

# *Reflection on the optimization path of internal audit in mixed ownership reform enterprises from the perspective of value creation*

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**Abstract:** How to ensure effective audit rectification has become the focus of attention for audit professionals. This paper adheres to the principles of effectiveness in major economic decision-making systems, procedural compliance, content legality, and result profitability. Based on an analysis of the constraints hindering the advancement of full audit coverage, it explores new models and pathways for internal audit supervision suitable for the mixed-ownership reform of state-owned enterprises from the perspective of value creation, aiming to better serve enterprise value creation.

## 1. Introduction

As the mixed-ownership reform of state-owned enterprises in 2022 successfully concluded, audit practitioners have focused on how to effectively implement audit rectification, the next critical step in auditing (Chen, Huang et al., 2021) [1]. As a vital part of the national governance system in the new era, full audit coverage is not only a practical need to improve national governance but also a key measure to promote the transformation and upgrading of auditing, eliminate auditing blind spots, and strengthen anti-corruption efforts. In the context of deepening the effectiveness of the mixed-ownership reform in state-owned enterprises, profound changes have taken place in both audit methods and priorities, and internal audit work faces unprecedented challenges and opportunities. It is urgent to break the shackles of traditional models and innovate audit models and paths to adapt to the complex and ever-changing operating environment of mixed-ownership enterprises (Chen, 2019) [2].

## 2. Analysis of Constraints in Promoting Full Audit Coverage

### 2.1. Mismatch between Complexity of Mixed-Ownership Enterprises and Audit Resources

#### 2.1.1. Complex Audit Targets and Balancing Shareholder Interests

After the reform, enterprises' property rights structures became complex and diverse, involving state-owned, private, and foreign capital (Hao and Wang, 2015) [3]. The integration of different types of equity made audit targets extremely complex, requiring internal auditors to have high

professionalism and coordination skills. They must focus on the authenticity and compliance of financial data, as well as deeply analyze the balance of interests among different shareholders and the effectiveness of decision-making mechanisms. However, current audit resources often fail to match this highly complex audit demand in quantity, quality, and professional distribution, limiting the breadth and depth of audit work.

### **2.1.2. Cross-Industry Operations and Diversified Audit Needs**

Mixed-ownership enterprises often operate across multiple industries and involve different business models, requiring internal auditors to have cross-industry knowledge and skills. However, audit teams' professional capabilities are often limited to specific areas, failing to cover all business lines comprehensively, thus increasing audit risks.

## **2.2. Changes in Regulations and Lagging Audit Standards**

### **2.2.1. Frequent Regulatory Changes**

With the reform's progress, relevant laws and policies have been continuously introduced and improved. However, audit standards often lag behind regulatory changes, leaving auditors without clear bases and standards when performing audits, increasing uncertainty and risks.

### **2.2.2. Regulatory Differences Among Different Ownership Capitals**

Different ownership capitals have different regulatory compliance requirements. For example, state-owned assets have different regulatory requirements from private capital's market-oriented operation rules. This requires internal audits to maintain high sensitivity and flexibility when following different regulatory systems, increasing audit complexity and difficulty. Moreover, existing audit standards and processes have not fully considered these differences, potentially leading to audit results that fail to reflect the enterprise's true situation comprehensively.

## **2.3. Uneven Informatization Levels and Data Isolation**

### **2.3.1. Uneven Informatization Levels**

Within mixed-ownership enterprises, various departments and business lines have different informatization levels. The lack of unified planning and standards for information system construction affects data collection, processing, and analysis efficiency and accuracy, increasing the difficulty and cost of obtaining audit data.

### **2.3.2. Severe Data Isolation**

Due to independent information systems, data is difficult to share and integrate effectively, forming data islands. This not only limits the breadth and depth of audit analysis but may also lead to the omission or misjudgment of important information, affecting audit results' accuracy and reliability.

