

Exploring the Internal Audit Practices of Electric Power Enterprises in the Context of the New Economic Normal

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Abstract: In the current economic landscape characterized by a decelerating domestic economy, rising investments, and an extended project construction timeline, power generation enterprises must enhance their internal audit efforts to sustain their competitive edge in business development. Addressing systemic shortcomings methodically and practically can enhance the internal audit effectiveness within electric power enterprises and contribute to the steady enhancement of their production and operation performance.

Keywords: Electricity; Economy; New economic normal; Internal audit

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1. Introduction

The rapid expansion of the national economy has heightened the demand for electrical energy, leading to increased expectations for the production management of electric power enterprises. However, in the current economic landscape marked by an evolving market economic system, the internal audit practices of thermal power enterprises are presented with unprecedented opportunities. To continually enhance the oversight and assessment of financial activities in power generation enterprises and foster their healthy and sustainable growth, enterprises must harness innovation as a driving force, proactively depart from conventional audit methods, and engage in systematic research to address prevailing issues in the internal audit processes of electric power enterprises. This approach ensures the consistent and stable enhancement of business efficiency.

Through ongoing research, it has been determined that the operational environment of electric power enterprises is notably intricate^[1]. Yet, certain business leaders have not fully grasped the significance of internal audit work, thereby allowing issues and vulnerabilities uncovered in internal audits to go unaddressed. Neglecting these issues could pose significant risks to the enterprise's compliance, asset management security, and the accuracy and integrity of financial reports. To effectively manage the risks mentioned above, electric power enterprises must first acknowledge the shortcomings in their internal audit processes and proactively implement measures to elevate their governance standards, thus facilitating the steady enhancement of their

internal audit efficiency. This study, which assesses the current state of the internal audit practices of a thermal power enterprise, suggests practical measures for improvements aimed at promoting more precise management in domestic electric power enterprises.

2. Basic situation of a thermal power enterprise

Located in the southern region, this is a large-scale coal-fired power generation enterprise boasting four coal-fired units with a combined installed capacity of 1320 MW. In line with the ongoing evolution and progress within China's electric power sector, this power enterprise steadfastly upholds the principle of prioritizing economic development. It actively drives internal reforms and innovations while diligently implementing market development criteria centered around the "four orientations" and an innovative social power supply service model based on the "five practices" ^[2]. Notably, the enterprise places a strong emphasis on enhancing its internal audit processes, resulting in the achievement of commendable social and economic outcomes during its continued growth.

3. Current situation of internal audit in the power enterprise

3.1. Internal audit management system

Regarding the development of its system, the enterprise successfully caught up comprehensively and revisited the audit components related to power engineering construction. This effort was undertaken in conjunction with national and group guidelines on audit practices and pertinent documents. Collaborating with the engineering department, marketing department, and financial department, the enterprise collectively designed an internal audit management system centered around risk prevention and control. This comprehensive system encompasses a performance appraisal framework, a human resource management system, and a financial management system, all of which contribute to fostering an equitable and vigorously monitored audit environment ^[2].

3.2. Contents of the internal audit business

The internal audit efforts within the enterprise primarily encompass financial management audits, material management audits, and marketing audits. In the practice of internal auditing, the audit department staff strictly adhere to a comprehensive audit approach, thoroughly reviewing pivotal projects throughout their lifecycle, and monitoring and addressing instances of regulatory violations and breaches to uphold the integrity of the electricity market and ensure electricity production safety.

- (1) Financial management audit: The audit department conducts a comprehensive evaluation of the enterprise's financial revenues and expenditures. This includes a comprehensive examination on project construction expenses, operational profits, financial records, bank account details, and other pertinent data. They delve deeply into any issues unearthed during the audit, issuing audit reports and remedial recommendations promptly. This approach minimizes the financial risks faced by the enterprise and maximizes its operational efficiency.
- (2) Material management audit: Material management audits primarily involve scrutinizing the enterprise's financial records and inventory to uncover any issues, such as imprudent material storage, incomplete material ledger, and suboptimal storage procedures. This ensures that the management aligns with the enterprise's development strategy.
- (3) Marketing audit: In the marketing audit, the audit department of the enterprise focuses on the audit of

customer relationship management by the marketing department checking whether there are problems such as untimely and incomplete customer psychological entry, lagging installation of electricity meters, missed payment of electricity bills, and taking timely and effective measures to deal with them, to guarantee the primary benefits of users and enterprises.

