

# 中国审计学

AUDITING IN THE PEOPLE'S  
REPUBLIC OF CHINA

高等院校审计专业教材

主编 郭振乾 英文版

中国审计出版社

# 中国审计学

英文版

郭振乾 主 编

12352/22

中国审计出版社

465038

**图书在版编目 (CIP) 数据**

中国审计学：英文/郭振乾主编. —北京：中国审计出版社，  
1998， 2

ISBN 7-80064-665-3

I. 中… I. 郭… III. 审计学-高等学校-教材-英文  
IV. F239.0

中国版本图书馆 CIP 数据核字 (98) 第 03081) 号

**中国审计学 (英文版)**

郭振乾 主编

\*

中国审计出版社

(北京市海淀区白石桥路甲 4 号)

北京东晓印刷厂印刷

新华书店总店科技发行所发行 各地新华书店经销

\*

850×1168 毫米 32 开 17 印张 428 千字

1998 年 2 月北京第 1 版 1998 年 2 月北京第 1 次印刷

印数：1—4100 册 定价：30.00 元

ISBN 7-80064-665-3/F·466

## Foreword

In order to cater to the development of the reform and open policy, the 1982 *Constitution of the People's Republic of China* stipulates that the system of auditing supervision shall be practiced in China. Over the past decade, audit has played a very important role in maintaining state financial and economic order, promoting the development of China's socialist economy and strengthening the construction of clean governments.

The promulgation of the 1994 *Audit Law* symbolizes that auditing in China has entered a new phase of development. In the process of implementing the *Audit Law*, we have carried out our work in the following major areas:

To begin with, audit of budgetary implementation at corresponding levels has been conducted by audit institutions nationwide. By closing a gap in the contents of auditing supervision in China, such audit practice reflects in an integrated manner the duties and responsibilities of auditing supervision in China and are consistent with practices of most other SAIs. In particular, by auditing budgetary implementation at corresponding levels, audit institutions not only submit reports on audit findings to the executive heads of governments and report audit work as entrusted by the governments to people's congresses at their corresponding levels but also publish

major contents of their reports on audit work through the mass media, which undoubtedly has furthered the impact of audit achievements to a higher level and within a wider scope.

Secondly, we have formulated 38 government auditing standards according to the requirements of the *Audit Law* and on the basis of summarizing audit experience accumulated during the past decade. These standards not only makes the contents and procedure of China's auditing more operable but also legalizes, systematizes and standardizes our audit work. The *Audit Law*, the *Implementation Rules of the Audit Law* and the *Government Auditing Standards* together have formed the legal framework of auditing in China.

Thirdly, theoretical research in auditing has been conducted with distinctive achievements. The discussions about the definition of audit has resulted in the formulation of a concise audit definition—an ideological standardization among audit institutions nationwide. The idea of commencing audit from bank accounts of budget units was initiated, thereby establishing the fundamental approach of performing audit in China. Such theoretical discussions and explorations have broadened the mentality of China's auditing personnel, provided them with greater motivation and laid an ideological and theoretical foundation for further development of auditing in China.

The above areas have constituted a basic audit framework with distinctive Chinese national characteristics. Therefore it is time for us to summarize China's practical experience of auditing into theoretical condensation.

At present, the majority of auditing textbooks in China were published prior to the promulgation of the *Audit Law*, thereby

lagging behind the development of audit practice in China. In this sense, the compilation of a textbook on auditing is in accordance with the need to communicate the most recent theoretical achievements and practical experience of auditing.

Theory both originates from and instructs practice. We are confident that the publication of *Auditing in the People's Republic of China* shall further promote the development of auditing in China.



