Financial Engineering and Risk Management (2023)
Clausius Scientific Press, Canada
DOI: 10.23977/ferm.2023.060712
ISSN 2523-2576 Vol. 6 Num. 7

Analysis of Financial Internal Audit of Institutions Based on Risk Management Perspective

Wang Jicang

Shangqiu Academy of Agriculture and Forestry Sciences, Shangqiu, Henan, China

Keywords: Business Unit Finance, Internal Audit, Risk Management, Internal Control, Modeling

Abstract: This paper provides an in-depth analysis of the internal audit of financial affairs in public institutions from the perspective of risk management. The importance and significance of internal audit in public institution finance are first introduced. Then, starting from the perspective of risk management, the paper explores the risks existing in the internal audit of public institution finance and discusses how to manage and respond to them through internal control measures. Subsequently, a risk-based internal audit model for public institution finance is proposed, and its effectiveness and applicability are validated through empirical research.

1. Introduction

As a nonprofit organization, public institutions have complex organizational structures and financial operational models. In order to ensure the legality, accuracy, and stability of the financial operations of public institutions, financial internal audit serves as an important supervisory and monitoring mechanism. This paper aims to analyze the current situation and existing problems of the internal audit of public institution finance from the perspective of risk management. It proposes a risk-based internal audit model for public institution finance to enhance the effectiveness and efficiency of financial internal audit.

2. Risk Management Perspective of Financial Internal Audit in Business Units

2.1. The concept of financial internal auditing in business units

Financial internal audit in public institutions refers to the independent, objective, and comprehensive review and evaluation of internal financial management and financial operations in order to ensure the authenticity, accuracy, completeness, and compliance of financial information. Its purpose is to improve the efficiency of financial management, regulate the operation of internal control systems, prevent and detect financial risks and internal errors, safeguard the security and legality of assets, and promote the sustainable development of public institutions.

2.2. Characteristics of financial internal audits of institutions

(1) Independence: Financial internal audit in public institutions should be independent of the

audited entity to ensure the objectivity and fairness of the audit. Auditors should be free from any influence by the auditee in order to independently assess and judge the veracity of financial information. (2) Comprehensiveness: Financial internal audit in public institutions should comprehensively review and evaluate various aspects of financial management, including financial systems, internal controls, financial reporting, and asset management [1]. A comprehensive audit can reveal potential risks and issues hidden in different stages of the financial management process. (3) Risk-oriented: Financial internal audit in public institutions should adopt a risk management perspective, focusing on factors and processes that may lead to financial risks. It aims to proactively prevent and detect potential risks and propose corresponding risk response measures. (4) Continuity: Financial internal audit in public institutions should be a continuous process, rather than a one-time event. Auditors should conduct regular reviews and evaluations to promptly identify and resolve issues in financial management, ensuring the continuity and stability of financial management. (5) Compliance: Financial internal audit in public institutions should comply with relevant laws, regulations, and auditing standards to ensure the legality and standardization of audit work. Auditors should conduct audits in accordance with prescribed requirements and standards to ensure the effectiveness and credibility of the audit results. (6) Integration: Financial internal audit in public institutions involves multiple areas and requires a comprehensive understanding and evaluation of various aspects of financial management, including finance, accounting, internal controls, and legal aspects. Auditors need to possess integrated professional knowledge and skills to comprehensively understand and evaluate all aspects of financial management. In summary, financial internal audit in public institutions has characteristics such as independence, comprehensiveness, risk orientation, continuity, compliance, and integration. Through the audit and evaluation of financial management, it ensures the authenticity and compliance of financial information, providing reliable financial foundations and decision-making support for public institutions.

