

The Nature of Auditing

NATURE IS THE FUNDAMENTAL PROPERTY and essence of a thing that makes it different. From the perspective of intrinsic property, the nature of auditing provides an understanding of what auditing is. It is the inherent and relatively stable fundamental property that decides the appearance and evolution of auditing, and is the basic feature that distinguishes it from other things. From the perspective of extrinsic correlations, the nature of auditing provides an understanding of why auditing is necessary, which sets the starting point of auditing, including its duties, functions, roles, and methods to achieve them.

I. SEVERAL VIEWPOINTS ON THE NATURE OF AUDITING

People's cognition of things, phenomena, and processes is an infinite process of understanding leading from phenomena to nature, and from a superficial to a profound degree.¹ The cognition of the nature of auditing deepens with the development of audit practice, the further exploration of laws of auditing, and the rising awareness of auditing. Only through in-depth analysis and research

of existing cognitions, and by conscientiously summing up and refining audit experience and rules, can we accurately summarize the nature of socialist government auditing with Chinese characteristics.

Government auditing as an institutional arrangement was created and developed to meet certain objectives. Due to differing needs, countries have different audit system arrangements at different stages of their socioeconomic development, and the contents, responsibilities, and roles of auditing are also very different. In the early years after the founding of the People's Republic of China (PRC), independent auditing departments were not set up, and finance, banking, and taxation departments supervised their own revenues and expenditures according to their business management situation. The PRC Constitution promulgated in 1982 stipulated a government auditing system, and the establishment of audit offices by the State Council and local people's governments at county level and above. Over 30 years of development, the government audit system has been improved continuously, and audit guidelines, central tasks, priorities, and roles amid socioeconomic changes have undergone significant change. Based on different presentations of auditing in different historical periods, thinking on government auditing nature emerged from different perspectives and levels with distinctive characteristics of the times. They can be mainly divided into the following five categories.

(1) Theory of Accounts Checking

According to the Theory of Accounts Checking, auditing simply means the checking of accounts. This theory is viewed from the perspective of audit methods/means, with a simple or preliminary conclusion, and an accepted view on the nature of social auditing. This traditional theory is intuitional, visual, easy to understand, and still has great influence. The reasons for the emergence of this theory include: In early periods, most audits focused on checking accounts, and audit means and functions were relatively simple, encouraging a relatively intuitive approach. In 1953, the Committee on Terminology of the American Institute of Certified Public Accountants (AICPA) offered this definition in Accounting Terminology Announcement No. 1: "Auditing is an inspection means aiming to express views on fairness and consistency of the financial statements provided by a company or other entity to the public and the parties concerned in accordance with generally accepted accounting principles." *Encyclopedia Britannica* (1974) recorded that "Audit refers to the inspection of business activities, account books and financial statements by accounting experts excluding the accounting personnel originally responsible for preparing the accounts and statements."

The Theory of Accounts Checking interprets auditing from the perspective of audit means, but can only explain the characteristics of traditional financial auditing and social auditing, and cannot conform to the requirements of government auditing. For example, performance auditing, accountability auditing, resources and environmental auditing, and real-time auditing on policy implementation cannot be described as “checking accounts.” Due to the long-term influence of the Theory of Accounts Checking, government auditing was positioned as “detecting errors and correcting disadvantages.” The Theory of Accounts Checking advocated that government auditing institutions mainly function to rectify financial accounting and economic activities, while ignoring the roles of government auditing in socioeconomic development, the nation’s political and legal system construction, and national governance.

(2) Economic Supervision Theory

According to the Economic Supervision Theory, the main idea of government auditing is as follows:

The trusted economic responsibility relationship generated by the separation of ownership from the right of operation and management is the basis of auditing. It was developed for the owners to supervise the trusted economic responsibility performance situation of operators and managers. Auditing is an economic supervision activity carried out to evaluate, confirm and prove whether trusted operators and managers have properly performed their assigned economic responsibilities.²

Economic Supervision Theory was widely recognized by Chinese auditors in the 1980s–1990s. A national seminar on basic audit theories in 1989 proposed that auditing was the independent economic supervision activity carried out by a professional agency and its personnel in accordance with the laws to review the truthfulness, compliance, and performance in regard to financial status, financial revenue and expenditure, and relevant economic activities of audited units, and evaluate economic responsibilities, so as to maintain the financial laws and discipline, improve management and economic returns, and strengthen macrocontrol. The National Seminar on Audit Definition in 1995 further clarified: Auditing is an act of independently checking accounting records and supervising truthfulness, compliance, and performance of financial revenues. The two definitions, with profound impact on auditing theory and practice, were proposed from the viewpoint that economic supervision is the nature of auditing.

Defining the nature of government auditing as economic supervision and stressing its important role in the economic field, its supervision functions, the focus on specific economic behavior, and the detection of major violations of laws and regulations fulfilled the audit environment requirements and actual conditions of auditing offices in the early years, and played an active role in helping people understand and accept auditing. However, with economic and social development, Chinese audit practice has undergone significant change. Especially in recent years, government auditing has played an active and constructive role in political, economic, cultural, social, and ecological construction, as well as all other socioeconomic aspects. However, the Economic Supervision Theory cannot be used to explain changes of audit practices and their constructive role any longer.

(3) Economic Cybernetics

According to Economic Cybernetics, government auditing is an economic control activity.³ Its main idea is as follows: Auditing was developed based on the trusted economic responsibility relationship. Upon starting a project for a client, auditors directly seek audit problems and determine any punishment, and report the accountability performance situation back to the client with judgment on the necessity of “correction,” which brings into play the important role of information in system operation control. Therefore, auditing, especially government auditing, is a control mechanism ensuring accountability performance.

Economic Cybernetics stresses that auditing is part of the control mechanism for ensuring effective accountability performance. Its abstract description of direct correction by the audit office is in line with the actual situation of government auditing. There is widespread belief that control includes supervision. Supervision, in fact, is only an element of control. Although the objects of control and supervision are both information, the actors differ in attitude. Control is positive, while supervision is relatively passive and serves the overall control purpose. Therefore, compared to Economic Supervision Theory, Economic Cybernetics has richer content.⁴

Economic Cybernetics was proposed on the basis of recognizing that auditing is supervisory behavior, and summarizes the nature of auditing from the perspective of its direct role. Both it and Economic Supervision Theory emphasize the important role of government auditing in economics, and the focus on specific economic activities and economic matters, while ignoring its important role in the political, cultural, social, and environmental construction, as well as the macrofield.