Guo Zhenqian

Auditor General

National Audit Office of the People's Republic of China

February, 1998

# Contents

## Foreword

**Chapter 1 Introduction** ..... (1)

1. Definition of Audit ..... (1)

2. Significance of Establishing an Auditing Supervision  
System with Chinese Characteristics  
..... (8)

3. Establishment and Development of an Auditing Supervision  
System with Chinese Characteristics ..... (16)

**Chapter 2 Audit Institutions and  
Government Auditing Standards** ..... (32)

1. Audit Institutions ..... (32)

2. Government Auditors ..... (39)

3. Government Auditing Standards ..... (44)

**Chapter 3 Audit Responsibilities, Audit Mandate  
and Legal Liabilities** ..... (51)

1. Audit Responsibilities ..... (51)

2. Audit Mandate ..... (63)

3. Legal Liabilities ..... (72)

<b>Chapter 4 Audit Evidence and Audit Basis</b>	(80)
1. Classification of Audit Evidence	(80)
2. Quality Characteristics of Audit Evidence	(88)
3. Collection and Appraisal of Audit Evidence	(91)
4. Audit Basis	(97)
<b>Chapter 5 Audit Approach</b>	(103)
1. The Approach of Commencing Audit from Bank Accounts	(103)
2. Usual Audit Approaches	(108)
3. Special Techniques	(117)
<b>Chapter 6 Audit Working Papers</b>	(126)
1. Role of Audit Working Papers	(126)
2. Essential Elements and Preparation of Audit Working Papers	(129)
3. Review of Audit Working Papers	(134)
<b>Chapter 7 Audit Planning and Audit Implementation</b>	(138)
1. Audit Planning	(138)
2. Assignment Audit Preparation	(144)
3. Assignment Audit Programs	(148)
4. Audit Implementation	(152)
<b>Chapter 8 Final Stage of Audit</b>	(155)
1. Audit Reports	(155)
2. Letters of Audit Opinions	(162)
3. Audit Decisions	(171)



<b>Chapter 9 Audit of Public Finance .....</b>	<b>(180)</b>
1. Audit of Budgetary Implementation at Corresponding Levels .....	(180)
2. Audit of Budgetary Implementation and Final Accounts by Governments at the Next Lower Levels .....	(195)
3. Audit of Other Revenues and Expenditures of Public Finance .....	(207)
4. Reports on Audit Findings and Reports on Audit Work .....	(219)
 <b>Chapter 10 Financial Audit ( I ) .....</b>	<b>(227)</b>
1. Audit of Industry and Commodity Circulation Enterprises .....	(227)
2. Audit of Monetary Institutions .....	(249)
3. Audit of Undertakings .....	(263)
 <b>Chapter 11 Financial Audit ( I ) .....</b>	<b>(278)</b>
1. Audit of Agriculture Funds .....	(278)
2. Audit of Fixed Asset Investment Projects .....	(291)
3. Audit of Projects Applying Foreign Funds .....	(303)
4. Fund Audit .....	(323)
 <b>Chapter 12 Performance Audit and Environmental Audit .....</b>	<b>(344)</b>
1. Contents of Performance Audit .....	(344)
2. Basis for Performance Audit .....	(350)
3. Performance Audit Reports .....	(354)

4. Environmental Audit .....	(357)
<b>Chapter 13 Special Audit Investigations .....</b>	<b>(363)</b>
1. Contents, Features and Role of Special Audit Investigations .....	(363)
2. Subject Establishment and Implementation of Special Audit Investigations .....	(368)
3. Special Audit Investigation Reports .....	(377)
<b>Chapter 14 Quality Control of Audit Assignments .....</b>	<b>(383)</b>
1. Significance of Audit Assignment Quality Control .....	(383)
2. Quality Control of Audit Assignments .....	(387)
3. Quality Review of Audit Assignments .....	(392)
<b>Chapter 15 Audit Information .....</b>	<b>(400)</b>
1. Features and Role of Audit Information .....	(400)
2. Collection and Compilation of Audit Information .....	(405)
3. Communication and Utilization of Audit Information ...	(413)
<b>Chapter 16 Audit Archives .....</b>	<b>(421)</b>
1. Implication, Classification and Role of Audit Archives .....	(421)
2. Establishment of Audit Archives .....	(424)
3. Management of Audit Archives .....	(433)
<b>Chapter 17 Internal Audit .....</b>	<b>(438)</b>
1. Role of Internal Audit .....	(438)
2. Contents of Internal Audit .....	(448)