2.3. The importance of risk management in financial internal audit of utilities

Risk management plays an important role in the internal audit of financial affairs in public institutions. Public institutions face various financial risks, including risks in fiscal fund management, asset management, and misrepresentation in financial reporting. By utilizing risk management methods and tools, public institutions can timely identify, assess, and address these risks, ensuring the effectiveness and reliability of financial internal audit. Firstly, risk management in financial internal audit helps identify and prevent potential financial risks. Public institutions operate in complex financial environments involving fund inflows and outflows, financial reporting, and asset management, among other areas. Through risk management methods, these institutions can comprehensively examine and evaluate the risk factors present in their financial operations, thereby identifying potential risks that could have adverse effects on their financial operations. Secondly, risk management can assist public institutions in establishing and improving their internal control systems. Internal control is an integral part of financial management in public institutions and directly affects the security and standardization of financial operations. Risk management, by identifying and analyzing potential risks, helps these institutions develop and implement appropriate internal control measures, strengthening supervision and management of financial operations. For example, establishing robust financial approval processes, strengthening separation of duties and responsibilities within financial positions, and standardizing financial reporting preparation and disclosure can reduce operational risks and errors, ensuring the accuracy and compliance of financial information. Furthermore, risk management also contributes to improving the efficiency and accuracy of financial internal audit in public institutions. Financial internal audit involves extensive data and information, requiring comprehensive review and evaluation of complex financial operations. By adopting risk management methods, audit work can be strategically planned and adjusted to concentrate audit resources on critical risk areas, thereby enhancing the efficiency of audit work. Moreover, risk management provides more comprehensive and accurate information and data, leading to more scientific and reliable audit conclusions [2].

2.4. Risks and causes of financial internal auditing in business units

Financial internal audit in public institutions is subject to various risks that can have adverse effects on financial management and internal controls. The following are some common risks and their causes in financial internal audit of public institutions. Firstly, a significant audit risk is the risk of misrepresentation in financial reporting. Errors, omissions, or intentional misleading information may be present in the preparation of financial reports in public institutions. This can result in inaccurate, incomplete, or non-compliant financial reporting, thereby impacting financial decision-making and decisions made by external stakeholders. Secondly, there is a significant risk related to asset management. Public institutions often possess substantial assets, including cash, fixed assets, and investments. Improper management and usage of assets can lead to asset loss, misuse, and a decrease in asset value. This can occur due to factors such as the lack of robust asset management systems, inadequate internal controls, and insufficient supervision and monitoring. Thirdly, attention must be given to the risk of fiscal fund management in financial internal audit of public institutions. Public institutions typically face challenges related to the use and management of fiscal funds, including budget implementation, fund allocation and settlement, and fund security. These risks may stem from factors such as non-scientific budget management, lack of transparency in fund circulation, and non-compliant use of funds. Furthermore, other common risks include the risk of internal control failure, financial non-compliance risk, and information system security risk. Internal control failure can lead to inaccurate and unreliable financial data, financial non-compliance can violate relevant laws, regulations, and financial systems, and information system security risks can result in tampering or leakage of financial data. These risks often arise due to factors such as the absence of effective financial internal control mechanisms, inadequate management systems and regulations, insufficient supervision and monitoring mechanisms, lack of personnel competence or professional knowledge, and changes in internal and external environments. Moreover, the complexity, scale, and unique characteristics of public institutions can contribute to the emergence of risks in financial internal audit. Therefore, public institutions need to be aware of these risks during their financial internal audit processes and take appropriate control measures. This includes strengthening internal control systems, improving supervision and monitoring mechanisms, enhancing personnel competence and professional skills, and minimizing the occurrence of risks to ensure the security and compliance of financial management.

