

Research on the Effectiveness of Financial Audit on the Supervision of State-owned Banks

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Abstract

The goal of financial audit is to safeguard national financial security. State-owned banks are an important member of China's financial system. The supervision effect of financial audits on state-owned banks is crucial for national financial stability. This paper analyzes the effectiveness and problems of the state-owned banks' supervision by the financial audits issued by the National Audit Office from 2003 to 2018, and proposes some corresponding solutions.

Keywords

Financial audit, state-owned banks, supervision effect.

1. Introduction

In China's financial system, state-owned banks are the most important component. Whether state-owned banks are stable is related to the implementation of China's financial system and economic policies. Since the reform and opening up, the five major commercial banks in state-owned banks have undergone institutional reforms and listed, becoming industry leaders in China's commercial banks, promoting the overall development of China's commercial banks, and working with the National Development Bank, the Export-Import Bank, and the Agricultural Development Bank. China's macroeconomic development has made important contributions. However, with the rapid development of Internet finance, various Internet financial products have caused great impact on the banking industry. In order to adapt to the ever-changing competitive environment and enhance its competitiveness, the banking industry continues to explore financial innovation business. The development of financial supervision is relatively backward.

In the first meeting of the Central Audit Committee in May 2018, Xi Jinping, director of the Central Audit Committee, proposed that the state should improve the depth and breadth of the audit and avoid monitoring blind spots. In the context of the new era, financial auditing, as an important part of national auditing to promote national governance and maintain financial stability, is particularly important for the auditing supervision of state-owned banks. This paper analyzes the effectiveness and problems of China's financial audits through the audit announcement from 2003 to 2018, and proposes the solutions.

2. Summary of Audit on State-owned Banks Announcements

Through the collection and compilation of the Audit Commission's announcements of the first audit results from 2003, the National Bank Financial Audit Announcement has been collected. From the perspective of auditors, there are 20 announcements of state-owned commercial banks and 6 announcements of policy banks. Judging from the audit content, there were 17 auditing results related to the profit and loss of assets and liabilities, and 7 cases concerning the auditing and rectification of

the problems identified by the audit. This section summarizes the 17 audit announcements for auditing the profit and loss of assets and liabilities as shown in Table 1. In the table, a indicates major business violations including the following aspects, such as a1 indicates deposit business violations, a2 indicates loan business violations, a3 indicates bill business violations, a4 indicates settlement business violations, a5 indicates financial revenue and expenditure business violations; b indicates corporate governance and internal management Problem; c indicates that there are problems in risk management; d indicates that policy implementation is not in place; e indicates accounting and accounting treatment are not standardized; f indicates suspected illegal crime; and g indicates financial innovation and other business violations. By sorting out the audit announcements related to state-owned banks, it can be seen that there are 17 announcements about major business violations, 10 announcements about corporate governance and internal management, and 6 announcements about risk management and control. There are announcements about 3 policy implementations, 7 announcements about accounting and financial processing, 9 announcements about criminal offences, and 3 announcements about financial innovation.

Table 1 Summary of Audit Announcements on State-owned Banks Issued by the National Audit Office

Number of audit announcement	Auditee	Names of audit announcement	Audit results
No. 6 of 2004	ICBC	Results of Assets and Liabilities Profits and Losses Audit in 2002	a1,a2,a3,e,f
No. 4 of 2006	ABC	Results of Assets and Liabilities Profits and Losses Audit in 2004	a1,a2,a3,c,e,f
No. 5 of 2007	BOC,BCM	Results of Assets and Liabilities Profits and Losses Audit in 2005	a1,a2,a3,a5,b,c,f
No. 8 of 2008	CDB,ABC	Results of Assets and Liabilities Profits and Losses Audit in 2006	a2,a4,b,f
No. 7 of 2010	ADBC	Results of Assets and Liabilities Profits and Losses Audit in 2008	a2,b,f
No. 8 of 2010	ABC	Results of Assets and Liabilities Profits and Losses Audit in 2008	a1,a2,a3,b
No. 24 of 2012	ICBC	Results of Assets and Liabilities Profits and Losses Audit in 2010	a2,a3,a4,b,e
No. 13 of 2013	CEXIM	Results of Assets and Liabilities Profits and Losses Audit in 2011	a2,b
No. 14 of 2013	ABC	Results of Assets and Liabilities Profits and Losses Audit in 2011	a1,a2,a4,b
No. 15 of 2013	CCB	Results of Assets and Liabilities Profits and Losses Audit in 2011	a1,a2,a3,e,g
No. 6 of 2014	ADBC	Results of Assets and Liabilities Profits and Losses Audit in 2012	a1,a2,e
No. 7 of 2014	BOC	Results of Assets and Liabilities Profits and Losses Audit in 2012	a1,a2,a3,e
No. 19 of 2015	CDB	Results of Assets and Liabilities Profits and Losses Audit in 2013	a2,a5,b,f
No. 20 of 2015	BCM	Results of Assets and Liabilities Profits and Losses Audit in 2013	a1,a2,a3,a4,a5,c,e
No. 22 of 2016	ABC	Results of Assets and Liabilities Profits and Losses Audit in 2014	a1,a2,a3,a5,c,d,f,g

