

Exploring the Application of Internal Audit Results in Organizational Performance Appraisal in State-Owned Enterprises

Ying Feng^{1*}, Jiayin Su¹

¹ School of Management, Northwest University of Political Science and Law, Xi'an, China

Email Address

2052153177@qq.com (Jiayin Su), yingfeng8410@126.com (Ying Feng)

*Correspondence: 2052153177@qq.com

Received: 19 April 2022; Accepted: 20 May 2022; Published: 9 June 2022

Abstract:

Applying the results of internal audits of state-owned enterprises to organizational performance appraisal can both promote a greater role for internal audits and improve the level of performance management of enterprises. This paper puts forward the idea of applying internal audit results to organizational performance appraisal and elaborates the logic and mechanism of applying audit results, and then takes the process of applying special audit results of R&D expenditure and efficiency of SOE H to organizational performance appraisal of technology development department as an example to realize effective application of audit results by transforming audit results into the content of organizational performance appraisal index. In order to provide ideas for improving the application value of internal audit results and improving the organizational performance appraisal of state-owned enterprises.

Keywords:

State-owned Enterprises, Organizational Performance Appraisal, Application of Internal Audit Results

1. Introduction

Internal audit is an important part of China's audit and supervision system, which means that internal audit institutions, based on relevant laws and regulations, policy deployment, etc., objectively, independently and impartially monitor, suggest and evaluate the unit's business activities, financial revenue and expenditure activities, internal control, etc., so as to achieve the purpose of promoting the realization of the unit's strategic objectives and improving the unit's governance [1].

Good governance of state-owned enterprises is an important means to ensure the modernization and marketization process of state-owned enterprises, which are also an important force in stabilizing China's economic development. The Party Central Committee attaches great importance to the audit and supervision of state-owned enterprises and state-owned capital. Internal audit, as the audit work carried out within state-owned enterprises, has a natural advantage of timeliness compared with government audit and social audit, and internal auditors also have a more in-depth and

formal understanding of the actual situation of the unit compared with CPAs and government auditors, so internal audit of state-owned enterprises is an irreplaceable part of the audit supervision system [2]. Therefore, internal audit of SOEs is an irreplaceable component of the audit supervision system. In the literature on strengthening the internal audit of state-owned enterprises, some scholars have analyzed and summarized five aspects of the internal audit system, audit content, audit organization, application of audit results and audit team building for state-owned group enterprises, and put forward new requirements and suggestions for the internal audit work in China in the 14th Five-Year Plan period [3]. In terms of the application of audit results, he suggested that the content and matters required to be rectified in the internal audit report should be included in the annual business performance assessment of the enterprise leadership.

The substantial connotation of organizational performance appraisal is the process of achieving organizational goals by reaching consensus between the organization and its departments on the organization's macro strategic goals and how to achieve them, mobilizing departmental initiatives and achieving excellent results [4]. In the process of deepening marketization and accelerating the improvement of modern enterprise system with Chinese characteristics, state-owned enterprises in the new era are actively exploring more advanced and scientific organizational performance appraisal methods to help them continuously improve their management level [5], execution ability and operational efficiency in the market transformation at the macro level, so as to achieve high-quality development; at the micro level, to stimulate the work motivation of departments and employees within the enterprise and provide relevant information for the enterprise. At the micro level, we can stimulate the motivation of internal departments and employees, and provide relevant references for the future development of departments and employees.

The purpose of both internal audit and organizational performance appraisal in SOEs is to achieve corporate governance goals, so it is worth exploring the application of SOE internal audit results to organizational performance appraisal to achieve a closed-loop management model within SOEs [6].

2. Application Logic

In recent years, under the macro-strategic background of promoting the sound market-oriented mechanism and enhancing the market vitality of state-owned enterprises, the functions of internal auditing organizations of state-owned enterprises as internal management departments of enterprises have been changing accordingly [7]. As an internal management measure of SOEs, the function of internal audit has also changed from the supervision function of a single financial audit to the implementation of the recommendation and evaluation function for all aspects of the enterprise's economic activities, internal control, risk management, etc. Special audits are an important form of internal audit work in state-owned enterprises and an important way for internal audit to perform its recommendation and evaluation functions. Audit report is the final product of audit work, audit results and audit recommendations are the core content of audit report, if the internal audit results are not fully applied, then the internal audit work will also lose its role in the internal management of state-owned enterprises. In order to increase the value of internal audit work itself and to form management synergy within SOEs, the application of audit results to organizational performance appraisal has been developed [8]. Organizational performance appraisal is an important tool for quantitative

management of enterprises, and together with internal audit, it drives enterprises to achieve management goals [9]. The application of audit results as an important basis for constructing assessment indexes and applying them to organizational performance appraisal can make the assessment indexes more scientific, objective and specific to the internal conditions of the enterprise. As a tangible expression of the organization's performance over a period of time, the audit results also provide the basis for internal audit rectification. The resulting closed loop management model within SOEs (Figure 1) reflects the internal logic of internal audit results applied to organizational performance appraisal.