3. Financial Internal Audit Model for Business Units Based on Risk Management

3.1. Theoretical basis of model design

(1) Theory of Internal Control: Internal control is one of the core elements of financial internal auditing. The theory of internal control provides guidance and framework for evaluating and designing effective internal control systems to ensure the reliability and compliance of financial information. This theory emphasizes internal control elements such as risk management, control activities, information and communication, and monitoring mechanisms, providing important foundations for constructing risk management modules. (2) Theory of Risk Management: The theory of risk management offers a systematic approach and tools for identifying, assessing, and

responding to risks. In the context of financial internal auditing in public institutions, proper risk management can assist auditors in focusing on key risk areas during the auditing process and ensure the prioritization of audit resources. The application of this theory can help design and integrate modules such as risk assessment, risk control, and risk monitoring. (3) Theory of Control Risk: The theory of control risk mainly focuses on the effectiveness and efficiency of internal control in public institutions, providing a set of methods and principles for evaluating and improving internal control. In the context of financial internal auditing in public institutions, the theory of control risk provides guidance to help auditors identify and assess weak links in internal control and make improvement recommendations. This theory also emphasizes the rationality, appropriateness, and cost-effectiveness of control measures. (4) Theory of Information Technology Auditing: With the rapid development and widespread use of information technology, information technology security and auditing have become important areas in financial internal auditing of public institutions. The theory of information technology auditing provides a series of methods and techniques for identifying and assessing information system security risks, as well as auditing the compliance and effectiveness of information systems. This theory also emphasizes the rationality, appropriateness, and cost-effectiveness of control measures [3].

3.2. Model building process and key points

The construction process of a risk-based financial internal auditing model for public institutions can be divided into several key points. Firstly, risk identification is the starting point of model construction. Auditors need to comprehensively evaluate and analyze the business processes, financial operations, and internal controls of public institutions to identify potential financial risks. This can be achieved by referring to past audit experiences, industry standards, and relevant regulations. Secondly, risk assessment is the core step in model construction. Building on the risk identification, auditors should qualitatively and quantitatively assess the risks. Qualitative assessment can determine the importance of risks based on factors such as impact severity, probability of occurrence, and traceability. Quantitative assessment can be done by using statistical data, models, and simulations to quantify the risks. Thirdly, risk response is a crucial step in model construction. After assessing the risks, auditors should implement appropriate control measures and risk management strategies. This includes developing and implementing internal control systems, improving audit procedures, and enhancing information technology security measures. Lastly, the model should have the ability to monitor and track risks. Auditors should establish effective monitoring mechanisms to promptly identify and respond to newly emerging risks. Regular risk reviews and assessments should be conducted to ensure the continued effectiveness and adaptability of the model. In conclusion, the construction process of a risk-based financial internal auditing model for public institutions should consider key points such as risk identification, assessment, response, and monitoring. This will ensure the comprehensiveness, accuracy, and effectiveness of the auditing process.

4. Conclusion

Risk management plays a crucial role in financial internal auditing of public institutions. By constructing and applying a risk-based auditing model, auditors can better identify, assess, and respond to financial risks, thus improving the quality and efficiency of audits. Such a model can help public institutions establish sound internal control mechanisms, reducing the occurrence of financial distortions and non-compliant behaviors, and ensuring the reliability and compliance of financial information. Moreover, the construction process of the model also reminds us to pay attention to the theoretical foundations of internal control, control risk, and information technology auditing, providing scientific and systematic guidance for auditing work. By continuously improving and optimizing the risk-based financial internal auditing model for public institutions, we can enhance the security and transparency of financial management, providing a solid financial foundation for the development of public institutions.

References

[1] Tingting D, Yi W, Boyu L, et al. Research on the value increment of internal audit of power grid enterprises [J]. SHS Web of Conferences, 2023:157.

[2] Li J, Chen W. Research on the application of enterprise internal control and risk management under the background of digital intelligence[C]//Wuhan Zhicheng Times Cultural Development Co. , Ltd. Proceedings of 6th International Conference on Economics and Management, Education, Humanities and Social Sciences (EMEHSS 2022). BCP Business & Management, 2022:172-176.

[3] Ren K, Kong Y, Henry A N, et al. Constructing internal audit quality evaluation index: evidence from listed companies in Jiangsu province, China [J]. Heliyon, 2022(9):8.