(4) Power Restriction Theory

The Power Restriction Theory derives from a concept in *The Spirit of Law*, written by French thinker Montesquieu in the eighteenth century: "All powerful men are likely to abuse the power and will not stop until being restricted . . . To prevent the abuse, power must be restricted by power."⁵ According to this viewpoint, we can conclude that government auditing, through supervision of management and use of public resources during the exercise of government powers, ultimately aims to control government power and prevent corruption and power abuse. After auditing the responsibility performance of administrative organs, government audit offices report the results to legislative bodies for possible further investigation. In fact, government auditing is the means and the mechanism for checks and balances between legislative and executive power. If audit supervision is regarded as a power, auditing by government audit offices is a process of restricting one power with another.

The Power Restriction Theory breaks the limitations of the Economic Supervision Theory and Economic Cybernetics concerning positioning in the economics field, and summarizes the nature of government auditing from the perspective of political science. It determines the nature of government auditing as power restriction, and stresses that auditing, as a power restriction tool, is a political system arrangement mainly used to restrict and prevent power abuse and corruption. This theory plays an active role in establishing the government audit theory from a political perspective, and guiding auditors to widen audit work to the political and social perspectives rather than merely the economic perspective.

However, the Power Restriction Theory was not unanimously accepted. Some scholars argued that it stressed the restrictive role of auditing, while giving insufficient attention to the constructive role of government auditing in promoting more effective exercise of powers. Others believed it still could not reasonably explain the design and implementation of the government audit system of administrative organs.

(5) Theory of Democracy and Rule of Law

According to this, modern government auditing is a product of democracy and rule of law, and also a tool for promoting these concepts.⁶ Democracy and the rule of law are the basis of national governance. From the perspective of audit origin and development, an independent government audit system cannot operate well without sound rule of law. Of major importance is the safeguarding of independence, providing audit evidence and standards, and maintaining

the efficiency and authority of audit results. The theory stresses that modern auditing is a means of promoting democracy and the rule of law mainly due to three aspects: Government auditing comes from and acts on behalf of the laws. In many countries, audit status is established constitutionally. Modern government auditing plays an active role in advancing the rule of law and safeguarding its dignity: (1) supervising the enforcement of financial laws and regulations, to maintain the solemnity of the law; (2) urging administration by law; and (3) revealing problems through auditing to improve laws and regulations. Furthermore, government auditing is derived from and serves people's democracy. Upon entrustment by the power organs, government audit agencies, on behalf of the masses and taxpayers, supervise government responsibility performance and report to the people. Therefore, government auditing is a tool for promoting democracy. Finally, as a tool for democracy and the rule of law, it is fully constructive. Democracy and the rule of law are complementary and inseparable. We should balance the interests of individuals, groups, and the whole society and build a harmonious society and avoid overly rigid law enforcement. Otherwise, true democracy cannot be achieved. Therefore, government audit offices should conduct regular financial auditing, supervise government departments and state-owned enterprises, broaden their horizons, reflect more public appeal, and pay more attention to people's fundamental interests. From this perspective, government auditing as a tool for promoting democracy and rule of law is active, creative, and constructive.

Compared to the Power Restriction Theory, the Theory of Democracy and Rule of Law expounds the relationship between government auditing and democracy from the political perspective, and also the relationship between government auditing and the rule of law from the perspective of establishing a law-based country. It emphasizes the supervisory and restrictive role of government auditing, and also the promotional aspect. Therefore, this theory is an abstraction and generalization of government auditing as an institutional arrangement from a higher level and a wider range.



II. UNDERSTANDING THE NATURE OF GOVERNMENT AUDITING FROM THE PERSPECTIVE OF NATIONAL GOVERNANCE

The foregoing analysis shows that recognition of the nature of government auditing is a gradual process, with certain characteristics of the times and history. But most fundamentally, we should constantly and promptly adapt to

social changes and try to reveal the laws behind social phenomena, to maintain the vitality and creativity of government auditing. Engels said, “The theoretical thinking of every era, including the present, has historic characteristics. In different ages, it has completely different forms and contents.”⁷ Currently, to address a series of challenges including economic globalization, technology development, and diversification of public demands, all countries highlight improvement of national governance to seize opportunities and meet challenges. Against such a background, an important requirement for government audit theory and practice was to understand the nature and positioning of government auditing based on national governance needs so as to guide scientific development of the government audit cause.

The word “governance” is derived from Latin and ancient Greek, originally meaning control, guidance, and manipulation.⁸ For a long time, “governance” and “government” were used interchangeably for management and political activities in regard to national public affairs. In the late 1970s, with major economic and social transformation underway, governance theories attracted extensive attention from social scientists, and countries everywhere launched governance-based reforms. Governance extensively involves “each social organization and institution including the family and the State,” and stresses “three important governance departments directly related to sustainable human development, namely the State (governmental organizations and institutions), civil social organizations and private sectors.”⁹ Western and Chinese scholars and research institutions have different understandings about the governance concept and connotation, however. After studies, we define governance as the process of controlling and managing state affairs and social affairs and providing services by configuring and exercising state powers, so as to ensure national security, safeguard national interests and people’s interests, maintain social stability, and promote scientific development. The core idea about the nature of government auditing from the perspective of national governance can be summarized as follows: Government auditing was generated and improved to meet national governance needs, and serves as an “immune system” for national governance, as well as the cornerstone of national governance and an important assurance for promoting modernization of national governance.

