest relationship is under effective supervision.

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