

# Enhancement of Audit Closed-Loop Management for Optimal Audit Results Transformation

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**Abstract:** The process of converting audit findings into actionable improvement measures within an enterprise is pivotal for achieving the “value-added” objective of internal audits and fostering sustainable business development. By elucidating the definition and significance of transforming internal audit results, this study underscores the imperative of applying and effectively converting these findings. Additionally, it seeks to streamline the value assessment framework for internal audit result transformation and delineates key factors that impede this transformation. Furthermore, this study explores strategies to bolster the closed-loop audit management system and outlines specific methods for enhancing the transformation of internal audit results within the enterprise, thereby contributing to its overall progress.

**Keywords:** Internal audit; Achievement transformation; Enterprise management

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## 1. Defining the essence of enterprise internal audit result transformation

Enterprise internal audit result transformation involves the conversion of issues, risks, and loopholes identified during the audit process by the internal audit department. These are translated into concrete improvement measures and recommendations, which are then conveyed and executed within relevant departments and among personnel. The ultimate objective is to enhance overall enterprise management, elevate operational efficiency, and mitigate risks<sup>[1]</sup>. The scope of internal audit result transformation encompasses two fundamental aspects:

- (1) Conversion of issues and recommendations: During the audit process, internal auditors unearth a variety of problems, including discrepancies and omissions within financial reports, deficiencies in internal control, and operational risks. These issues necessitate translation into specific improvement measures and recommendations to rectify existing problems and forestall their recurrence. This entails actions such as adjusting financial statements, fortifying internal control systems, and strengthening risk management protocols.
- (2) Transformation of organizations and individuals: The transformation of internal audit results including the rectification and implementation of issues discovered during the audit process, along with their ripple effects and changes within the entire organization and among individual personnel. This

transformation enables enterprises to continuously enhance their management systems, governance structures, overall quality, and competitive edge. Concurrently, it fosters employees' awareness and comprehension of internal audit procedures, elevates their consciousness of risk and internal control, and augments their comprehensive capabilities and professional competence.

## **2. The imperative of applying and transforming enterprise internal audit results**

### **2.1. Safeguarding enterprise risk mitigation and operational oversight**

Integral to enterprise risk management, internal audits play a vital role in promptly rectifying errors and curtailing the expansion and dissemination of risks. By pinpointing issues and loopholes, audits aid in identifying and preventing potential pitfalls <sup>[2]</sup>. Simultaneously, the transformation of internal audit results converts these identified problems and loopholes into precise improvement measures and recommendations. This process elevates the enterprise's management framework and governance structure, enhancing overall quality and competitiveness. Therefore, the application and transformation of enterprise internal audit results are essential for risk prevention, control, and operational oversight.

### **2.2. Enhancing the value-added dimension of enterprise internal auditing**

The value-added aspect of internal audit mainly manifests in providing valuable improvement recommendations that empower enterprises to reduce costs, enhance efficiency, and augment value. The transformation of internal audit results reshapes issues, risks, and loopholes unearthed during audits into tangible improvement measures and recommendations. These measures and recommendations, in turn, assist enterprises in cost reduction, efficiency improvement, value augmentation, and realization of the value-added role of internal audit. Consequently, the application and transformation of enterprise internal audit results also reflect the added value of internal auditing within enterprises.

### **2.3. Elevating internal control system and standardizing management**

Internal audit is an integral part of an enterprise's internal control mechanism. The issues and loopholes identified through audits reflect the flaws and inadequacies in the internal control system. Meanwhile, the transformation of internal audit results reshapes the issues and loopholes discovered during the audit process into precise improvement measures and recommendations. This not only enhances the company's internal control system but also fortifies standardized management practices. Thus, the application and transformation of enterprise internal audit results are equally imperative for improving internal control systems and promoting standardized management.

## **3. Value assessment framework for the transformation of enterprise internal audit results**

### **3.1. Evaluation focus**

The value assessment framework for transforming enterprise internal audit results is meticulously tailored to gauge the efficiency and impact of internal audit endeavors. Consequently, the primary entities under evaluation are the enterprise's internal audit department and the audit committee. The internal audit department bears the responsibility of executing audit procedures and identifying/reporting potential risks and issues. In parallel, the audit committee oversees internal audit operations and assesses their efficacy and efficiency <sup>[3]</sup>. Internal audit results, including audit reports, audit recommendations, and enhancement measures, constitute the subject

of value assessment. These outcomes serve as a testament to the internal audit department's dedication to inspection, supervision, and consultation roles, as well as their proficiency in issue identification and resolution.

