Original Research Article

Thoughts on the independence of internal audit

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Abstract: This research closely focuses on the latest domestic and international audit requirements and deeply explores the core issue of the independence of internal audit. By systematically combing the connotations of the independence of internal audit in terms of organizational structure and personnel quality, it reveals its relative characteristics. From multiple dimensions such as improving the organizational structure, strengthening personnel selection and training, standardizing process systems, and enhancing authority, effective strategies to ensure the independence of internal audit are proposed. It emphasizes the importance of a positive interaction between internal audit and management, and maximizes the value of internal audit while following professional ethics, providing a solid theoretical and practical support for enterprise risk management and the improvement of governance effectiveness.

Keywords: Internal audit; Independence; Risk management; Synergistic

1. Introduction

In the context of the accelerating process of global economic integration and the increasingly complex business environment of enterprises, enterprises are facing unprecedented risks and challenges. As a key component of the enterprise's internal control system, the independence of internal audit is not only the cornerstone for ensuring the objectivity and fairness of audit results but also an important support for the enterprise to achieve stable development. In recent years, domestic and international audit standards and norms have been continuously updated, putting forward more stringent and detailed requirements for the independence of internal audit. How to optimize the mechanism of the independence of internal audit and improve the effectiveness of internal audit within the framework of following the latest audit requirements has become the focus of common concern in the theoretical and practical circles. This paper aims to systematically analyze the connotation, guarantee path, and synergistic relationship with management of the independence of internal audit, providing forward-looking and practical guidance for the practice of enterprise internal audit and helping enterprises improve their risk management level and governance capabilities.

2. The connotation of the independence of internal audit

2.1. The independence of organizational setup

The "International Professional Practices Framework for Internal Auditing" issued by the Institute of Internal Auditors (IIA) clearly points out that the positioning of the internal audit department in the enterprise's organizational structure has a decisive impact on its independence. According to the latest audit requirements, the ideal organizational structure should ensure that the internal audit department is directly responsible to and reports to the enterprise's highest governance body, such as the board of directors or its audit committee. This setup can effectively isolate the improper interference of management in internal audit work, enabling internal auditors to comprehensively and deeply review the enterprise's business activities and internal control system

with an objective and fair attitude[1].

The status and authority of the head of the internal audit department are of crucial importance. The head should possess solid professional knowledge, rich management experience, and excellent communication and coordination abilities, being able to establish extensive influence within the enterprise to ensure that internal audit work receives sufficient resource support and the active cooperation of all departments. The head needs to have a direct communication channel with the enterprise's senior management, be able to promptly feedback major problems discovered in the audit, and promote the resolution and improvement of problems.

2.2. The independence of auditors

As the direct executors of internal audit work, the independence of auditors is the key to ensuring the quality of internal audit. According to the latest domestic and international audit requirements, auditors not only need to possess solid professional knowledge and skills but also strictly abide by professional ethics norms and maintain a high degree of independence and objectivity.

In terms of professional capabilities, auditors should be proficient in various audit methods such as financial audit, compliance audit, and performance audit, and be familiar with the enterprise's business processes, internal control system, as well as relevant laws, regulations, and industry standards. With the wide application of information technology in enterprises, auditors also need to master emerging technologies such as data analysis and information system audit to meet the audit challenges brought about by the digital age. When auditing an enterprise's information system, auditors can use data mining tools to analyze massive business data, identify potential abnormal transactions and risk points; at the same time, they can evaluate the security, reliability, and data integrity of the information system to ensure the stable operation of the enterprise's information system.

In terms of professional ethics, auditors should always adhere to the principles of integrity, objectivity, and fairness, and firmly resist any form of interest temptation and external pressure. The "Code of Ethics" of the Institute of Internal Auditors clearly requires that auditors should not participate in activities that may affect their objectivity and should not accept gifts, hospitality, or other benefits from the audited units. In actual work, auditors may face various interferences from the audited departments, such as the audited departments trying to influence the audit results through bribery, threats, etc[2]. At this time, auditors need to rely on firm professional ethics beliefs, strictly carry out work in accordance with audit procedures, and ensure the sufficiency, relevance, and reliability of audit evidence, providing a solid basis for audit conclusions.

2.3. The relativity of independence

Although the independence of internal audit is of vital importance, it must be recognized that it has relativity. As a part of the enterprise's organizational structure, the internal audit department is inevitably affected by the overall operating environment, corporate culture atmosphere, and strategic goals of the enterprise. At the same time, internal audit work needs to closely cooperate with other functional departments to jointly achieve the enterprise's governance goals.