Figure 1. Management closed loop.

3. Application Mechanism

The performance appraisal team assists each department within the enterprise will be decomposed into the annual key work tasks of each department at the beginning of the year according to the requirements of the Company's shareholders' meeting for this year's business performance, the Company's annual strategic planning, the annual budget situation, etc., to form the preliminary departmental organizational performance appraisal content; the internal audit department likewise forms the annual audit resources at the beginning of the year according to the Company's annual business performance objectives and the Company's annual work priorities, combined with the existing audit resources The audit work plan for the year, the audit project is carried out according to the audit plan time, and the problems found in the audit and the corresponding audit recommendations are proposed after the completion of the audit project.

The application point of the audit results in the process of organizational performance appraisal is after the initial formation of the appraisal index. The performance appraisal team works together with the internal audit department to effectively extract the audit issues and audit recommendations of the audited department from the audit project to form the appraisal-related content of the appraised department, and then the appraisal team decomposes the extracted appraisal-related content to supplement the initially formed appraisal indexes.

The appraisal indicators are approved by the management to form the final annual organizational performance appraisal indicators and the corresponding appraisal plan. The performance appraisal team then carries out the appraisal work in accordance with the appraisal schedule, and after the implementation and evaluation of the appraisal, the final organizational performance appraisal results and the corresponding appraisal report are formed. The appraisal report, as a quantitative presentation of the department's annual work results, can also be fed back to the internal audit for rectification. Thus, the application mechanism that the internal audit results of state-owned enterprises are applied to the organizational performance appraisal and the organizational performance appraisal results promote the rectification and improvement of internal audit is formed [10].

4. Application Case

4.1. Context of Application of Internal Audit Results

In order to enhance the effectiveness of the use of R&D expenditures, strengthen the company's scientific and technological innovation capability and lay the foundation for the company's high-quality development, Company H conducted a special audit of the company's R&D expenditures and benefits in June 2021, organized by the company's internal audit department, with the company's Technology Development Department as the audited unit, in accordance with the annual audit work plan of its group companies; Company H, in order to guarantee the achievement of its business objectives for the year 2021 and To enhance the organizational execution of each department and promote the smooth implementation of the company's economic indicators and key work, the organizational performance assessment of each department of the company was organized by the performance assessment department in July 2021. The internal audit results in this paper come from the special audit of R&D expenditure and efficiency carried out for the Technology Development Department, so the internal audit results are applied to the Technology Development Department, one of the organizational performance assessment departments.

4.2. Application Process of Internal Audit Results

Formation of special audit results on R&D expenditures and benefits. The scope of this special audit is the overall situation of H Company's R&D expenditure, relevant management system and institutional construction, budget approval and accounting, as well as the situation of the company's innovation-driven development strategy, the progress of completion of key core technology tapping projects, R&D results and transformation effects, and the management of major special funds from 2018 to 2021. The results of this special audit include both audit problems and corresponding audit recommendations. The audit problems include the following: the system related to R&D expenditures needs to be released as soon as possible; the business management ledger of the overall situation of R&D expenditures has not been established; the construction of R&D personnel still needs to be strengthened; the overall R&D expenditures tend to be expensed and there are no capitalized results. The audit recommendations include the following: timely improvement and release of R&D expenditure related system; establishment of R&D expenditure business management ledger; strengthening the construction of R&D personnel team; focusing on the application of capitalization of R&D expenditure; further improvement of intellectual property management mechanism to improve R&D efficiency.

Initial Formation of Organizational Performance Appraisal Indicators for Technology Development Department. Based on the company's annual business objectives and key work tasks as an important guide and reference, the Technology Development Department, combined with the internal work functions of the department, initially formed seven assessment indicators, such as the situation of R&D innovation, technology development projects, completion of departmental basic work, authorization of patents and proprietary technologies, establishment and improvement of technology innovation work mechanism, establishment of technology innovation subject library, and establishment of the template of unified regulations preparation system for engineering design.