(1) Government Auditing Improved to Meet National Governance Needs

This cognition is mainly based on the Marxist theory of state in political science. It expounds the definition and nature of the state mainly from three aspects:

1. **Theory on the Origin and Nature of the State.** The first is the tool theory. In the *Critique of Hegel's Philosophy of Right*, Marx revealed the origin of the state from the perspective of the relationship between the state and civil society. He proposed that: "The State did not exist intrinsically . . . As the economy developed to a certain stage, society inevitably became fragmented into classes, thus contributing to the establishment of States."¹⁰ That is to say, conflicts among various interest groups contributed to the emergence of the state, which became a tool of maintaining class rule. The second is the arbitrator role theory. Engels commented on Marx's view on the origin and nature of state as follows: "The origin of the State is as follows: society was trapped in unsolvable self-contradictions. . . To avoid the elimination of the opposite classes and society in the meaningless conflicts, a force superficially superior to the society should be generated. This force should be able to ease conflicts and keep conflicts within an orderly range. This force, that comes from society but is superior to society, and increasingly separate from it, is called 'the State.'"¹¹ That is to say, the state as a superficial mediator can help mutually conflicting classes achieve a temporary balance in special periods and becomes the basis for avoiding social breakdown or disintegration.
2. **Theory on the Relationship between Economic Base and Superstructure.** In *The German Ideology*, Marx said that "civil society always marks the social organization developed directly from production and communication. Such social organization always constitutes the basis of the State and any other conceptual superstructure."¹² Marx also believed that "a personal material life that does not change with personal will, i.e., a mutually restricted production mode and communication mode, are the realistic basis of the State, and does not change with personal will on the basis of division of labor and private ownership. These realistic relationships are not created by State power, but are the forces of creating State power."¹³ That is to say, the state as part of the superstructure is decided by economic fundamentals.
3. **Theory on State Functions and Alienation.** Marx believed that the state functions "cover all kinds of social public affairs, and also include all special functions to address the contradictions between the government and the people."¹⁴ That is to say, the state functions to maintain the ruling authority and force opponents to surrender, and also undertakes the public mission of social management and cultural education. According to the social development process, national governance functions will gradually shrink, while public affairs management functions gradually expand.

However, state functions, especially public affairs management functions, are often alienated because some ruling classes pursue their own interests. In that case, the state becomes a tool for some classes to pursue their own interests rather than the inherent general interests of a civil society. “For some bureaucrats, the State becomes a tool to achieve their own purpose, win promotion and get rich.”¹⁵ Marx criticized Hegel’s view that an “internal hierarchy supervision system of bureaucracy can prevent the abuse of State power,” thinking that depending solely on internal supervision is a self-deception. To prevent this situation, we must break the mystique and monopoly of state power based on the principle of political openness, and conduct effective external supervision on the basis of democracy.

According to the State Theory of Marx, during the evolution and development of the state, various state powers must be balanced and restrained mutually, healthy running of the state must be supported in finance, policy, and law, and so on; to avoid alienation of the state into a tool for some classes to seek their own interests and prevent abuse of state powers, we must create a state power configuration of mutual checks and balances through effective national governance. In the power allocation process, the state, on behalf of people, authorizes some public authorities and persons in power to allocate, manage, and use the public resources, public finances, and public assets, and also legally authorizes some independent organs to supervise the exercise of public power through various ways, especially government auditing. In terms of the origin and significance of auditing, “the government only cared about accounting revenues and expenditures and collecting taxes in the beginning. To this end, the government adopted control means including auditing, to reduce errors and malpractices caused by the incompetence or fraud of officials.”¹⁶ This can be fully verified by the origin of the state.

In the beginning, the state developed from the clan society had a small scale and single functions, and was established on the basis of original democracy; government officials were elected by the citizens, mainly to safeguard national territorial security, social order, and stability. Because of low productivity, the fiscal revenue from citizens had to be kept at a relatively low level as much as possible, and government officials received more direct supervision. Government officials’ compliance with the social and moral standards is a decisive factor of judging the law enforcement legitimacy of government (officials). As a result, systems like the property audit system of Athenian society were established. Under such systems, any officer whose embezzlement was established after auditing of his properties when he came into office and when

he left office would be severely punished.¹⁷ At that time, each citizen could be elected as a government official, so everyone might be audited. The implementation of the official property audit system meant total lack of public tolerance for the embezzlement of public properties. This system helped prevent the abuse of limited government revenues, improved national governance, and eased contradictions between government officials and resource providers.

With the development of social productive forces, the state gradually expanded in scale. The further social division of labor resulted in the further differentiation of social class, government bureaucracy gradually formed, and government officials gradually became independent interest groups. Social classes providing financial sources, through financial auditing as a control tool, minimized the economic costs to maintain the running of state apparatus, and urged government officials and even the rulers to perform their responsibilities in accordance with certain code of conduct. Auditing became a necessity for the government to win the trust of the ruling class and obtain needed financial sources.

With the further expansion of the state scale, the highly centralized feudal bureaucracy system was formed. Conceptually, the emperor had the supreme power in every aspect. More complex principal-agent relationships existed between the royal family and government bureaucrats at all levels. To maintain the normal running of the state apparatus, the emperor effectively restricted government bureaucracy behavior at all levels through auditing, and required them to provide real data on payable taxes, so as to obtain necessary revenues and safeguard financial security.

With the success of capitalist revolution and the continuous improvement of productivity due to scientific and technological development, democracy became an increasingly important basis for the legitimacy of governance. Meanwhile, two world wars and the continuing economic crisis meant state scope and functions expanded continuously, and public resources obtained, dominated, and used by the state increased continuously. Although taxpaying is the obligation of every citizen, an ever-increasing tax burden created a public demand for government to control expenditures. In this period, government auditing became a direct means to control government expenditures and ensure reasonable exercise of power, and played a crucial role in ensuring the normal running of the state apparatus.

The process of state development shows that generation and improvement of government auditing derived from national governance, national governance needs determine the generation of government auditing, and national governance objectives determine the direction of government auditing. Under specific historical conditions, government auditing followed its own internal

law, and its objectives, tasks, priorities, and methods changed with those of national governance. Government auditing always plays an irreplaceable role in national governance.

(2) Government Auditing as an “Immune System” for National Governance

This is mainly based on the system theory. “System” came from ancient Greek, with the connotation of “being combined, integrated, and orderly.” Ludwig von Bertalanffy (1901–1972), the founder of modern system theory, thought that “system is the whole of various components correlated and related to the environment”; the *Modern Chinese Dictionary* explains that “system is the whole of similar things with certain correlation.” The *Encyclopedia of China* defines system as “the organic whole of interactional elements”; American system management master Fremont E. Kast argued that “system is an organic and entire unit which is clearly different from other systems and composed of at least two interdependent parts, components or subsystems.”¹⁸ According to these definitions, system should have four basic meanings: It consists of several interrelated elements, it has a common goal, it is an organic whole made up of several elements, and it always has a certain relationship with the environment.