### **3.2. Methodology for internal audit evaluation**

The assessment of internal audit result transformation occurs through diverse modalities. Firstly, it adopts a synergistic approach by combining self-assessment with external evaluation. The internal audit department engages in self-appraisal of its activities while concurrently enlisting external audit institutions or experts for impartial external evaluations. This approach enhances comprehension of the value derived from internal audit result transformation. Secondly, the framework merges routine appraisals with ad-hoc assessments. Routine appraisals incorporate comprehensive value appraisals conducted annually or biennially, while ad-hoc assessments are triggered by exceptional circumstances, such as substantial policy or procedural modifications within the internal audit department. Thirdly, it integrates qualitative assessment with quantitative evaluation. As previously noted, quantitative evaluation indicators (e.g., audit project coverage, count of audit findings, and satisfaction levels with audit reports) and qualitative assessment methods (e.g., case analysis and practical testing) collectively provide a more precise gauge of the worth derived from the transformation of internal audit results.

## **4. Key factors constraining the transformation of audit results**

The transformation of audit results constitutes the fundamental essence of audit operations, entailing the transformation of issues, risks, and loopholes unearthed during audits into specific improvement measures and action plans to achieve risk control and organizational compliance <sup>[4]</sup>. Nonetheless, practical execution often encounters a spectrum of factors that impede the transformation of audit results.

Firstly, there are factors linked to audit findings and issue analysis. Auditors may require assistance in accurately identifying and categorizing the issues detected during audits. Constrained by audit scope and resource limitations, auditors may not be capable of comprehensively detecting and categorizing issues, potentially leading to the neglect or misclassification of critical issues. This, in turn, affects the translation of audit results. Furthermore, in-depth analysis of identified problems, particularly those rooted in complex business processes and systems, may necessitate support. The auditor's skillset and experience can limit their ability to precisely analyze the root causes and the extent of issue impacts, consequently hampering their capacity to provide robust problem-solving support and, thereby, affecting the transformation of audit results.

Secondly, there are factors related to audit recommendations and action plans. The quality of audit recommendations can exhibit variability. There may be instances where recommendations require greater relevance and operational effectiveness to effectively address real-world issues. This, in turn, can impact management's acceptance of the recommendations, thereby influencing the translation of audit findings. Simultaneously, challenges may arise in the implementation of action plans <sup>[5]</sup>. Resource, time, and technological constraints may necessitate adherence to planned schedules and requirements, which can lead to delays or plan failures, further affecting the translation of audit results.

Thirdly, organizational and communication factors come into play. In certain scenarios, communication and collaboration hurdles between distinct departments can impede the efficiency of audit result transformation. The sharing of information and cooperation among various departments may falter in the absence of an effective coordination mechanism, thereby obstructing the transformation of audit results. There are also instances where swift communication of audit results and management feedback to relevant departments and personnel is imperative. Delays in conveying this information can hinder timely understanding and responses

to problems, subsequently impacting the transformation of audit results. In addition, the absence of an effective feedback mechanism can hinder the continuous enhancement and adjustment of audit result transformation, thereby influencing the effectiveness and quality of audit work <sup>[6]</sup>.

## **5. Specific strategies for enhancing the transformation of audit results through strengthened closed-loop audit management**

### **5.1. Augmenting transparency and accountability in auditing**

Enhancing audit transparency and accountability stands as a pivotal avenue for enhancing the transformation of audit results. As a vital element of supervision and management within enterprises and organizations, auditing mandates not only the comprehensive disclosure of audit findings but also the establishment of a robust accountability system, ensuring fairness and the authority of audit results.

Initially, enhancing audit transparency fosters heightened awareness and comprehension of audit activities among internal employees and the public, ultimately enhancing the credibility and authority of the audit process. During audits, enterprises and organizations should strive to disclose information such as audit plans, results, and reports, thereby enabling employees and the public to gain insight into the audit's specifics. This transparency, in turn, nurtures trust in the audit results.