No. 39 of 2018	ICBC	Results of Assets and Liabilities Profits and Losses Audit in 2016	a1,a2,a3,a4,a5,b,c,d,f
No. 40 of 2018	ABC	Results of Assets and Liabilities Profits and Losses Audit in 2016	a2,a3,a5,b,c,d,f,g

3. Analysis of the Effectiveness of Financial Auditing on the Supervision of State-owned Banks

Through the analysis of audit announcements, we can find that the main problems found in the audit supervision of state-owned banks are as follows: a, b and f (as shown in Table 1). After the audit, the state-owned banks will rectify the problems found in the audit. The supervision of financial audit on the state-owned banks has achieved the following results.

3.1 Guarantee the Assets Safety of State-owned Banks

Through the summary of the audit announcement, it can be found that the financial audit investigates and handles the amount of problems involved in illegal activities such as state-owned bank deposits, loans, financial revenues and expenditures, bills, settlement services, etc., and urges relevant banks to carry out rectification. It is also found that the financial audit has played a positive role in safeguarding the asset security of state-owned banks. For example, according to the announcement No. 24 of 2014, ICBC issued 11 billion yuan of loans in violation of regulations and handled 1.779 billion yuan of bills, letters of credit and settlement business in violation of regulations. ICBC withdrew 2.535 billion yuan of illegal loans, rectified 6.618 billion yuan of illegal loans through supplementary and improved procedures, and completed the business of bills, letters of credit and settlement in violation of regulations. It has rectified, adjusted the relevant accounting accounts, revised, supplemented and improved the relevant systems and processes.

3.2 Reveal the Illegal Clues of State-owned Banks

Through the disclosure of a series of major criminal offences of state-owned bank banks, the financial audit helped the judicial organs crack down on a number of illegal crime cases, demonstrating the authority and deterrence of financial auditing on state-owned banks' supervision, and played an effective warning role. Financial audits start with the non-performing assets of state-owned banks. Through data analysis, the case clues can be found and revealed step by step. The specific content of the cases involve fraudulent bank loans, for example, Shanxi Nike Solar Technology Co., Ltd. through the forgery project contract and the preparation of false financial statements, etc., from the ICBC of Shanxi Branch Wanbo Branch Defrauding the order financing loan of 170 million yuan, resulting in loan losses of more than 80 million yuan from 2011 to 2012. In October 2013, the Audit Commission transferred the clue to the Ministry of Public Security for investigation. In addition, there are bank personnel who handle business in violation of regulations. For example, the Audit Commission transferred the clues to the Ministry of Public Security for investigation in May 2016, and the Beijing Intermediate People's Court sentenced Wang Chao and Guan Qi to three years in prison for accepting bribes in November 2017.

After finding problems through auditing, the Audit Office send relevant illegal and disciplinary clues to the Ministry of Public Security or the Procuratorate for investigation, and then the court will make relevant judgments, so as to deter illegal elements inside and outside the bank and achieve the effect of preventing bank crimes. Through the handling of criminal cases in the banking sector, financial audits have promoted anti-corruption and promoted national financial security.

