

# Challenges Facing E-government Audit

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Mr. Chairman, Mr. Stephanas, All representatives,  
My colleagues and I are very pleased to attend the 4<sup>th</sup> Seminar on Performance Audit on E-government sponsored by the IT Committee of INTOSAI. Here, I'd like to present CNAO's idea of "Challenges Facing E-government Audit", and sincerely hope to share the views with representatives attending the seminar. My presentation falls into four categories.

## **1 Rapid Development of E-government and Its Characteristics in China**

In the People's Republic of China, E-government was initiated in the late 1980s and was accelerated since the entry into the 21<sup>st</sup> century. Chinese government has determined that E-government will be a major aspect of IT system in China, and the Government shall take the lead and thereafter promote the establishment of IT system in national economy and social development.

Objectives of E-government in China:

- adjusting to the demands by the policy of reform and opening up, and e-government as well;
- transferring governments' functions;
- improving working efficiency and the effectiveness of supervision;
- increasing the rationality, harmony and democracy of government work;
- improving the overall capability of implementing administrative power.

All the above-mentioned aim to serving the masses better.

It is estimated that, within 5 years since 2003, a total of 180 billion RMB (i.e. 20 billion \$US) will be invested in E-government Infrastructure in China. Moreover, E-government in China focuses on "one station, two networks, four databases and twelve golden projects".

----"One station"--creating and facilitating a government web site, opening a channel for the publicity of government information;

---"Two networks"--creating administrative intranet for running internal government information and administrative extranet for providing public service, integrating and unifying electronic administrative network, ensuring all networks are connected and all information is shared;

---"Four databases"--setting up population database, legal persons' database, space geology and natural resource database and macroeconomics database, all of them are

essential;

---"Twelve golden projects"-- referring to the IT Systems of twelve major industries, among which are Public Finance, Auditing, Customs, Taxation, Financial Supervision, Social Security, Quality Assurance, Agriculture, and Hydrology etc. ; the twelve "IT Systems" are of great significance to strengthen government supervisory power, increase government revenue, ensure public expenditure, improve working efficiency, promote public service and safeguard social order. Among which "Golden Auditing Project" is sponsored as well as implemented by China National Audit Office.

E-government in China has achieved remarkable accomplishments. As one of the Administrative Implementation Departments which first apply computers, China Customs actualized the nationwide electrified customs declaration procedures and the digitalization of smuggling finding and investigative checks, both of which played an important role in counteracting 1998 financial crisis and cracking down upon smuggling and money swindling. Due to the establishment of "Golden Taxation Project", China's Taxation Departments actualized the computer crossing check in 3,835 taxation departments at and above county level across the country. The tax collection rate reached 63% in 2002, which is 10% higher than that in 2000. After checking networks for value-added-tax invoices were connected nationwide, once rampant criminal cases of issuing false value-added-tax invoices were almost eliminated.

Like other countries, China's E-government is committed to the reconstruction of the IT Systems of its government's organization and activity mode. By doing so, it facilitates the interrelations among government, enterprises and citizens. At the same time, it keeps the interrelations effective, friendly, concise and transparent. Based on China's essential national conditions, E-government in China possesses the following features:

- A. Being motivated by the Central Government. Chinese Central Government has always been the highest authority over the two thousand years. The motivation of E-government in China is mainly from the Central Government, meanwhile, it must succeed in the Central Government and then play a demonstrative role.
- B. Being uniformly programmed and implemented step by step. In order to avoid repeated construction and money waste by each area and each department, Chinese Central Government made unified programs and implemented it in accordance with the practical demands step by step.
- C. Obviously being confined by economic development. The level of IT System in areas with rapid economic growth has reached and even exceeded that in the medium-developed countries; however, in areas with backward economy, the coverage of networks and computer is pretty low. As a whole, the investment in E-government still covers a comparatively small percentage of overall fiscal

expenditure.

- D. Co-existence of E-government and traditional government. China has the second largest group of people who log on inter-net each day, while it only takes a very small percentage of the whole population. It's assumed that there are still millions of young illiterates in China. Great differences exist in the degree of the reception and use of electric information. In quite a long time, many people can't enjoy the benefits of such programs of E-government as online declaration, long-distance medical treatment, and long-distance education. It's a must for China's E-government and traditional government to coexist.
  
- E. Focusing on the improvement of government efficiency. There is still a great potential for Government Departments' supervisory capability and service capability. The improvement of government working efficiency and effectiveness turns out to be one major task of government reform.

## **2. New Problems Facing Traditional Auditing Ways and Methodology**

With the development of E-government, Government becomes an auditee with highly developed Information Technology System and high coverage of information technology, therefore traditional auditing ways and methodology are confronted with challenges as well as opportunities.

### **Challenges**

---The auditing ways adopted in examining paper accounts can't fulfill the examination of the truthfulness and legality of the related data under IT environment.

In China, many organizations such as Departments of Public Finance, Customs, Taxation and Trade widely apply computers, databases and networks in their management. On the whole, computerization of accounts is popularized. After the application of e-commerce and online settlement, accounting information processing breaks the space limitation, bring into reality the long-distance real-time processing and monitoring. The paper media recording economic activity documents and data change into disks. Afterwards, paper accounts examined in traditional auditing disappear. And, auditors who simply possess manual auditing techniques will lose their qualifications for accounts examination.

-- The testing method of summarizing internal control system by examining manual operation processes is already not viable to evaluate the auditing risk in IT environment.