Audit results applied to departmental performance appraisal. After the Technology Development Department completed the preliminary assessment index, the performance assessment team, together with internal auditors, summarized the audit results and audit recommendations formed for the Technology Development Department in the special audit of R&D expenditures and benefits, and summarized and extracted the contents related to the performance of the Technology Development Department, such as focusing on the construction of innovative R&D platform, paying attention to the benefits of transformation of technical achievements, establishing and improving the internal control system related to R&D innovation, setting up a business management ledger for R&D expenditures, strengthening R&D personnel team construction, establishment and improvement of technology innovation subject group system and other contents related to the organizational performance of the Technology Development Department.

After content extraction of internal audit results, the performance appraisal team will adjust the initially formed appraisal indexes and finally, after approval by the managerial level, form R&D innovation, completion rate of technology development projects, completion rate of basic work at company level and department level, number of authorized patent know-how, establishment of sound technology innovation work mechanism, establishment of technology innovation subject pool in collaboration with R&D center, establishment of unified engineering design. There are 7 assessment indicators, including the preparation system of regulations and standard template of technical specifications.

5. Conclusions

Applying the results of internal audits of state-owned enterprises to organizational performance appraisal can not only promote internal audits to play a greater role, but also improve the level of enterprise performance management. In this paper, the effective application of audit results is achieved by transforming audit results into the content of organizational performance appraisal indicators. It is expected to provide ideas for improving the application value of internal audit results and improving organizational performance appraisal of state-owned enterprises.

Conflicts of Interest

The authors declare that there is no conflict of interest regarding the publication of this article.

Author Contributions

Writing – original draft preparation: S.J.Y.; Writing – review and editing: F.Y.; S.J.Y.; Project administration: F.Y.; Funding acquisition: F.Y.

Funding

This work was supported by the China Postdoctoral Science Foundation Project, grant number 2019M663953XB and the Shaanxi Province Innovation Capacity Support Program, grant number 2020KJXX-038.

References

- [1] Stewart, J.; Kent, P. Relation between External Audit Fees, Audit Committee Characteristics and Internal Audit. *Social Science Electronic Publishing*, 2014, 46(3), 387-404, DOI: 10.1111/j.1467-629X.2006.00174.x.
- [2] Getie, M.D.; Wondim, Y.A. Internal audit effectiveness: an Ethiopian public sector case study. *Managerial Auditing Journal*, 2007, 22, 5, 470-484, DOI, <https://doi.org/10.1108/02686900710750757>.
- [3] Chen, W.T. A pilot study on how to strengthen the internal audit of state-owned group enterprises in the “14th Five-Year Plan” period. *China Internal Audit*, 2021, 8, 26-29, DOI, 10.3969/j.issn.1004-8279.2021.08.005.
- [4] Salleh, Munir, et al. Fairness of performance appraisal and organizational commitment. *Asian Social Science*, 2013, 9(2), 121, DOI: 10.5539/ass.v9n2p121.
- [5] Wagner, S.H.; Goffin, R.D. Differences in Accuracy of Absolute and Comparative Performance Appraisal Methods. *Organizational Behavior & Human Decision Processes*, 1997, 70(2), 95-103, DOI: 10.1006/obhd.1997.2698.
- [6] Dzikrullah, A.D.; Iman, H.; Melinda, Cahyaning, R. Internal audit functions and audit outcomes: Evidence from Indonesia. *Cogent Business & Management*, 2020, 7(1), 1750331, DOI: <https://doi.org/10.1080/23311975.2020.1750331>.
- [7] Goodwin, J.D.; Yeo, T.Y. Two Factors Affecting Internal Audit Independence and Objectivity: Evidence from Singapore. *International Journal of Auditing*, 2010, 5(2), DOI: 10.1111/j.1099-1123.2001.00329.x.
- [8] Bello, S.M.; Ahmad, A.C.; Yusof, N. Internal audit quality dimensions and organizational performance in Nigerian federal universities: The role of top management support. *Journal of Business and Retail Management Research*, 2018, 13, 1, DOI: 10.24052/JBRMR/V13IS01/ART-16.
- [9] Behery, M.H.; Paton, R.A. Performance Appraisal-Cultural fit: organizational outcomes within the U.A.E. *Education Business and Society Contemporary Middle Eastern Issues*, 2008, 1(1), 34-49, DOI: 10.1108/17537980810861501.
- [10] Hanskamp-Sebregts, Mirelle, et al. Transparency about internal audit results to reduce the supervisory burden: A qualitative study on the preconditions of sharing audit results. *Health Policy*, 2020, 124(2), 216-223, DOI: <https://doi.org/10.1016/j.healthpol.2019.11.013>.



© 2022 by the author(s); licensee International Technology and Science Publications (ITS), this work for open access publication is under the Creative Commons Attribution International License (CC BY 4.0). (<http://creativecommons.org/licenses/by/4.0/>)