According to the requirements of system theory, the state is a large system. Regardless of any difference in national governance system and mode, the core of governance always lies in the effective allocation and exercise of public power, and different organs should respectively undertake the duties of decision making, execution, and supervision, mutually communicate, interact, and depend on each other to jointly maintain the healthy development of the economy and society. Among them, the decision-making organs mainly function to analyze and process information according to national governance goals, make, optimize, and assess feasible plans, coordinate and control the decision-making process, and make final decisions; the executive organs mainly function to accurately execute decisions and achieve decision-making goals and tasks; and supervision and control organs mainly function to supervise the executive system in decision execution, feedback the assessment situation to the decision-making system, urge the timely decision amendment, and put forward the suggestions on reward and punishment. Government auditing belongs to the scope of supervision and control, serves the decision-making organs of national governance, and plays the role of supervising and restraining the organs of executing national governance. If national governance is compared to the life system, government auditing can be called an “immune system” because the

role and action mechanism of government auditing are highly similar to those of a body's "immune system." In other words, government auditing can help to detect the risks of affecting economic and social development, reveal potential hazards, prevent such risks with statutory powers, coordinate various forces in a timely way, and suggest to governments or appropriate authorities ways to avoid risks with a variety of resources, so as to improve the "immunity" of the whole national system, promote the harmonious development of society as a whole, and achieve and maintain balance.

From the perspective of auditing functions and role, and economic and social development needs, the cognition of government auditing as an "immune system" expounds the definition, reasons, functions, and role of auditing. The operational mechanism and functions of auditing as the "immune system" will be discussed later.

(3) Government Auditing Is a Cornerstone and Important Assurance of National Governance

Based on the previous two judgments, this cognition reflects in-depth thinking on the nature and functions of government auditing from the perspective of national governance modernization, government audit institutional property, legal status, functions, and role. Generally speaking, "cornerstone" refers to the stone that plays a vital role in a building's foundation, and is often compared to the support base or backbone. It has such basic characteristics as stability, sufficient bearing capacity, and deformation and variation resistance. As the cornerstone and important assurance of national governance, government auditing can be interpreted from the following aspects:

- Fundamental institutional arrangement
- Important force to enhance national governance capacity
- Important assurance of governance modernization

(a) Government Auditing: Fundamental Institutional Arrangement¹⁹

The national governance system consists of a range of institutional arrangements to standardize the exercise of power and maintain public order. Managing economic and social affairs through systemic application is an important feature and essential requirement for modern governance. Government auditing is also a system of national governance, and an institutional property; the role of government auditing determines its status as the cornerstone and important assurance for national governance.

First, government auditing is an important link in the governance mechanism of checks and balances contributing to basic national stability. Political science studies show that the relationship between power and right is a fundamental issue concerning national governance.²⁰ To better deal with the relationship, we should follow Chinese Premier Li Keqiang's requirement: "Power cannot be exercised without legal authorization; a right not prohibited by law can be exercised." That is to say, we should protect and maintain "rights," while restricting and supervising "power." National activities and governance are inseparable from allocation and exercise of public powers. Generally speaking, for better power allocation, we should follow the basic principle of checks and balances, matching powers to responsibilities, democracy, and the rule of law, in order to form a power structure and operating mechanism under which powers of decision making, execution, and supervision interact and become coordinated, and ensure a match between powers and responsibilities, and power supervision. Government auditing belongs to the scope of supervision and control, serving the decision-making organs and playing a role of supervising and restraining the executive organs. Government auditing is an important aspect of the power checks and balances, mainly in that it ensures the good running of the state through supervision and control, and information feedback. In history, national supervision activities, including government auditing, were first carried out almost simultaneously with the emergence of the state, laying an important foundation for it to function. The functions and role of government auditing, and the government audit system established on this basis, are decided by the national political system. In other words, the government audit system will always adapt to the national political system, and have obvious high stability.

Second, government auditing is an institutional arrangement made in accordance with the fundamental Constitution, which reflects its stability, coerciveness, and authority. "A country will be governed well if decrees can be enforced well; otherwise, a country will fall into chaos."²¹ Rule of law is national governance conducted in accordance with the law, and is the important assurance for its continuous development. Government auditing is the cornerstone of national governance judged from three main aspects: Functions and status of government auditing are determined by the Constitution. Most countries endow government auditing with transcendent constitutional status. Furthermore, government auditing is an important embodiment of the spirit of the rule of law, and an important carrier of governance and administration by law. It is an integral part of the national legal system. Power to supervise through auditing is determined in the Constitution, and the basis,

procedures, and standards for auditing are mandatory. We must adhere to objective and impartial auditing according to law; audit law construction is an important part of the national legal system construction. In history, countries whose audit activities played a strong role produced a relatively high degree of rule of law and governance. Finally, government auditing should play its due role for maintaining and promoting the rule of law. By supervising enforcement of laws and regulations, audit offices strictly investigate and deal with financial violations, safeguarding the authority and dignity of the laws and ensuring law-based socioeconomic development; through in-depth analysis of vulnerabilities and problems concerning the implementation of existing laws and regulations, audit offices seek to improve the legal system. Therefore, government auditing is a basic system with a solid legal basis—statutory, stable, and long-term.

Third, government auditing is an endogenous “immune system” for the healthy operation of national governance,²² and can prevent abuse of power and governance failure, which reflects its features of resistance to variation and deformation. First, it is the result of endogenous evolution of national governance. “National governance demands determine the generation of government audit, national governance objectives determine the direction of government audit, and the national governance mode determines the system and form of government audit.”²³ Government auditing exists in all national governance systems and mechanisms, and provides an important basis for establishing complete, scientific, standard, and effective systems and mechanisms. Second, government audit offices, through tracking and supervision to ensure no overuse of public funds and public powers, can prevent abuse of power, detect anomalies in policy and decision implementation in a timely manner, provide objective, detailed, and reliable information for decision-making departments, ensure decisions and deployment interact in policy orientation, implementation, and actual effect, and maximize the integrated role and effect of governance. Third, government auditing can enhance the “immunity” of the national governance system. With unique functions of “prevention, revealing, and resisting,” government auditing can detect and prevent economic and social risks, reflect the real situation and reveal existing problems, and protect against various kinds of economic and social “diseases” by standardizing and improving systems, mechanisms, and institutions that promote the all-round, coordinated, and sustainable development of economy and society.²⁴

Therefore, government auditing is a basic system for national governance, and one of the cornerstones for ensuring normal operation. Government

auditing is also an important and indispensable “institutional infrastructure” of national governance.²⁵

