

# Research on the Realization of Internal Audit Path for SMEs

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**Abstract:** Compared with large enterprises such as state-owned enterprises, small and medium-sized enterprises pay far less attention to internal audit. Some small and medium-sized enterprises have a weak sense of internal audit, and some internal audit systems even exist in name only. After realizing the seriousness of this problem, researches that analyze small and medium-sized enterprises have find the SMEs internal audit, implementation path existing problems: the lack of independence of internal audit, the low comprehensive quality of internal audit personnel, the ineffective implementation of internal audit system, the backward auditing technology and methods, and solutions to problems are put forward.

**Keywords:** SMEs Internal Audit; Implementation Path

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## 1. The theoretical basis of internal audit

### 1.1 The connotation of internal audit

Internal audit is an independent, objective validation and a consulting activity conducted to add and improve an organization's operations. It helps organizations achieve their goals through a systematic, normative approach to evaluate and improve the effectiveness of risk management, control, and governance<sup>[1]</sup>.

### 1.2 Fiduciary responsibility theory

With the further development of economy and the separation of ownership and management, the organizational structure of enterprises is becoming more and more complex. As an important part of internal control, internal audit plays an increasingly important role in enterprises. Internal audit produced precisely because of the separation of ownership and management.

### 1.3 Cost-benefit theory

The implementation of internal audit in small and medium-sized enterprises is to hope that enterprises can achieve maximum benefits with the minimum cost. An internal audit is valuable only if the target benefit exceeds the cost. The cost of internal audit includes implicit and explicit parts. The goals of enterprises should be to reduce the costs of these two parts and to increase the explicit and implicit benefits.

## 2. Problems existing in the internal audit of small and medium-sized enterprises

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## **2.1 Internal audit institutions lack independence**

At present, most of the decision makers and managers in China's small and medium-sized enterprises have insufficient understanding of the internal audit work, so that some enterprises' internal audit institutions are led by the board of supervisors, deputy general managers and chief accountants instead of the top management<sup>[2]</sup>. Although relevant laws and regulations in China provide a basis and legal guarantee for the independence of internal audit institutions and personnel, internal auditors in internal audit institutions are often unable to carry out their work objectively, impartially and comprehensively due to the intervention of unit leaders, restriction of interest relationships and influence of interpersonal relations. Therefore, internal audit institutions of enterprises directly serve for empirical decision-making, and it is difficult for them to independently supervise the financial and economic responsibility of experienced managers.

## **2.2 The comprehensive quality of internal auditors is low**

China started the internal audit work late. Most of the internal audit personnel are transferred from the original financial and accounting personnel. Some small and medium-sized enterprises even have accounting personnel to do internal audit work part-time. Most of the internal auditors in many small and medium-sized enterprises in China only have certain knowledge without a good understanding of the enterprise's experiential management activities. They have poor ability to identify and judge empirical risks, and their risk management concepts are weak<sup>[3]</sup>.

## **2.3 The internal audit system was poorly implemented**

There are serious problems in the implementation of internal systems in small and medium-sized enterprises. The enterprises rarely develop a set of internal audit system, and the system itself may not be feasible even if established. In addition, small and medium-sized enterprises do not pay enough attention to internal audit, and the implementation consciousness is not in place. Cadres take the lead in the implementation of the internal audit system of small and medium-sized enterprises, and it will be different from person to person, thus avoiding the important issues and real problems. Faced with the temptation of interests, internal auditors will implement the system that is beneficial to them. There are also internal auditors who execute the system according to their close relationship.

Secondly, in the process of implementing the system, even if the loopholes of the system are found, SMEs may not necessarily modify and improve the system. Instead, they let things slide.

## **2.4 The auditing technique and method are backward**

Nowadays, in the era of big data, the progress of information technology makes the information of internal audit an inevitable trend. However, most SMEs still adopt the past auditing methods and techniques and they have not caught up with the development trend of the times. Backward audit techniques and methods have brought huge audit costs to SMEs, including capital cost and time cost, which makes SMEs more reluctant to carry out internal audit. Such the small and medium-sized enterprises audit system or institutions no longer exist, and the development of internal audit of small and medium-sized enterprises is extremely unfavorable.

# **3. Solutions for SMEs to implement internal audit**

## **3.1 Enhance the independence of internal audit**

First of all, the relevant developments should make corresponding laws and regulations. The next step is to develop more specific business norms and operational guidelines for the independence of internal audit institutions' independence laws and regulations.

Secondly, SMEs themselves should realize the importance of the independence of internal audit. The internal audit activity can be directly subordinate to the board of directors or the general manager. The board of directors has the highest authority as the highest experienced decision-making body in the enterprises<sup>[4]</sup>. As the highest leader of the enterprise's highest executive system, the general manager also has very high authority. The establishment of an internal

audit institution under the leadership of the board of directors or the general manager is conducive to maintaining the independence and higher authority of the internal audit institution, which is conducive to the performance of internal audit functions.

### **3.2 Improve the comprehensive quality of auditors**

With the development of the market economy and the increasing competition among enterprises, the empirical risks faced by enterprises general increase. The role of internal audit in the management of experience, such as avoiding enterprises risks, improving operational efficiency and reducing consumption, is constantly strengthened, which requires the internal auditors of enterprises to understand all aspects of enterprises operation. In the new economy environment, internal auditors can only carry out internal audit work smoothly if they have multiple professional skills. Small and medium-sized enterprises can recruit comprehensive or multi-functional internal auditors. For example, they want to hire people who are good at a certain field, such as those who have computer and internal auditing skills, and those who specialized in real estate. In a team, different people focus on different aspects, so that the composition of internal auditors as diverse as possible. In addition, regular training should be carried out for employees who have already entered the enterprises to train their professional knowledge and other skills so that they can meet the needs of internal audit work. Of course, internal auditors should also be educated in ideology professional ethics. Enterprises shall regularly organize internal auditors to learn financial and economic laws and regulations, economic policies and internal audit system, and they should constantly strengthen the ideological and moral education of internal auditors to enhance their professionalism and sense of responsibility in internal audit work<sup>[5]</sup>.

### **3.3 Improve the internal audit system**

In order to carry out the internal audit system effectively in small and medium-sized enterprises, it is necessary to raise the attention of recipients and employees in internal audit. The execution of internal audit not only depends on internal auditors, but also needs the participation of leaders and all employees. Secondly, it is necessary to establish an internal audit supervision mechanism, which is especially responsible for the execution of internal audit.

### **3.4 Update the audit technique and optimize the audit method**

In order to actively follow the trend of the times, small and medium-sized enterprises can learn from the internal audit institutions or departments of large enterprises such as state-owned enterprises to establish a more standardized and systematic audit data center, and they introduce or develop a set of auditing computerization software suitable for the internal production status and business development mode of small and medium-sized enterprises.

## **4. Peroration**

Effective internal audit system can find problems in the business process of enterprises, and it even prevents risks in the business process of enterprises. So, small and medium-sized enterprises should pay more attention to internal audit. The independence of internal audit institutions should be strengthened with better overall quality of internal auditors. The execution of the internal audit system is strengthened, and updating and improving audit techniques and method give better play to the role of internal audit in small and medium-sized enterprises.

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