3.3. Common methods of enterprise internal audit

The enterprise frequently employs various audit methodologies, including interview audits, data analysis techniques, and audit sampling procedures during internal auditing.

- (1) Interview audit method: When conducting internal audits, auditors engage in in-depth discussions related to specific audit concerns. They gain a comprehensive understanding of the enterprise's internal operational processes from multiple perspectives, identify key areas of risk, and conduct thorough investigations into critical aspects of the enterprise's internal audit. This approach furnishes a more robust theoretical foundation for subsequent audit activities.
- (2) Data analysis method: This auditing technique mainly pertains to the economic evaluation of corporate financial revenues and expenditures, economic contracts, and the departure of executives. By meticulously scrutinizing the enterprise's financial statements, auditors can obtain insights into the overall profitability and competitive landscape of the enterprise. They can promptly identify potential business risks and implement relevant measures for prevention and control. Simultaneously, they analyze financial data with significant fluctuations and investigate the causes of anomalous data. Utilizing appropriate algorithms, they deduce project profitability and losses and employ relevant technical methods to enhance the accuracy of financial data ^[3].
- (3) Audit sampling method: This method finds more extensive application in auditing projects involving executive departures or financial data design. Auditors carry out audits by selecting samples from extensive databases to gain a foundational understanding of the enterprise's accounts receivable and cash flow. In the context of executive departure audits, the primary focus is on the performance of departing executives over the past two years, with an emphasis on identifying any behaviors that contravene laws and regulations.

4. Challenges in the internal audit of electric power enterprises

Even though the enterprise's management department has acknowledged the importance of internal audit work and has implemented innovative models and methods to execute audits in practical work, the actual outcomes have fallen short of the anticipated standards. Several issues persist, including a lack of clear positioning for the audit work, outdated audit techniques, and insufficient quality control.

4.1. Unclear positioning of internal audit work

The primary responsibilities of the internal audit department within an electric power enterprise involve overseeing the implementation of various departments' business activities to ensure their legality and compliance. Additionally, they are tasked with providing recommendations for rectifying issues identified in the enterprise's business management activities. Auditors must accurately define their roles and align them with work conditions, as discrepancies between audit work and actual requirements have hindered the achievement of desired goals ^[4].

4.2. Incomplete internal audit system and lack of an effective incentive mechanism

While the electric power enterprise has established management systems to both regulate and motivate employees, the practical implementation of supervisory and evaluation functions needs improvement. The internal audit's supervision and inspection system, as well as its incentive mechanisms, could be enhanced. This deficiency has resulted in a lack of enthusiasm among the internal audit staff.

4.3. Outdated audit methods and a lag in internal audit

Enterprises focus predominantly on operational and project management, emphasizing cost control, quality management, and the enhancement of core competitiveness. Conversely, internal audit work relies heavily on conventional interview and sampling methods, such as the walk-through test method, while failing to integrate advanced software or methods utilized by subsidiary institutions. These discrepancies distort audited data and information, rendering it incapable of providing theoretical support for internal audit work within the enterprise.

4.4. Insufficient quality control in audit

The electric power enterprise has not prioritized quality control during internal audits. This has led to inadequate data collection, and insufficient evaluation and response capabilities, preventing the systematic handling of various risks inherent in internal audits. Consequently, the quality of internal audits falls short of industry standards. The enterprise's internal audit management lacks proper organization, resulting in redundant audits and blind spots. Furthermore, some auditors overlook thorough pre-audit investigations, failing to define the scope and depth of audits comprehensively. These issues collectively hamper the overall effectiveness of the enterprise's internal audit work, preventing it from realizing its full potential.

5. Effective strategies to enhance internal auditing in electric power enterprises amid the new economic landscape

In alignment with their strategic development objectives and the current internal framework within the new economic context, electric power enterprises are taking measures to strengthen their internal audit work, aiming to mitigate financial risks and improve economic benefits through the judicious implementation of optimization measures.

5.1. Clarity in positioning and paradigm shift

In light of the evolving landscape, the development of internal audit practices within electric power enterprises necessitates a shift from conventional audit methods and concepts. Whilst conventional audit practices mainly focused on monitoring and evaluating financial accounting data and the financial activities of the enterprise, the new normal requires internal audit to reassess its role. Firstly, enterprises must adopt a "people-oriented" internal audit philosophy, consistently improve and optimize the internal control system, and fortify the internal auditors' grasp of the enterprise's internal control mechanisms, thereby laying the groundwork for elevating financial management standards and bolstering the healthy growth of electric power enterprises. Secondly, under the new paradigm, electric power enterprises should maximize their supervisory roles, establish clear positioning, and actualize the functional objectives of internal auditing.