## **2.4. Rigid Internal Audit Models and Lack of Innovation**

### **2.4.1. Lagging Audit Models**

Mixed-ownership enterprises have new requirements for internal audits, but current audit models

often remain in the traditional post-event supervision stage. This lagging audit model is difficult to meet mixed-ownership enterprises' needs. The lack of pre-event and in-event control makes it impossible for enterprises to identify and respond to potential risks timely or provide valuable improvement suggestions.

#### **2.4.2. Lack of Innovation**

Facing new challenges and demands brought by the reform, internal audit teams lack innovation in audit concepts, methods, and technologies. They lack audit models and tools tailored to mixed-ownership enterprises' characteristics, making it difficult to effectively cope with complex and ever-changing audit environments. Meanwhile, their acceptance and application capabilities for new technologies and methods also need improvement.

### **2.5. Low Social Capital Participation and Audit Culture Conflicts**

#### **2.5.1. Low Social Capital Participation**

During the reform, although social capital participates in corporate governance, it often lacks a voice (Cai, Liu et al., 2018)[4], affecting its enthusiasm and effectiveness in participating in internal audits. This leads to potential biases in internal audits when reflecting the enterprise's overall interests, failing to fully reflect social capital's concerns and needs.

#### **2.5.2. Audit Culture Conflicts**

State-owned and social capital have differences in business philosophies and guiding ideologies, which may extend to the audit field, forming audit culture conflicts. These conflicts not only affect the smooth conduct of audit work but may also weaken audit results' objectivity and fairness.

### **3. Optimization Measures for Internal Audit from the Perspective of Value Creation**

In the context of mixed-ownership enterprises, internal audit, as a crucial part of corporate governance, requires optimization and enhancement not only for risk control but also to promote sustained growth in enterprise value.

#### **3.1. Strengthen Audit Strategic Planning and Focus on Value Creation Areas**

##### **3.1.1. Customized Audit Evaluation System**

Align internal audit objectives with the enterprise's long-term development strategy to ensure audit activities focus on enhancing enterprise value, optimizing resource allocation, and preventing major risks. Develop an audit evaluation index system that matches the value creation model of mixed-ownership enterprises, integrating economic, social, and environmental benefits along with unique elements of mixed-ownership reform (e.g., synergies, capital structure optimization) to ensure audits accurately address the core drivers of enterprise value growth.

##### **3.1.2. Strengthen Value-Sensitive Audit**

Deepen understanding of the unique business models, governance structures, and capital operation methods of mixed-ownership enterprises during audits. Formulate differentiated audit strategies, prioritizing areas with significant impacts on value creation, such as equity structure changes, M&A integration effects, and incentive mechanisms under mixed ownership.

### **3.2. Optimize Audit Resource Allocation and Enhance Audit Efficiency**

#### **3.2.1. Emphasis on Both Specialization and Diversification**

Address the complexity and diversity of mixed-ownership enterprises by building an audit team through internal training and external recruitment that not only deeply understands financial accounting but can also handle complex business scenarios across industries and fields, ensuring professionalism and flexibility.

#### **3.2.2. Intelligent Audit Platform Development**

Leverage modern information technologies like big data, cloud computing, and AI to build an intelligent audit platform for rapid data collection, intelligent analysis, and real-time alerts. Strengthen auditor training in emerging technologies (e.g., digital transformation, risk management) to enhance their data analysis and risk identification capabilities, better adapting to mixed-ownership enterprise audit needs.

### **3.3. Innovate Audit Models and Enhance Audit Value Creativity**

#### **3.3.1. Dynamic Adjustment of Audit Standards and Processes**

Keep abreast of changes in mixed-ownership reform policies and regulations, flexibly adjusting audit standards and processes to provide clear audit task guidelines, enhancing compliance and timeliness. Introduce industry best practices to continuously optimize audit methods and reduce audit risks.

#### **3.3.2. Integration of Full-Process and Risk-Oriented Audits**

Shift from post-event auditing to full-process auditing with pre-event prevention, in-event control, and post-event evaluation. Combine risk-oriented audit methods to continuously monitor and deeply analyze high-risk areas and key links, promptly revealing potential issues to support enterprise risk prevention and value enhancement.