3.3 Promote the Construction of State-owned Banking System

For state-owned banks, finding problems and dealing with them is only a correction of past problems. Only by establishing a good internal control and risk prevention system can we fundamentally solve the problem. Therefore, how to promote the improvement of the state-owned banking system is the

top priority of financial auditing supervision. Judging from the audit announcement of state-owned banks, the issues concerning bank governance and internal management and risk management and control have been mentioned many times(as shown in Table 1), and many relevant suggestions for improvement have been put forward.

After entering the period of full audit coverage, the Audit Commission has further increased its focus on risk management and internal control issues. In the relevant state-owned bank audit announcements issued after 2015, risk management and control, bank governance and internal management issues were focused as business operations, and were released as a large category. For example, it is founded that the emergency information rating of the important information system of the Agricultural Bank is not accurate enough, and 10 system emergencies are not reported in time, and credit management system are inaccurate in Announcement No. 40 of 2018.

It can be seen that the system defects revealed by the audit will prompt the state-owned banks to pay more attention and formulate corresponding improvement measures, so as to strengthen the bank's own ability to resist problems, and the supervision of financial audits has played an important role in promoting the construction of the state-owned banking system.

4. Analysis of the Existed Problems in the Supervision of State-owned Banks by Financial Audit

Through the classified analysis of the state-owned bank audit announcement issued by the National Audit Office, it is concluded that the financial audit has achieved the effectiveness. However, financial audits have some problems in the process of monitoring state-owned banks.

4.1 Insufficient Timeliness of Financial Auditing for State-owned Banks

Through the analysis of the audit results announcement of the state-owned banks issued by the National Audit Office, it was found that the time when the auditing department began auditing the state-owned banks and the final announcement of the relevant audit announcements were about one year apart. This may affect the public's right to know about the audit results and the transparency of financial audits to the supervision of state-owned banks. The reason for this situation is mainly due to the cumbersome state-owned banking business and the huge amount of funds. The auditing manpower and material resources are insufficient. Moreover, most of the financial auditing methods in the auditing process of state-owned banks adopt the method of rectification while auditing, resulting in the time of the announcement is very close to the time when the state-owned bank issued the rectification announcement, which led to the lack of timeliness of the financial audit announcement. Therefore, the public has questioned the transparency and independence of the financial audit process.

4.2 Bank Rectification Results Announcement is Not Standardized

In recent years, the auditing and rectification of the state-owned banks by the National Audit Office has been announced by the banks themselves. Through the review of the rectification notices disclosed by the state-owned banks, it can be found that the rectifications announced by the banks are not specific enough, and the specific number of adjustment problems and the relevant responsible persons. The specific content of handling the situation and perfecting the system has not been announced. The rectification content disclosed by some banks did not disclose the issue of audit release, only including the overall situation of the rectification process and content. This will cause the public to question the fairness and transparency of the audit follow-up supervision.

4.3 Some Problems are Repeated

Repeated trials and repeated violations of some issues will cause the public to question the effectiveness of the supervision of financial audits. If this problem cannot be solved, the effectiveness of the audit work will be greatly reduced. Through audit announcements, it can be found that repeated violations issues have occurred in recent years. As shown in Table 1, through the analysis and

summary of the audit announcements issued by the National Audit Office of the Agricultural Bank of China announced by the Audit Commission as of October 2018, it was found that the six repeated problems involving loan business violations.

5. Related Suggestions

Through the analysis of the audit announcement, it is found that the financial audit is effective, but there are still some problems. Suggestions are put forward to solve the above problems.

5.1 Improve the Financial Auditing Process for State-owned Banks

The lack of timeliness of financial audit announcements is mainly due to the cumbersome state-owned banking business and the huge amount of funds. The auditing manpower and material resources are insufficient, and financial auditing mostly adopts the method of auditing and rectifying in the auditing process of state-owned banks. This paper constructs a system of financial audit supervision process through the following aspects to improve the timeliness of financial audit announcements.

Firstly, the financial audit announced the corresponding audit announcements on the Internet after auditing, and ordered the state-owned banks to carry out rectification. Secondly, the state-owned banks announced the corresponding rectification measures and rectification results on the Internet after rectification. Finally, the financial audits were based on the rectification results of the state-owned banks. Conduct an audit and publish the corresponding audit announcement on the Internet as shown in Figure 1. This not only improves the timeliness of financial audit announcements, but also enhances the transparency of financial audits to state-owned banks and allows the public builds good confidence on the independent and transparency of financial audits.