5.2. Augmenting the independence of internal auditing

Internal audits in electric power enterprises serve as a vital instrument for overseeing and assessing financial activities, and independence is fundamental to preserving its objectivity. Electric power enterprises should

continue to reinforce the independence of their internal audit function. Enhancements should be made to the internal audit organization, bolstering communication and collaboration with other enterprise departments. Independence is crucial to ensuring objectivity and fairness in supervising and evaluating the financial activities of the enterprise, thus advancing the development of the internal audit work.

It is imperative to ensure that internal auditors possess high professional competence. To enhance the efficiency and quality of internal auditing in electric power enterprises, investing in the training of internal auditors is essential. Under the new economic normal, electric power enterprises should prioritize the training of internal auditors, establish rational training plans, and elevate the professional competence and skills of auditors. Initial training must be an integral part of daily work, progressively advancing professional expertise and knowledge through ongoing training ^[5]. Electric power enterprises should design rational training plans and relevant incentive policies to actively engage internal auditors in various learning initiatives. Additionally, continuous post-training and re-education of internal auditors are vital in the new economic normal, with a focus on routine professional knowledge acquisition and the exploration of new theories and knowledge to ensure alignment with the evolving pace of internal audit work in electric power enterprises. Last but not least, the enterprise should regularly convene internal auditors for communication and discussion to promptly identify any prevailing issues and propose practical recommendations, ensuring comprehensive and in-depth audit work.

5.3. Enhancing the internal audit organizational structure

Primarily, the internal audit department of the electric power enterprise should establish an audit organizational structure that aligns with state requirements for internal audit and the enterprise's specific circumstances. This step will further enhance the operational efficiency and quality of the internal audit department. In practical work, the enterprise should synergize the internal audit department with other enterprise divisions, fostering coordination and management, and unleashing the full potential of the internal audit department to promote the development of electric power enterprises. Additionally, enterprises should tailor internal audit work to their development and operational characteristics and fully comprehend the pivotal role of internal audit in financial management. Finally, while conducting internal auditing, enterprises should devise rational audit models and methods commensurate with their operational traits, making the most of their strengths and attributes. Actively aligning with international standards and innovating internal auditing models and methodologies is essential to ensure consistent development.

5.4. Pioneering innovative internal audit methods and enhancing audit quality

Amid the new economic paradigm, electric power enterprises must perpetually innovate their internal audit techniques and elevate the quality of their audit work to adapt to the evolving normal. Enterprises should formulate scientifically grounded internal audit strategies suited to their unique context. This includes methodically structuring audit plans, selecting pragmatic audit methods, and upholding audit quality. A robust risk management and control system should be established, allowing risk management to permeate every aspect of production and operation, ultimately advancing the realization of the enterprise's strategic objectives. Simultaneously, enterprises should fortify their internal control and supervision mechanisms to ensure business operations adhere to the law and regulations. During internal audit endeavors, it is paramount to focus on monitoring and inspecting the implementation of company policies, intensifying the oversight of corporate decision-making and business activities, and guaranteeing the effective execution of various rules and regulations. For any issues prevalent in the internal management of electric power enterprises, prompt supervision and implementation are imperative, with diligent post-inspection of the business activities. In

practical operations, it is crucial to actively contribute to the functional role of ensuring the enterprise's economic activities are lawful and compliant, fostering standardized and efficient business management.

6. Conclusion

With mounting competitive pressure in the Chinese market, the progress of electric power enterprises has encountered certain obstacles. To navigate these challenges successfully, it is imperative to continuously enhance the optimization of internal auditing within these enterprises. This entails fostering a deeper appreciation for the importance of internal audit work, restructuring the autonomous status and functions of internal audit, and tailoring audit methods and approaches to align with the specific circumstances of electric power enterprise development. Guided by the economic development goals of the new era and grounded in the practical context of electric power company growth, it is essential to refine the structure and functions of internal audit institutions and fortify the internal audit system. Furthermore, a concerted focus on personnel training is indispensable, with an emphasis on elevating the overall competence of internal auditors. To this end, a robust training regimen and incentive framework should be established to attract top-tier talents to the ranks of the electric power enterprise's internal audit team, capitalizing on the enterprise's human capital advantages. By nurturing a high-caliber internal audit team, electric power enterprises can mitigate business risks and ensure the robust and sustainable development of their operations.

Disclosure statement

The author declares no conflicts of interest.

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