(b) Government Auditing: Important Force to Enhance National Governance Capacity

National governance capacity is the capability to manage all social affairs by using national institutional systems and other elements. Social affairs include reform, development and stability, domestic and foreign affairs, national defense, and the affairs of the Party, the state, and the military.²⁶ National governance capacity reflects the operational performance of national governance systems, is the external representation of measuring the national governance level, and is also an important way of testing whether the system is scientific and rational. Government auditing is an important force to enhance national governance capacity, which has two connotations: Government audit capacity is an element of national governance capacity; and national governance capacity determines government audit capacity, which, in turn, is an important force to improve national governance capacity. It is mainly decided by the characteristics of audit supervision such as independence, comprehensiveness, and specialization. The budget expert Naomi Caiden has stressed that an important symbol of change from “prebudget era” to the “budget era” is the establishment of the comprehensive, professional, and independent finance audit system.²⁷

First is the independence of government auditing. Public powers tend towards self-aggrandizement. Power expansion is mainly embodied in “selfish departmentalism” of various entities, the tendency to expand their powers and increase budgetary outlays, and undesirable phenomena such as “departmentalization of government authorities, interest-orientation of departmental powers, and individualization of departmental interests,” as well as lack of coordination, raising barriers, impeding information flow, and even being closed up. All these inevitably will harm national governance functions, weaken governance capacity, and influence the governance effect. To realize the modernization of national governance systems and governance capacity, we must “overcome ‘chronic diseases’ of systems and institutions, and break through the interest barriers.”²⁸ Among national governance organs, government audit offices enjoy high independence. For example, in accordance with the laws including the Constitution and the Audit Law of the People’s Republic of China, audit offices are entitled to exercise their power of supervision without interference by any other administrative organ, social organization, or individual. Meanwhile, audit offices do not have any decision-making power or any specific administrative function, so there is no departmental benefit to be

protected. The unique role and status mean audit offices as defenders of public interests have the responsibility to break the fetters of vested interests, exercise audit supervisory power legally and independently, understand the status quo from the macro-, global, and overall perspectives, reveal problems in systems, mechanisms, and individual institutions, and suggest improvements to laws and systems and ways to control risk. Audit offices become an important force in promoting good governance.

Second is the comprehensiveness of government auditing, which is stipulated by the Constitution and Audit Law, and is also an objective demand for governance modernization. Anything involving the use and management of public funds, public assets, and public resources, as well as public interests, is subject to audit supervision. It thus basically covers all areas of economic, political, cultural, social, and ecological governance, as well as reform, development, and stability. National governance involves elements such as labor, financial, and material resources (assets). Governance refers to the integrated use, management, and control of these elements, while powers and responsibilities are reflected by them all. Therefore, the comprehensiveness of audit supervision refers to not only the universality of audit objects (running through the whole process of national governance) but also the comprehensiveness of the audit role. That is to say, by exercising audit supervision power legally and independently, government audit offices function to reflect the situation regarding use of public funds, the exercise of public powers, and the duty performance of public sectors, and improve wealth management, power usage, and duty performance, as well as the mechanisms for power control, accountability, and personnel employment. The comprehensiveness of government auditing also lies in the change from traditional compliance auditing to performance auditing covering all public resource management elements of “input-process-output-outcome-impact.” The comprehensiveness also ensures government auditing becomes an important force of national governance.

Third is the specialization of government auditing. It involves full-time and professional supervision behavior: Different from the economic supervision duties of related departments deriving from their administration functions, auditing involves full-time supervision. Based on laws and facts, audit offices supervise public sectors and individual units, and seek to reveal problems objectively and fairly. Furthermore, specialization of audit supervision also lies in the principle of “grasping two key links at the same time.” On the one hand, audit offices should reveal and investigate major violations of laws and regulations and economic crimes, always paying attention to corruption

and fraudulent behavior closely related to funds, assets, and resources, reveal major violations of laws and regulations in a timely and effective manner, and transfer cases to the relevant sectors for further investigation. On the other hand, audit offices should promote improvement of laws, systems, mechanisms, and institutions. Finally, auditors should have adequate professional knowledge, rich practical experience, and good organizational and coordination skills, including mastery in checking accounts and familiarity with financial affairs and business management knowledge. By checking audited units in regard to capital, business, material, and information flows, audit offices can understand the situation, detect problems, and put forward highly targeted audit suggestions.

Especially against the current background of advancing national governance updates in China, people increasingly hope to build a law-based, responsible, transparent, clean, and efficient government, and related political mechanisms and organizations should play an active role in improving transparency, enhancing accountability, combating corruption, and improving performance. According to the authority granted by laws, work features, and the existing situation, government auditing may become the important force for improving national governance capacity.

TERMINOLOGY

The Third Plenum of the 18th Communist Party of China (CPC) Central Committee proposed that the overall goal of deepening the reform comprehensively is to improve and develop socialism with Chinese characteristics, and to promote modernization of the national governance system and capacity. This is the requirement for upholding and developing socialism with Chinese characteristics, and also for the socialist modernization. The national governance system refers to the institutional systems for governing the country under the leadership of the Party, including the systems, mechanisms, laws, and regulations in regard to economic, political, cultural, social, and ecological civilization, as well as Party building. National governance capacity refers to the capacity of managing social affairs through national systems, including reform, development and stability, domestic affairs, diplomacy, national defense, and governance of the Party, the state, and the military. The national governance system and governance capacity are organic and complementary. Without them, governance capacity cannot be enhanced; without enhanced governance capacity, efficiency of the national governance system cannot be achieved. ■

(c) Government Auditing: Important Assurance of Governance Modernization

National governance modernization includes the modernization of the national governance system and governance capacity. A modern governance system and governance capacity should meet several basic requirements: forming and maintaining good governance order, effectively resisting various governance risks, and achieving high governance efficiency. Among them, good governance order is the basic precondition and realization approach, resisting risks is the basic requirement and assurance, and good governance efficiency is the goal. Based on statutory responsibilities and inherent characteristics, government auditing must effectively play this role, and a powerful security mechanism must be established.