In terms of the enterprise's operating environment, different corporate strategic orientations and management styles will have different requirements for internal audit work. In an innovation-driven enterprise, internal audit needs to fully understand the enterprise's support policies for innovation activities while paying attention to risk control, and encourage business departments to carry out innovation attempts within the

scope of controllable risks. When auditing innovation projects, it cannot be judged merely based on traditional audit standards but should comprehensively consider factors such as the innovation, potential value, and risk tolerance of the project, providing reasonable suggestions and support for the enterprise's innovation and development.

In terms of cooperation with other functional departments, internal audit work cannot be separated from the cooperation and support of various departments. When carrying out comprehensive audit projects, such as the audit of the enterprise's supply chain, the internal audit department needs to communicate and cooperate with multiple departments such as procurement, logistics, production, and sales[3]. The business information and data provided by each department are important bases for internal audit work, and the internal audit department, through the integration and analysis of this information, provides valuable audit suggestions for each department, promoting the improvement of the overall operating efficiency of the enterprise. Therefore, the independence of internal audit does not exist in isolation but is realized in the process of interconnection and mutual influence with various elements within the enterprise.

3. How to ensure the independence of internal audit

3.1. Improve the organizational structure setup

Following the latest domestic and international audit requirements, enterprises should optimize the organizational structure setup of the internal audit department to ensure its independence and authority. The internal audit department should report directly to the enterprise's highest governance body, forming an independent audit supervision system. In listed companies, the internal audit department is directly responsible to the audit committee of the board of directors, and the audit committee is responsible for approving the internal audit plan, supervising the progress of audit work, and reviewing audit reports. This setup enables the internal audit department to get rid of the direct control of management when carrying out audit supervision of management, and truly reveal the problems existing in the enterprise's operation and management.

At the same time, enterprises should clarify the responsibilities and authorities of the internal audit department and endow it with sufficient audit resources and power. In terms of audit authority, the internal audit department should have the power to audit all departments, business processes, and economic activities of the enterprise, and the audited departments must actively cooperate and truthfully provide relevant materials and information. In terms of resource allocation, enterprises should ensure that the internal audit department is equipped with sufficient professional personnel, advanced audit technology tools, and sufficient financial support to ensure the efficient development of audit work. Equip the internal audit department with professional audit software, data analysis equipment, and an audit team with multi-field professional knowledge, enabling the internal audit department to accurately identify risks in a complex business environment and provide high-quality audit services.

3.2. Strengthen the selection and training of auditors

The quality of auditors directly determines the quality and independence of internal audit work. Enterprises should establish a scientific selection and training mechanism for auditors in accordance with the latest domestic and international audit requirements[4].

In the selection process, enterprises should focus on selecting talents with diversified knowledge backgrounds and rich practical experience. In addition to a financial and audit professional background,

compound talents with professional knowledge in information technology, risk management, law, etc. should also be selected to adapt to the increasingly complex audit environment. In the context of the accelerated digital transformation, auditors with data analysis capabilities can better cope with the audit challenges brought about by massive data and dig out potential risks and problems behind the data. Enterprises can attract excellent audit talents through various channels such as campus recruitment, social recruitment, and internal selection.

In terms of training, enterprises should formulate a systematic and comprehensive training plan to continuously improve the professional capabilities and professional ethics levels of auditors. The training content should cover the latest audit theories and methods, industry regulations and policies, information technology applications, and professional ethics norms. Regularly organize auditors to participate in international cutting-edge audit academic seminars, invite industry experts to conduct special training, and share the latest audit practice cases and technology applications; at the same time, carry out professional ethics education activities, and strengthen the professional ethics awareness of auditors through case analysis, simulation exercises, etc., to ensure that they always adhere to professional ethics in their work.

3.3. Standardize the audit work process and system

A standardized audit work process and system are important guarantees for ensuring the independence of internal audit. Enterprises should formulate a complete audit work process and quality control system in accordance with the latest domestic and international audit standards and norms.

In the audit planning stage, enterprises should formulate a scientific and reasonable audit plan in combination with their own strategic goals, risk status, and key areas of concern of management. The audit plan should clearly define the objectives, scope, methods, and time arrangements of audit projects and go through a strict approval process. When formulating the annual audit plan, first, the internal audit department collects risk information from various departments and the needs of management, uses a risk assessment model to quantitatively evaluate various risks faced by the enterprise, determines the priority of audit projects and the resource allocation plan on this basis, and finally submits it to the audit committee of the board of directors for approval.

