

The Development of IT Audit in China

National Audit Office of the Peoples Republic of China

The National Audit Office of China (CNAO) has made the development of IT audit a priority. This article describes the CNAO's strategy and some of their recent successes.

The history of audit in China

State audit in China can be traced to the early days of the dynasties. A rudimentary form of auditing emerged as early as the Western Zhou Dynasty, 3,000 years ago. A Royal Audit Court was set up in the Song Dynasty in 992 A.D., and from then on every dynasty established specific institutions or offices to monitor state finances.

For the 30 years following the founding of The People's Republic of China in 1949, there were no independent audit institutions. Internal supervisory bodies of departments of public finance conducted financial control. To adapt to the needs of reform, the 5th Plenary Session of the 5th National People's Congress (1982) adopted the resolution to implement state audit in China, and this was included in the amended Constitution. The Constitution also stipulates that the Auditor General shall be a member of the State Council nominated by the Premier and, subject to approval by the National People's Congress or its Standing Committee, shall be appointed or removed by the President of the State.

The CNAO was established in 1983, with provincial, municipal and county people's governments setting up their local audit institutions in succession, and audit was gradually introduced throughout the country. In 1994, the "Audit Law of the People's Republic of China" was formally promulgated.

As the supreme audit institution of China, The CNAO, under the direct leadership of the Premier, organizes and administers audit work nationwide and reports the results of its work to the State Council. Since its establishment, The CNAO has come to play an

irreplaceable role in facilitating healthy development of the national economy, promoting the building of a clean government and ensuring the implementation of government financial policies and economic laws.

IT audit

The CNAO's top management has long been aware of the challenges and opportunities that have result from the rapid development of IT in the areas of economic and financial management. This is particularly the case in medium to large enterprises operating in such areas as public finance, taxation, banking, securities and customs.

Under Article 30 of the *Implementation Rules for The Audit Law of the People's Republic of China*, audit institutions are entitled to review the financial and accounting systems adopted by audited bodies in their management of revenue and expenditure. Audited bodies are also obliged to provide audit institutions with access to, and information about the computer systems that they use to store and process financial information.

The construction of an IT audit infrastructure

The CNAO and most dispatched¹ audit offices and local audit institutions have set up their own Local Area Networks. The CNAO's dispatched audit offices, and provincial/municipal audit institutions have also created a Wide Area Network (WAN) to provide an efficient means for them to exchange information with other government agencies. Information resources are also shared by use-friendly connections to the respective web sites.

¹ "Dispatched audit offices" are those attached to ministries, such as the Foreign Affairs Audit Office.

The CNAO has established a government audit web site (<http://www.cnao.gov.cn>) to provide the general public with access to audit information and to obtain their feedback.

Audit institutions nationwide have also made some progress in installing computers and communications equipment to enable them to use computer audit techniques.

Development and utilization of IT audit software

In November 2000, The CNAO held an exhibition of their achievements in the development of IT and the utilization of IT in the audit process. The exhibition showed that various audit institutions had developed a number of audit software tools. These are used not only in supporting a range of financial audits (for example, custom duties, local taxation, budgetary accounting, enterprises and banks), but also in managing audit assignments. Management features include the control of audit documents, audit administration, and the retrieval of financial and economic audit laws and regulations. Such audit support software has become an indispensable financial audit tool.

The CNAO has also carried out some exploratory work in the audit of IT system development. During 2000 The CNAO discovered errors during their audit of highway construction funds. These were related to the operation of an information system designed for car purchase fee collection and review. Auditors found that the problems were due to defects in the modules for discount collection for old cars made in China, and incorrect configuration of the modules for specially authorized collection. As a result the auditors made recommendations for system improvements.

The CNAO have also carried out a pilot audit of IT management. In 2000, when auditing the fee computation system of

a mobile phone company, auditors found that:

- there was a poor separation of roles between the system design and operations functions in the Fee Computation Center;
- operators' access rights were sufficient to enable them to delete records from a database of client telephone fees without supervisory control.

IT audit training

Since 1999, The CNAO has organized medium-level training with database, network and editing as the key subjects. Following training carried out throughout the national audit system, ten examinations on basic IT audit knowledge have taken place and over 24,500 have passed the examinations and obtained certifications. Success in the computer examinations is a prerequisite, not only for employees of audit institutions to obtain their professional audit qualifications, but also for auditors to obtain employment in their organization.

International exchanges related to IT audit

In recent years The CNAO has maintained an active dialogue with SAIs to ensure that China's audit practice continues to develop in line with that in other countries. In order to improve international exchanges in IT audit, The CNAO has planned to host an international seminar on IT audit in Beijing in September 2001. **II**

Editor's note: As a postscript to the final paragraph, I would like to add that The CNAO and the UK NAO have for a number of years maintained a useful exchange of views on auditing. In 1997 a delegation of auditors from The CNAO and the UK made exchange visits to discuss IT audit techniques. More recently a delegation from The CNAO visited London to learn about our progress in auditing the UK's electronic government strategy.

IT and the auditor

The CNAO's Auditor General, Mr. Li Jinhua, believes that the understanding and use of computers has become an essential ingredient to a successful audit.

To be fully effective, auditors need to develop and maintain a good grasp of IT and of IT audit techniques.

CAATs at work

The CNAO has accumulated considerable experience in the use of Computer Assisted Software Techniques to audit revenue and expenditure.

For example, in 2000 a dispatched audit office of The CNAO used its self-developed data collection and analysis software to audit the fixed assets of a tobacco manufacturer covering 400 categories and amounting to RMB 1.4 billion.

A mere 5-minute run on the computer enabled the auditors to establish that the audited body had understated its depreciation by RMB 16,590,000.

The CNAO's IT Audit Strategy

Strategic aim:

- to improve audit efficiency
- to standardize audit activities
- to fulfil legal obligations.

Within five years the CNAO will:

- construct a network to improve communications and enable more efficient information exchange
- develop a simple, practical audit software toolkit
- develop a set of audit support databases
- develop a competent IT audit capability among auditors.