First, government auditing is an important assurance for maintaining governance order. Forming and maintaining good economic and social order are necessary for governance and make up the basic premise and realization approach. As early as the Warring States period more than 2,000 years ago, Mozi proposed that “one unified standard should apply to a country; a national fundamental function is necessary to prevent chaos.”²⁹ Hans Kelsen, representative of the normative school of law, points out that “The State is the community established in accordance with domestic laws and order, and the State as a legal person is the personification of this community or domestic laws and order constituting this community.”³⁰ Government auditing’s function of safeguarding national governance order is mainly reflected as follows: Firstly, by supervising and restricting the situation of administrative power exercise, government audit offices reveal, investigate, and punish major violations of financial laws and disciplines, improve the responsibility investigation and accountability mechanisms, and promote strengthening administration and management of administrative affairs according to law. Second, by supervising the situation of following market economy rules, government auditing can reveal in a timely way behavior violating market rules, and detect and check errors, so as to prevent economic risks and maintain market economy order. Third, in accordance with the laws, government audit offices, on behalf of the masses and taxpayers, supervise the duty performance of governments, departments, units, and state-owned assets management units, and reports to the people, which helps improve the level of national governance. In particular, government audit offices disclose audit information, and report audit results, audit-related problems, and rectifications to the public, to protect citizens’ rights to know and participate, and to mobilize all parties to participate in

state governance, so as to provide a strong foundation and assurance for the public “participatory governance.”

Second, government auditing is an important assurance for controlling governance risks. Good risk prevention and control capacity are a basic requirement for national governance. Currently, China is undergoing integrated and coordinated development in economic, political, cultural, social, and ecological civilization construction. As national governance becomes more complex, the involved governance fields expand and governance contents become enriched, but governance risks also increase. One of the important goals of national governance is to minimize public risk, so as to ensure national security and sustainable economic and social development. By relying on unique status and organizational and technology advantages, government audit offices can identify and reveal important risks in a timely manner, and put forward measures and suggestions for strengthening risk control. Government audit offices also can analyze problems and offer proposals from a higher, macro-, and global perspective, so as to provide scientific decision-making opinions for assessing national strength and safeguarding national security.

Third, government auditing is an assurance for enhancing the efficiency of national governance. Governance efficiency is an important factor to measure the governance modernization degree, and the important goal of governance is to ensure national system advantages are transformed into governance efficiency. Government auditing is an assurance to enhance the efficiency of governance: Through audit supervision over government budget allocation and implementation and fund utilization and management, audit offices promote improved capability in using and managing financial funds, budget execution capability, and the financial fund usage of budget units. Furthermore, through supervision of the economy, efficiency, and effect of government work, audit offices function to improve the performance of administrative departments and further enhance the quality and efficiency of industries or sectors within their administrative jurisdiction. Finally, on the basis of detecting and disposing of various problems, government audit offices can deeply analyze from all perspectives and offer proposals for reforming systems, improving laws, systems, and institutions, strengthening management, and preventing risks, so as to enhance the macroeconomic performance of national governance.

To sum up, this cognition involves three aspects: firstly, government auditing is an important part of the power balance mechanism and the supervision control system, and also a basic institutional arrangement made in accordance with the Constitution and laws.³¹ Secondly, by independently and fairly reviewing the truthfulness, compliance, and performance of various economic

activities concerning national governance, government audit offices can understand the real situation, reveal hidden risks, reflect prominent problems, and analyze systemic and mechanism obstacles and defects, to solve the problems in a timely and effective way. That is to say, government auditing plays an “immune system” role of preventing, revealing, and resisting, and a cornerstone and assurance role for standardized, efficient operation of other national governance subsystems. Third, from a mechanism perspective, government auditing is comprehensive, specialized, and regular, and its supervision role is all-embracing. Government auditing is an important force in enhancing national governance capacity, and an important assurance for promoting the modernization of governance capacity.

The foregoing analysis shows that all aforesaid cognitions on the nature of auditing are based on audit practice in different periods, perspectives, and levels, playing an active theoretical guidance role for audit work. In general, they have the relationship of inheritance, development, and continuous deepening. Relatively speaking, cognition of the nature of auditing from the perspective of national governance is more comprehensive and in-depth than other aspects. It more clearly defines the fundamental property of auditing and audit practice, and pays more attention to audit functions, role, targets, and realization approaches. In recent years, China’s audit offices, under the guidance of this theory, firmly uphold the scientific audit concept, comprehensively perform audit supervision duties, fully bring into play the vital role of government auditing in promoting improvement of national governance, constantly enhance the initiative, macro-, constructive, open, and scientific features, and constantly improve legalization and standardization based on science and information so as to make new progress in construction of audit teams, audit theories, and audit culture. These practices also show that the cognition on the nature of auditing from the governance perspective is in line with China’s conditions in regard to socialist politics, economy, culture, and society, and is of great significance to improve the socialist audit system with Chinese characteristics and promote scientific development of the audit cause.

TERMINOLOGY

Socialism with Chinese characteristics consists of the road, theories, and systems. The road of socialism with Chinese characteristics is the realization path, theories of socialism with Chinese characteristics play the guidance role, and socialist systems with Chinese characteristics are the

fundamental assurance. They are united in the great practice of socialism with Chinese characteristics. During the overall process, we should persist in taking economic construction as the central task, and promote economic, political, cultural, and ecological construction, and so on; adhere to the four fundamental principles³² and the policy of reform and opening up; and emancipate and develop productive forces, gradually achieve the goal of common prosperity, and promote people's all around development. The theories of socialism with Chinese characteristics are the latest achievements of Marxism in China, including the Deng Xiaoping Theory and the important thought of the "Three Represents"³³ and the Scientific Outlook on Development. The socialist system with Chinese characteristics upholds the organic unity of the fundamental and basic political and economic systems and various institutional mechanisms, the organic unity of the national democracy and grassroots democracy systems, and the unity of the Party's leadership, people's status as the masters, and rule by law.³⁴ ■

III. EVOLUTION OF GOVERNMENT AUDITING FOR NATIONAL GOVERNANCE

The evolutionary history of China's government auditing shows it is always closely related to national governance. In different historical periods, governance needs, objectives, and modes may differ, and government auditing may undertake different historical missions. The functions and roles of government auditing always adapt to the objective needs of national governance. But fundamentally speaking, government audit offices, through audit supervision, always function to promote power balance, monitor the governance process well, conduct real-time tracking of governance performance, reveal problems in a timely manner, and promote reform and improvement of governance systems and mechanisms so as to improve overall national governance.