In the audit implementation stage, auditors should strictly carry out work in accordance with audit procedures and collect sufficient, relevant, and reliable audit evidence. During the audit process, appropriate audit methods and techniques should be used, such as data analysis, on-site observation, interview surveys, etc., to ensure the comprehensiveness and in-depthness of audit work[5]. At the same time, establish an audit working paper system to record in detail important matters, audit evidence, and audit conclusions during the audit process for subsequent review and inspection.

In the audit report stage, auditors should objectively and fairly write audit reports based on the problems discovered in the audit. The audit report should clearly explain the nature, impact degree, and improvement suggestions of the problems and go through a strict review process. The internal audit department should promptly submit audit reports to management and the governance body to ensure that audit results are promptly paid attention to and processed.

In addition, enterprises should establish a sound audit quality control system to supervise and evaluate the whole process of audit work. Through internal quality review, evaluation by external audit institutions, etc., promptly discover problems and deficiencies in audit work and take targeted improvement measures to continuously improve the quality of audit work.

3.4. Strengthen the authority and influence of internal audit

Strengthening the authority and influence of internal audit is an important means to ensure its independence. Enterprises should start from both the institutional level and the practical level to enhance the status and role of internal audit in corporate governance.

At the institutional level, enterprises should clarify the responsibilities, authorities, work scope, and relationships with other departments of the internal audit department by formulating documents such as the internal audit charter. The internal audit charter should be approved by the board of directors or the governance body and have high authority and binding force. At the same time, establish a sound audit result application mechanism, link audit results with performance appraisal, accountability, etc., and enhance the seriousness and deterrence of audit work. Clearly stipulate in the internal audit charter that for major problems discovered in the audit, the performance appraisal of the relevant responsible departments will be directly affected, and at the same time, hold the responsible persons accountable, effectively promoting the implementation and rectification of audit suggestions.

At the practical level, the internal audit department should actively participate in major decision-making processes such as the enterprise's strategic planning and risk management, and provide valuable audit information and suggestions for the enterprise's senior management. By carrying out special audits, performance audits, and other projects, reveal the problems and potential risks existing in the enterprise's operation and management, and propose practical improvement plans to create value for the enterprise. At the same time, strengthen communication and cooperation with external audit institutions, draw on the advanced experience and technologies of external audits, and enhance the professional level and influence of internal audit. In addition, use internal publications, training meetings, and other channels to publicize the functions and roles of internal audit and improve employees' awareness and support for internal audit work.

4. The need for a positive interaction between internal audit and management

4.1. Regular interaction and communication

Maintaining regular interaction and communication between the internal audit department and management is the key to ensuring the relevance and effectiveness of audit work. According to the latest domestic and international audit requirements, both parties should establish a normalized communication mechanism to exchange information and share views in a timely manner.

Hold a monthly communication meeting between internal audit and management. At the meeting, the internal audit department reports to management on the progress of recent audit work, including completed audit projects, major problems discovered, and preliminary audit suggestions. At the same time, management conveys to the internal audit department the enterprise's recent strategic adjustments, changes in business priorities, and areas of concern for risks. Through this regular communication, the internal audit department can adjust the focus and direction of audit work in a timely manner according to the needs and concerns of management, ensuring that audit work is closely integrated with the enterprise's development strategy and actual needs.

In addition, the internal audit department can also write audit special reports and other forms to deeply analyze the potential risks and problems existing in the enterprise for management and propose targeted solutions. Management can provide feedback on the content of the audit report, raise questions and suggestions,

and promote further communication and exchange between the two parties. When an enterprise is preparing for a major investment project, the internal audit department can intervene in advance, conduct a preliminary assessment of the project's feasibility, risk status, etc., and submit a special report to management. Management communicates with the internal audit department based on the report content, jointly discusses the possible risks and countermeasures of the project, and provides strong support for project decision-making.

4.2. Jointly develop audit plans and objectives

The joint development of audit plans and objectives by the internal audit department and management can ensure that audit work is highly consistent with the enterprise's development strategy and goals. According to the latest audit requirements, both parties should determine the focus and direction of audit work on the basis of full communication and negotiation.

When formulating the audit plan, the internal audit department should fully collect the opinions and suggestions of management and understand the main risks and management needs currently faced by the enterprise. Management is concerned that the enterprise's market share has declined recently and suspects that there may be problems with the management of the sales channel. When formulating the audit plan, the internal audit department lists the sales channel audit as a key project, determines that the audit scope covers all sales regions and major sales partners, and the audit methods include analysis of sales data, on-site visits to sales outlets, and interviews with sales personnel.