E-governments reconstructs the operation processes of the auditees. The way to master the overall situation of the auditees and thereby make appropriate auditing judgement under manual environment is not so effective as before under IT environment. For instance, after computerized accounts took the place of manual accounts, original control nodes change or disappear. If unfamiliar with these changes, auditors will meet higher risks in making audit programs and determining the scope of

sampling.

--Means and ways taken by present auditing authorities are ineffective in finding out economic crimes and fake accounts under IT environment.

After the computerization of accounting and economic management, auditing clues familiar to auditor may terminate or disappear. Compared to paper documents, disk data documents are more likely to be modified without trail. Application of computers largely reduces the common calculation mistakes. However, the percentage of vicious malpractice in fake accounts increases and makes it harder to disclose the malpractice.

--It's a brand new task for current auditors to check and test computer systems.

After computers and networks become the major media of current accounting and economic management information, due to its essential difference with traditional media, auditors must take them into the scope of auditing. In addition, they must prevent "fraudulent functional" software from leading auditors into examining the truly fake accounts. The auditing scope extends from the data recorded on the media to the media themselves and their functions.

--Audit manuals worked out under manual environment can't fully satisfy the demand for quality assurance under IT environment.

With the concerted efforts by colleagues worldwide, some international organizations concerned have worked out an IT Audit Manual. However, at present, quite many fields keep intact, especially in E-government. People can't reach consensus on IT Audit Methodology, IT Audit Technology and IT Evaluation Indexes. Therefore, further research and exploration are needed.

### **Opportunities:**

Improvement of government IT System and Expansion of Coverage of IT not only cause difficulties and challenges to auditing, but also create conveniences and opportunities.

--In general, the development of Information Technology System and E-government makes the auditees strengthen their internal control, standardize their management, increase the transparency, enhance the controllability, and reduce wrongdoings and frauds. And overall auditing risk is thereby lowered.

---The development of computer software and hardware, the centralized management of information resources bring much convenience to auditing inquiry. Even though there're millions of pieces of data, auditors can sift them very soon. Moreover, coordinated indexing with multiple terms and comparison analysis bring the dream under manual auditing environment into reality. The solidification of auditor's

experience in auditing software, to some extent, realizes the "automated auditing". Under IT environment, the Computer-assisted audit greatly improves auditing efficiency. The bigger the data and the more complicated the situation, the more effective the auditing.

--While auditing computerized auditees and E-government, auditing institutions improve the computerization of auditing, and thereby scientifically arrange auditing programs, determine auditing focuses, effectively standardize audit operation processes and control audit quality.

--Auditing over E-government and Information System by Auditing Authorities is a new aspect of auditing. Both government and the public have great expectation of it. Audit institutions should play a role and make their contributions in this aspect and this will be of great significance to increase auditing's authority.

### **3. E-government audit by China's Audit Institutions**

In the past ten years, in the past five years in particular, China's auditing institutions took the opportunity brought by IT and boldly faced the challenges with it. We performed auditing over electric data. With the audit findings, we extended the scope of the audit to the information system of the auditees. With the ongoing E-government in China, China's auditing institutions perform E-government auditing in accordance with the pragmatic situations they are in. We have achieved some accomplishments with unique characteristics. The following are their manifestations.

--Compared to local auditing institutions, Central Auditing Institution performed more E-government auditing programs and has achieved greater effectiveness in this regard.

--Based on nationwide unifying E-government Web site, we carried out online auditing over major auditees.

--Auditing over E-government is usually combined with auditing over budget implementation, for instance, the auditing programs for "Golden Customs Project", "Golden Taxation Project" and port electric implementation system. They mainly focus on the legality and rationality of fund resources. Besides, they also see to if the limited construction capital was embezzled for other purposes.

--Performance audit over E-government stresses the disclosure of the mismanagement and incorrect decision-making which lead to serious waste and national assets loss.

--The evaluation of E-government investment mainly aims to judge whether it improves government supervisory power, whether the function design of E-government projects is perfect, and whether their real functions bring the design into reality.

--Taking advantage of the electric material and the mutually shared information environment, we carry out audit programs for projects' benefits. Meanwhile, we perform auditing supervision over the economic activities and operation management of the main departments of the programs.

#### **4. Measures taken by CNAO to strengthen IT System in Auditing**

Within 5 years, investment in E-government will grow rapidly, and the highlight of CNAO's audit over the capital funded by public finance will shift from revenue to expenditure. Meanwhile, audit over E-government will be one of the major audit programs of China's Audit Institutions.

"The Golden Audit Project" by CNAO is still under way in line with the unified design of China National E-government. The total investment in "The Golden Audit Project" adds up to 23 million \$ US. The components of the project are:

--Developing a series of audit software, making computers become the major means for auditing processing and the administration of audit institutions;

--Building up a wealthy database group, providing effective and timely support to audit implementation and administrative decision-making;

--Setting up effective and applicable audit networks, forming nationwide audit information transmission channel and information sharing platform;

--Establishing a competent staff for auditing information technology through technical training and talents' introduction;

--Purchasing a set of economic and applicable computers, strengthening the material basis for auditing supervision.

Dear colleague, as member of the IT Committee, CNAO will make consistent endeavor to share with you our experience in IT Auditing and spare no efforts in exploring the IT Audit Methodology together with you. In September, 2004, CNAO is expected to host an international seminar on IT Audit. We are looking forward to having in-depth exchanges and discussions with all of you. Let's get together in Beijing again. You're are warmly welcome to Beijing!

Thanks for listening.