(1) Evolution of Chinese Ancient and Modern Government Auditing

China has a long history of government auditing, and various dynasties witnessed the rise and fall of national governance (see Table 1.1). According to historical records, ancient Chinese used the words "investigating, listening, counting, checking, comparing," and so on to describe "audit" activities, indicating these presented different forms and played different functional roles through history. The Zhou Dynasty (1046–256 BCE) advocated the "rule by

rites,” and the governance goal of “defining the authority and ranks of the king, ministers and officials.” To this end, the official rank of Zaifu was created with responsibility for supervising the implementation of decrees and rites; the holder of this office could report any problems to the Taizai (official rank) or even directly to the emperor.³⁵ In the Qin and Han dynasties that followed, rulers advocated “grand unification” and strengthening centralized governance, and established a set of highly authoritative supervisory systems, including the censor audit system. Auditing supervision function was added to the system of supervision by censors at the state, prefecture, or county level, and the mode of “comprehensive supervision and investigation, and united supervision and examination” was developed and used long after. The flourishing Tang Dynasty (618–907) is world-renowned for its political openness and economic prosperity. Under the Tang regime, the audit system was improved along with political system reform, and the system of “unity of special audit, concurrent audit and internal audit by different departments respectively” was established. With certain judicial authorities, the Pi-Pu was set up. This was completely independent of the Ministry of Revenue in feudal times, and was specialized in audit supervision; the audit supervision function of the Censorate was strengthened; and the system of internal auditing by the Ministry of Revenue, Financial Revenue and Expenditure Ministry, and Salt and Iron Management Ministry was established, which vigorously promoted national financial management. In the Southern Song Dynasty (1127–1279), the Review Department was renamed as the “Audit Department” or “Court of Auditors,” which is the first institution of China specialized in auditing and using the term “audit” in its name.

TERMINOLOGY

The audit supervision activity was first described as “audit” formally in the Southern Song dynasty. *The Compilation of Song Regulations* recorded that “On May 11, the first Jianyan year during the reign of Emperor Gaozong, to avoid the tautonymy with the name of Emperor Gaozong (Zhao Gou [“赵构” in Chinese]), the Zhuangou (“勾” in Chinese, meaning review) Department was renamed as “Audit Department” because “勾” is a homonym of “构” in the name of Emperor Gaozong. Later, the Audit Department was changed to “Court of Auditors,” specializing in financial supervision and supported by laws. It became the specialized audit organization worthy of the name.

In the Ming and Qing dynasties, with few exceptions, China’s political environment was largely closed, and the royal court strengthened the

system of autocratic monarchy while ignoring the construction of the system of checks and balances. In addition, supervision organs including the Court of Auditors lost some of their power, and even a eunuch dictatorship appeared, which resulted in serious corruption, treasury deficits, and increasing decline of national strength. During the Ming Dynasty, the Pi-Pu was canceled, marking the end of an audit system existing for over thousands of years. Later, Supervisory Censors from the Court of Censors and the Jishizhong (an official rank) from the Ministry of Official Personnel Affairs, the Ministry of Revenue, the Ministry of Rites, the Ministry of War, the Ministry of Punishments, and the Ministry of Works were collectively referred to as “kedaoguan” (supervisory officials), exercising certain audit powers. In this period, independent external professional audit organs were cancelled,³⁶ and an audit system featuring “unity of supervision and examination” was established, which catered to the needs of the imperial autocracy. It inevitably became an autocratic tool for rule by man, and accelerated the decline of the dynastic system. ■

Autocracy and the policy of exclusion of the Qing Dynasty eventually led to its collapse and brought the Chinese nation to the brink of destruction. To save the Chinese nation and ensure its survival, people with vision launched the Westernization Movement, Constitutional Reform and Modernization, and the Constitutional Movement. In the preliminary constitutional process, the Qing Dynasty once planned to pattern itself on the political system of Germany and Japan, and established an independent Court of Auditors parallel with the Cabinet. The supreme ruler would directly take charge of the Court of Auditors.³⁷ However, due to the failure of the reform movements, the attempt to establish a modern audit system was eventually aborted. In 1928, under the Republic of China, the Nanjing Nationalist Government had set up the Court of Auditors that operated in parallel with government ministries, offices of supervision, judiciary, and examination, and other offices, and enacted an Audit Law. In 1931, the Court of Auditors became a subsidiary body of the Supervisory Ministry. The system of combining supervision and examination was introduced. Under the five-chamber political system, the audit offices of the Republic of China worked as an important organ of power supervision. It was independent of the government administrative systems, possessing a detached independent position of supervision, and played a positive role in consolidation of financial disciplines, investigating corruptions, increasing revenues and reducing expenditures, and assuring government operations. However, due to the corrupted political system, long-term chaos caused by war and the controlling power of a privileged stratum in the later period, social unrest, and financial chaos, financial tycoons

TABLE 1.1 Ancient Government Auditing and Governance Situation in Some Dynasties

Auditing systems and institutions	Dynasty	State governance and legislative status at that time	Notes
Merit system of the officials	Western Zhou Dynasty	Monarchs managed state affairs in accordance with <i>Rites of Zhou</i> , which is the starting point of the soft power of Chinese civilization.	Western Zhou dynasty set up a post “Zaifu” (an official taking charge of the qualification assessment of all the officials and reporting the results to the monarch) to perform audit responsibilities.
System of Administrative Reports	The State of Qi in Spring and Autumn Period	Duke Huan of Qi reunited the feudal princes nine times, and became the first of the “Five Hegemonies of the Spring and Autumn Period.”	Guan Zhong, a legalist chancellor and reformer of the State of Qi, said that “If a country is dedicated to developing agriculture, industry and commerce, it will get rich; If a country can establish a legal system and common rules, scrutinize its policies, establishing routine, and cultivate competent officials, it will maintain prolonged stability.”
System of Administrative Reports	Western Han Dynasty	Legalists of Qin Dynasty proposed the view of “rule of law.” Following the system of the Qin Dynasty, the Han Dynasty achieved the combination of rites ³⁸ and law and the Rule of Wen and Jing.	<i>Law of Administrative Reports System</i> made specifications on the “rule of law.” The function of “rule of law” had been gradually weakened in the late Han Dynasty.
Pi-Pu (Department of Judicial Control)	Tang Dynasty	During the Tang Dynasty, the earliest code of China’s <i>Law of Tang Dynasty</i> was formulated. It consisted of <i>Law of Yonghui</i> , <i>Law of Wude</i> , <i>Law of Zhenguan</i> , and other laws. Reign of Zhenguan and the flourishing age of the Kaiyuan Era were also formed during this period.	Pi-Pu fully performed its functions in the early Tang Dynasty. In the mid- and late Tang Dynasty, its relevant functional role had been gradually weakened, and even had been abolished in a certain period.