At the same time, both parties should negotiate and determine the audit objectives and expected results. For the sales channel audit project, the audit objectives may be set as evaluating the effectiveness of the sales channel, discovering potential risk points, and proposing suggestions for optimizing the sales channel. The expected results include clarifying the problems and causes in the sales channel, providing specific improvement measures, and achieving a certain degree of market share increase through the implementation of improvement measures. By jointly developing audit plans and objectives, the internal audit department can carry out audit work more targeted, improve the efficiency and effect of audit work, and create greater value for the enterprise.

4.3. Collaborate and cooperate to solve problems

In the audit process, once the internal audit department discovers problems and risks, collaboration and cooperation with management are crucial. According to the latest audit requirements, both parties should establish a problem-solving mechanism, jointly analyze the causes of problems, formulate practical solutions, and ensure the effective implementation of rectification measures.

The internal audit department discovers problems such as non-standard financial approval processes and lax review of some expense reimbursements when auditing the enterprise's finance department. The internal audit department, the finance department, and management jointly hold a problem analysis meeting. Through the review of the financial approval process and inquiries with relevant personnel, it is determined that the causes of the problems are due to the untimely update of the financial system, the insufficient understanding of the system by some financial personnel, and the lack of an effective supervision mechanism.

In response to these problems, the three parties jointly formulate solutions. The finance department is responsible for revising and improving the financial approval system, clarifying the standards and review processes for various expense reimbursements; the human resources department organizes system training for

financial personnel to improve their business level; the internal audit department strengthens the follow-up supervision of the financial approval process and regularly spot-checks expense reimbursement situations[6]. Through this collaboration and cooperation, not only can problems be effectively solved, but also the improvement of the enterprise's internal control system and the promotion of management level can be achieved.

4.4. Maintain professional ethics and bottom line

Although internal audit needs to maintain a positive interaction with management, the internal audit department must always adhere to professional ethics and the bottom line. According to the latest domestic and international audit requirements, the internal audit department should firmly resist the unreasonable demands or interventions of management during the interaction with management to ensure the independence and objectivity of audit work.

Management may hope that the internal audit department conceals or downplays certain problems due to performance pressure. At this time, the internal audit department should clearly refuse and explain the principles and professional ethics requirements of audit work to management. For behaviors that violate laws, regulations, and professional ethics, the internal audit department must resolutely expose and stop them and promptly report to the superior leadership or the governance body.

At the same time, the internal audit department should continuously strengthen the professional ethics education and training of auditors. Through regularly carrying out professional ethics training courses, case analysis seminars, and other activities, strengthen the professional awareness and ethical concepts of auditors. Organize auditors to study classic cases in the domestic and international audit industry, analyze the behaviors and consequences of auditors violating professional ethics in them, and guide auditors to deeply understand the importance of adhering to professional ethics. Only by ensuring that auditors always adhere to professional ethics and the bottom line can the internal audit department maintain its independence in the interaction with management and provide true and reliable audit services for the enterprise.

5. Conclusion

The independence of internal audit is the core element for enterprises to achieve effective internal control and risk management and an important cornerstone for ensuring the stable development of enterprises. In the context of the latest domestic and international audit requirements, enterprises should start from aspects such as improving the organizational structure setup, strengthening the selection and training of auditors, standardizing the audit work process and system, and enhancing the authority and influence of internal audit to comprehensively improve the level of the independence of internal audit. At the same time, the internal audit department should maintain a positive interaction with management, maximize the value of internal audit through regular communication, jointly developing plans and objectives, collaborating to solve problems, and adhering to professional ethics and the bottom line. With the continuous change of the enterprise's operating environment and the continuous development of audit theory and practice, the independence of internal audit will face more new challenges and opportunities. Enterprises should continuously pay attention to and optimize the relevant mechanisms of the independence of internal audit to meet the needs of enterprise development and provide a solid guarantee for the sustainable development of enterprises.

In future research, it is necessary to further explore the impact of emerging technologies such as artificial

intelligence and blockchain on the independence of internal audit, and how to use these technologies to improve the efficiency and effectiveness of internal audit work while maintaining independence. In addition, cross - industry and cross - regional comparative studies on the independence of internal audit can be carried out to provide more comprehensive and in - depth theoretical and practical references for different types of enterprises.

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