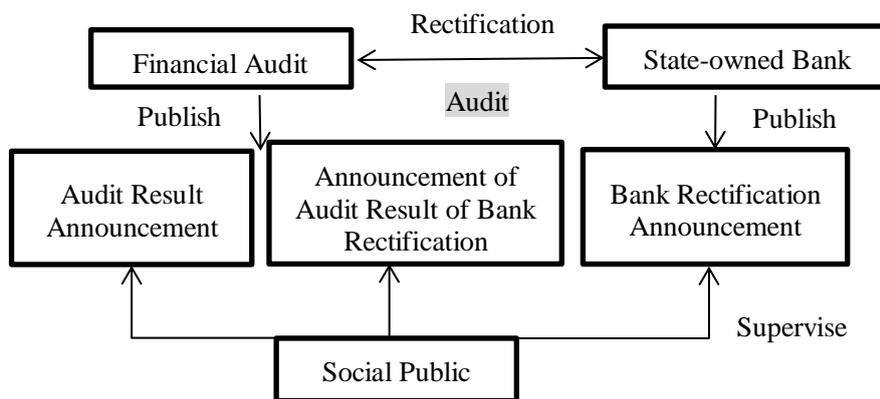


Fig. 1 The Supervisory Process of Financial Audit on State-owned Banks

5.2 Formulate a State-owned Bank Rectification Announcement System

The Audit Office should formulate corresponding systems to regulate the rectification announcements of state-owned banks so that the public can understand the specific rectification of banks and enhance the transparency of audit supervision. The system formulated by the Audit Office should be standardized in the following aspects:

Firstly, the bank's rectification announcement should first summarize the audit results announcement, and then give a brief overview of the rectification process.

Secondly, in accordance with the specific issues disclosed in the audit results announcement, the corresponding treatment measures, the relevant amount dealt with, the responsible person and the amount to be dealt with, the responsible person and the reasons for not dealing with should be published.

Thirdly, the bank's rectification announcement shall publish the results of the rectification and the risk prevention system formulated.

5.3 Improve the Accountability Mechanism of Financial Auditing for State-owned Banks

In view of the problem of repeated audits by state-owned banks, financial auditing should improve the auditing accountability system, fundamentally solve the problem, and give full play to the preventive effect of auditing. Premier Li Keqiang proposed at the State Council executive meeting in 2017 that we should not only resolutely rectify these problems, but also seriously study them and establish a long-term mechanism.

At present, China's financial audit lacks direct accountability. In order to strengthen the reform efforts, the audit departments should take the lead, make clear requirements for the rectification work of the audited units, determine the time limit for the rectification, let the disciplinary commission, supervision, finance, organizations, courts cooperating with the audit accountability. Joint departments and accountability mechanisms should be built, and strengthen the supervision and inspection of the implementation of the rectification. Moreover, the problems found in financial audit should not only be implemented in branches, but also in specific persons. Through the investigation and analysis of the actual situation of the problems, the responsibility should be allocated, and the responsibility of collective responsibility and individual responsibility, implementation responsibility and leadership responsibility should be distinguished, so as to ensure that all responsible persons are accountable. In the announcement of audit results, specific units and individuals should be named one by one in the audit report. More than one person should disclose the main accountability personnel. The deterrence of naming criticism and non-naming criticism is different, and the attention of public opinion is also different.

6. Conclusion

Through the analysis of the audit announcement of the state-owned banks announced by the National Audit Office from 2003 to 2018, it is found that the effectiveness of China's financial audits on the supervision of state-owned banks guarantees the security of state-owned banks, reveals the illegal clues of state-owned banks, and promotes the construction of state-owned banks. On the basis of the results, there are some problems such as insufficient timeliness of state-owned banks supervision by financial audits, insufficient regulation of bank rectification results, and repeated trials of some issues. In response to these problems, this paper enhance the supervision effect of financial audits on state-owned banks through perfecting the supervision of state-owned banks by financial auditing, formulating the state-owned bank rectification announcement system, and the improving of the financial auditing accountability mechanism, and so on.

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