3. Instruction and Supervision Provided for Internal  
Audit by Government Audit Institutions ..... (453)

**Chapter 18 Public Audit ..... (457)**

1. Implication and Role of Public Audit ..... (457)

2. Public Auditors and Public Audit Organizations ..... (462)

3. Professional Standards of Public Audit ..... (469)

4. Business Scope of Public Audit Organizations ..... (472)

5. Instruction and Supervision Provided for Public  
Audit by Government Audit Institutions ..... (478)

**Appendix 1. Audit Law of the People's Republic of China  
..... (481)**

**Appendix 2. Implementation Rules of the Audit Law of  
the People's Republic of China ..... (497)**

**Appendix 3. Provisional Practice Directions for Auditing  
Central Budgetary Implementation ..... (521)**

**Postscript ..... (529)**

# Chapter 1 Introduction

China's *Constitution* establishes the legal status of auditing supervision. In 1982 the 5th Session of the 5th National People's Congress adopted the revised *Constitution of the People's Republic of China*, which stipulates that the system of auditing supervision shall be practiced in China. In 1983, the National Audit Office of China (CNAO) was established. Thereafter local audit institutions at various levels have been set up in succession. Over the past decade or so, an auditing system with Chinese characteristics has been established and developed together with the accumulation of invaluable audit experience.

## 1. Definition of Audit

The definition of audit should be a scientific summarization of audit practice and disclosure of the particular attributes of audit. With the establishment and development of the auditing supervision system in P. R. China, theoretical researchers and field auditors have carried out extensive discussions and studies about the definition of audit. In 1989, the National Seminar on Fundamental Audit Theories defined audit as "independent activities of economic supervision over the truthfulness, compliance and effectiveness of the revenues and

expenditures and other relevant economic activities of the audited bodies by professional organizations and individuals for the purpose of evaluating economic accountability, maintaining financial and economic laws and regulations, improving business management, upgrading value for money and promoting macroscopic readjustment”.

In order to establish a concise, accurate and popular audit definition which will reflect the features of audit and follow the international practices, researchers and field auditors nationwide have carried out further study. The 1995 National Seminar on Audit Definition summarized the concise audit definition as follows: “audit is the conduct of independently reviewing financial accounts and supervising the truthfulness, compliance and effectiveness of revenues and expenditures”.

Major implications of the concise audit definition include the following.

**1. 1. Audit refers to conducts independent of the audited bodies.**

Independence is the core feature of auditing supervision. The word “independently” in the definition means that audit institutions shall independently exercise the power of auditing supervision, i. e., independent of the audited bodies in the sense of organizational structure, personnel, conduct of work and funding, and subject to no interference from any other administrative bodies, social communities or individuals, for the purpose of ensuring the objectivity, fairness, authority and effectiveness of audit. Organizational independence refers to the fact that audit institutions are established separately without any organizational affiliation with the audited bodies. Independence of personnel means that auditors

rsonnel are not related to the audited bodies in any economic sense and shall not participate in any business management of the audited bodies. Auditors should withdraw from the concerned audit assignments where they are related to the audited bodies or the audit items. By independence of audit work, the definition means that audit institutions and auditors shall conduct audit, make audit judgment, complete audit reports and produce audit opinions and audit decisions independently in accordance with the law subject to no interference by any other administrative bodies, social communities or individuals. Independence of funds implies that funds necessary for audit institutions to fulfill their responsibilities shall be included in the budgets as a separate item according to the provisions of the *Audit Law*, so as to ensure adequacy of funds for the conduct of audit work. In addition, auditors shall be objective and fair towards the audited bodies and the audit items for the purpose of ensuring the independent nature of audit work.

1. 2. It is the special organizations and full-time professionals who conduct audit.