#### **3.3.3. Equal Emphasis on Performance and Strategic Audits**

Focus on the economy, efficiency, and effectiveness of enterprise operations. Use performance audits to assess resource utilization efficiency and value creation capacity, identifying bottlenecks. Evaluate strategic goal achievement through strategic audits to provide decision support for strategic adjustments and optimizations.

### **3.4. Enhance Application of Audit Results to Boost Value Creation**

#### **3.4.1. Establish a Closed-Loop Rectification Mechanism**

Improve the ledger management system for issue rectification, clarify responsibilities, timelines, and tracking measures. Strengthen tracking and supervision of the rectification process, and incorporate internal audit results and rectification status into the performance evaluation system. Use these as key criteria for assessing, appointing or removing, rewarding or punishing officials, and making related decisions. Ensure timely and effective resolution of audit-identified issues.

### **3.4.2. Strengthen Audit Result Application and Feedback**

Thoroughly analyze the problems found in the audit and the reasons behind them, propose targeted improvement suggestions and management measures, and establish an audit results feedback mechanism to promptly provide feedback on the problems and suggestions found in the audit to the management and relevant departments of the enterprise, promote problem rectification and continuous improvement, and enhance the management level and value creation ability of the enterprise.

## **3.5. Enhance Audit Communication and Collaboration to Build a Harmonious Audit Ecosystem**

### **3.5.1. Enhance the Participation of Social Capital**

Establish and improve the mechanism for social capital to participate in internal audit, encourage social capital to actively participate in corporate governance and audit activities(Liu, Zheng et al.,2016), and comprehensively understand their concerns and needs through strengthening communication and collaboration with social capital, ensuring that internal audit work can fully reflect the overall interests of the enterprise.

### **3.5.2. Promote the Integration of Audit Culture**

Strengthen the cultural exchange and integration of state-owned capital and social capital in the field of audit, and eliminate audit culture conflicts. Through joint learning and communication, a unified audit philosophy and values are formed, enhancing the objectivity and fairness of audit work.

## **3.6. Strengthen Audit Supervision and Self-Discipline to Ensure Audit Quality**

### **3.6.1. Foster a Value-Added Audit Culture**

Audit institutions should strictly follow the principles of strict audit, seeking truth from facts, independence and fairness, and strict discipline, advocate a value-creation-oriented audit philosophy, encourage auditors to examine issues from a holistic perspective, and put forward forward-looking and constructive suggestions, so as to enhance the sense of value and mission of audit work.

### **3.6.2. Establish a Strict Quality Control System**

Establish and improve the audit quality control system, and clarify the quality standards and processes for audit work. Strengthen the supervision and inspection of the audit process, ensure the standardization and effectiveness of audit work, and provide a solid guarantee for the sustainable and healthy development of mixed ownership enterprises.

## **4. Conclusion**

In the context of deepening the reform of mixed ownership of state-owned enterprises in China, internal audit, as an important part of corporate governance, has undergone profound changes in its role and mission. Faced with the complex and ever-changing operating environment of mixed-reform enterprises and increasingly stringent regulatory requirements, internal audit work must break through the constraints of traditional models, constantly innovate audit concepts, models, and methods to adapt to the development needs of the new era. This article deeply analyzes the constraints of promoting full audit coverage in mixed ownership enterprises, including the complexity of audit

objects, changes in regulations and policies, different levels of informatization, rigid audit models, and low participation of social capital. Based on the perspective of value creation, and based on strengthening audit strategic planning, optimizing audit resource allocation, innovating audit models and methods, deepening the application of audit results, strengthening audit communication and collaboration, and strengthening audit supervision and self-discipline, a new internal audit supervision model and path that adapts to the characteristics of mixed ownership enterprises is constructed, in order to promote the continuous improvement of internal audit work and contribute more to the healthy development of mixed ownership enterprises and the improvement of national governance system.

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