Simultaneously, the implementation of a well-structured accountability system encourages all levels of management within the enterprise or organization to heed and execute audit results and recommendations <sup>[7]</sup>. For issues and loopholes identified during audits, prompt rectification is imperative, and those responsible must be held accountable, fostering an effective pressure and motivation mechanism. Furthermore, a corresponding reward system should be established to incentivize departments or individuals actively engaged in rectifying issues, implementing audit recommendations, and achieving positive results. These measures encourage active participation in and cooperation with the audit process, thereby elevating the efficiency and quality of the audit result transformation. Compliance with pertinent laws, regulations, and normative documents is equally essential to ensure information's authenticity and legality. The formulation of an accountability system and information disclosure policy tailored to the enterprise or organization's specific circumstances prevents unwarranted misunderstandings and conflicts.

### **5.2. Implementing continuous issue audits and process node monitoring**

Continuous problem audits are founded on a cyclical or random auditing approach that involves multiple audit cycles to persistently monitor and scrutinize an organization's operational status and promptly uncover and resolve potential issues. A fundamental aspect of implementing continuous issue audits is establishing a rational audit cycle, aligning with the organization's operational conditions, and employing systematic methodologies and procedures for the audits. In the course of ongoing issue audits, it is essential to develop a well-structured audit plan, pinpointing issues and risk areas that warrant attention <sup>[8]</sup>. Subsequently, appropriate audit methodologies and procedures should be chosen to undertake a thorough and impartial evaluation of the organization's operations. During this process, identified issues must be promptly discovered and documented, with a subsequent in-depth analysis to ascertain the root causes. Depending on the issue's nature and its potential impact, corresponding rectification measures should be proposed, detailing those responsible, timeframes, and expected outcomes. The implementation of these measures necessitates vigilant monitoring. For issues requiring further resolution, continued tracking and audits should be conducted to ensure complete resolution.

Process node follow-up revolves around monitoring and managing business processes to ensure their

smooth operation and achievement of intended objectives. This approach primarily supervises and controls key nodes within the business process, promptly identifying and addressing issues during process operation. In the pursuit of process node follow-up, the initial step involves clarifying key nodes and potential risk points within the business process <sup>[9]</sup>. Subsequently, it is essential to establish sensible monitoring indicators and early warning thresholds for each key node while formulating corresponding countermeasures. During process operation, the prompt collection and summary of key node operation data are necessary, with an analysis and assessment of this data. Any identified abnormalities or issues warrant swift early warnings and the implementation of corresponding countermeasures to prevent issues from escalating or causing unnecessary losses. Moreover, regular reviews and optimizations of business processes are crucial to improving efficiency continuously within the organization.

### **5.3. Enhancing auditor's professional competence and sense of responsibility**

Improving the professional competence and sense of responsibility among auditors is of paramount importance in guaranteeing audit quality and efficiency. The professional competence of auditors directly impacts the quality and transformative impact of audit results, while their sense of responsibility serves as an important motivator and assurance for the diligent performance of their duties.

To improve the professional competence of auditors, an initial prerequisite is the establishment of a comprehensive selection and employment mechanism to ensure the sourcing of auditors with impeccable professional competence and a holistic skill set. Subsequently, the reinforcement of auditor training and continuous education is imperative to keep their knowledge and skills current, ensuring they adapt to the evolving market and economic environment. In addition, incentive mechanisms, such as offering rewards and promotional opportunities to outstanding auditors, can be instituted to kindle enthusiasm and innovation <sup>[10]</sup>.

In terms of improving auditors' sense of responsibility, it is essential to establish a comprehensive responsibility system and accountability mechanism. First of all, it is crucial to delineate the responsibilities and rights of auditors, ensuring their ability to execute their work autonomously, objectively, and judiciously within their purview. The supervision and management of internal auditing should also be intensified, swiftly detecting and rectifying violations, and applying stringent measures against auditors who fail to fulfill their duties, thereby upholding the authority and credibility of the audit process.

## **6. Conclusion**

In summary, the application and transformation of internal audit results within enterprises hold substantial importance in the realms of risk mitigation and operational oversight, amplification of the value delivered by internal audits, refinement of internal control mechanisms, and the promotion of standardized management. Through the sustained reinforcement of the transformation and application of internal audit results, enterprises can swiftly pinpoint issues, rectify errors, enhance their management practices, boost efficiency, create added value, and drive sustainable and robust development within the enterprise.

### **Disclosure statement**

The author declares no conflict of interest.

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