The definition of audit clarifies the question "who audits?". In the above definition, the word "independently" not only indicates that audit should be independent of the audited bodies but also implies that audit is a professional job performed in separation of other managerial activities. This is an important symbol distinguishing auditing supervision from other supervisory activities (especially other kinds of economic supervision). Supervision is an organic integration including political supervision, economic supervision, legal supervision, public supervision and media supervision, etc. Economic supervision itself can be divided into financial supervision, taxation

supervision, monetary supervision, industry and commerce supervision, price supervision, customs supervision, statistical supervision and accounting supervision, etc. Such activities of economic supervision, despite their role of supervision in their particular relevant areas, are carried out in combination with the special economic or administrative activities, which implies that such supervisory functions are only supplementary to specific managerial functions. Audit, however, is the only category of economic supervision that is conducted independently by special organizations or full-time professionals.

### 1. 3. **Audit is conducted of revenues and expenditures.**

Corresponding to the question "who audits", the definition also clarifies the question "audit what?". In China, audit is conducted of those state activities which are measured and reflected in monetary units and participate in the distribution and redistribution of national income, i. e. , revenues and expenditures of public finance, as well as those economic activities of state enterprises and undertakings which are measured and reflected in monetary units, i. e. , other revenues and expenditures. These two kinds of revenues and expenditures are not diametrically opposed. Rather, they overlap or coincide with each other in certain aspects and are both subject to audit.

The determination of revenues and expenditures as the subject of audit serves three purposes:

- (1) summarizing various types of audit subjects;
- (2) specifically reflecting the concept of economic trusteeship;
- (3) conforming with relevant provisions of the *Constitution* and the *Audit Law*.

1. 4. The fundamental means of audit is to review financial accounts of the audited bodies.

Revenues and expenditures of the audited bodies are reflected continuously and systematically through financial accounts in monetary units. Accounts are the carrier of activities related to revenues and expenditures. Therefore, examination of such accounts should naturally become the fundamental means of audit. It is believed that such a statement will facilitate a better understanding and knowledge of audit work and help disclose the distinction and connection between auditing, accounting and other relevant professional work. Accounting is responsible for preparing accounts and measuring and reflecting in monetary units revenues and expenditures and other specific economic activities. In contrast, auditing examines and supervises such accounts and other specific economic activities. There is, of course, a broader understanding of accounts, which includes books of account, historical vouchers and records as well as financial statements and other relevant information. Whatever becomes their carrier, the nature of financial accounts will remain the same while the fundamental means of audit will not be materially affected.

1. 5. Supervision is the basic function of audit.

Now that we have answered the questions of "who audits", "audit what" and "how to audit", the next question is "what are the essential attributes and inherent function of audit". In a broad sense, the function of management consists of decision-making, planning, organizing, instructing, coordinating and control. Control can be carried out by the management together with other functions or by special organizations or full-time professionals



independent of the management. Audit is the conventional conduct of special supervision and control over revenues and expenditures independent of the management and without participating in specific managerial activities or performing the functions of decision-making, planning, organizing, instructing and coordinating. No matter whether there are problems existing in the audited bodies, audit shall be conducted as a routine. Therefore, supervision is the inherent and basic function of audit. To be more specific, audit is conducted to determine whether the audited bodies have fulfilled their accountability in their economic activities in accordance with relevant authorization and pre-fixed targets and whether there are practices of fraud, irregularities, losses and wastes. It is also carried out for the purpose of urging the audited bodies to adopt measures to operate along the normal and proper orbit. While fulfilling the function of supervision, audit will inevitably involve evaluation of the performance of some managerial functions, which will facilitate the production of recommendations for business management, e. g. feasibility of decisions, plans and programs, whether such decisions, plans and programs are implemented, the quality of performance and the existence and effectiveness of the internal control systems. The result of auditing supervision is also a kind of certification for the management or other interested parties. For instance, audit also fulfills the function of economic certification when determining whether the audited bodies truthfully record their revenues and expenditures in their accounts and whether the adoption of accounting policies and methods is consistent. However, these are only the derivatives of the supervisory function of audit.

1. 6. The purpose of audit is to ensure the truthfulness, compliance