Court of Auditors	Song Dynasty	<i>The Penal Complex of Song</i> was promulgated. The commodity economy of the feudal society reached its peak during this period.	The Northern Song Dynasty set up the Review Department and Other Departments. Later it was renamed the Audit Department. This is the first time that the word "audit" appeared in history. In the Southern Song Dynasty, it was changed to "the Court of Auditors." Facing the invasions of Jin and Mongolia and other foreign countries, wars were frequent in the Southern Song Dynasty. The Court of Auditors was mainly responsible for auditing the army and fulfilling the general national audit functions.
Censorate, Jishizhong (an imperial attendant) of the Six Ministries in Feudal China	Ming Dynasty	<i>Law of Ming Dynasty</i> and <i>Da Gao</i> (a special criminal law in Ming Dynasty) were enacted in the early Ming Dynasty, which helped to achieve centralization of state power and contributed to the formation of the prosperity in the early Ming Dynasty during the Rule of Ren and Xuan (refers to the reigns of Emperor Hongxi and Emperor Xuande of the Ming dynasty, which was considered its golden age).	
Censorate, Jishizhong of the Six Ministries in Feudal China	Qing Dynasty	During the reign of Emperor Shunzhi, an Office for Making Laws was set up. Large-scale legislative activities emerged. <i>Collection of Laws of Qing Dynasty</i> was enacted by Emperor Yongzheng. <i>Ta Tsing Leu Lee: Being the Fundamental Laws, and a selection from the Supplementary Statutes, of the Penal Code of China</i> was compiled during the reign of Emperor Qianlong. The Kang-Qian Flourishing Age (also known as High Qing) appeared during this period.	During the reign of Emperor Yongzheng, Jishizhong of the Six Ministries in Feudal China was incorporated into the Censorate. The audit supervision was exercised by the Censorate, which strengthened the regulatory authority of the Censorate, and laid the foundation for good governance of the Kang-Qian Flourishing Age.

Source: Chief Editor Li Jinhua: *The History of Audit in China* (volume 1), China Modern Economics Publishing House, 2005.

who always manipulated the economic lifeline and military sectors who consumed huge financial funds and other privileged agencies repeatedly refused to accept audit supervision. It became harder and harder for auditing to play an effective role, and it remained in name only, which was an important factor in the growing decline and fall of the Nanjing Government.

In the long history of change of Chinese dynasties, vicissitudes were closely related to such national supervision systems as auditing. The dynasties and periods with high-level political civilization did well in the separation of state powers and checks and balances, whereas the decline of a prosperous dynasty certainly started from the weakness and even abolition of such systems. Therefore, a ruler should firstly manage accounting and auditing to govern the country well. The 800-year Zhou Dynasty represented the summit of the slave society, which was associated with its “Zhou Guan” system (emphasizing the separation of powers and checks and balances). The Tang Dynasty represented the summit of feudal society associated with the system of Three Councils and Six Boards. However, the comparatively short-term Ming and Qing Dynasties emphasized autocratic imperial power and personal totalitarianism. It is an eternal truth that “all powerful people are easily abusing their power,” and absolute power will definitely lead to absolute corruption. If the ruler roused all his energies to make the country prosperous in the period of autocratic imperial power and personal totalitarianism, national governance might be normal in the short term only. However, autarchy and totalitarianism will finally lead to governance anomie, finance running out of control, and national strength declining.

(2) Government Audit System in the Period of Revolutionary War under the Leadership of the CPC

Before the founding of the PRC, the CPC adhered to the road of encircling the cities from the countryside, established and consolidated itself in the revolutionary base areas, continuously accumulated strength through armed struggle, and won revolutionary victory through arduous efforts. As the armed struggles needed a lot of funds, the Party adopted relevant measures to save every copper for revolution and war and asked cadres not to be tempted by power and money in order to ensure the support of the people. Strengthening audit supervision was one of the major measures. The Party formulated different auditing systems suitable for different periods according to their characteristics. During the period of Western Fujian Soviet power, the Party carried out audit work to meet the military needs of anti-encirclement struggle and promoting the founding of Soviet power. In March 1930, after the founding of the Soviet government in the main revolutionary area, the Party established the Financial

Review Board and also asked governments at different levels to set up their own boards to review the financial position. In September 1933, the Central Audit Committee, subordinate to the Central People's Committee of the Soviet area, was established for performing audit functions. The Committee carried out audits of the fiscal budgets and final accounts of the central government's offices and departments, counties directly under Ruijin, Guangdong Province, and Jiangxi Province, and in the financial revenues of central institutions and mass organizations, including the central printing house and the effects of the saving movements in the central Soviet areas. The result of each audit activity would be published on the official newspaper of the CPC central committee, *Red China*. In the most difficult period of the Chinese revolution, audit supervision played a key role in promoting the implementation of various financial budgets and government decisions, reducing various expenditures, and combating corruption. During the Anti-Japanese War, government audit supervision was mainly focused on such central tasks as meeting military needs in the base areas and promoting regime construction in border areas. In 1937, the government of the Shaanxi-Gansu-Ningxia border region set up the audit division to conduct audit supervision of budgets and final accounts, public property of the administrative bodies, income and expense data, treasury receipts and disbursements, valuation and disposal of public property and the public sector balance of payments of other relevant authorities, taxation, the requisitioning of grain, corruption, and fraud. Meanwhile, the Central Military Commission also set up an audit division under the Financial Committee to implement the system of preliminary review in regiments and secondary review in brigades and armies, and final review in divisions, strategic areas, and headquarters. The division played a key role in increasing incomes, reducing expenditures, supporting the revolutionary war, and dealing with corruption and waste. During the Liberation War, the audit work was carried out mainly to meet war needs. In order to ensure the preparatory work of governing the whole country proceeded smoothly, the audit work of the government of border region focused on providing financial resources for the war. At that time, all military authorities above regimental level set up audit committees to play active roles in ensuring the Party and army's spirit of hard work, laying a solid foundation for liberating the whole country, and founding the PRC.

(3) Establishment and Development of Government Audit Systems after the Founding of the PRC

The PRC's government audit system was gradually established and developed based on the inheritance of former national audit experience and reference to

international practice. For some time after the founding of the PRC in 1949, China didn't set up independent audit offices but handled the supervision of fiscal and financial revenues and expenditures through the departments of finance and taxation in combination with industrial and business management. In 1978, the Third Plenum of the 11th CPC Central Committee made the strategic decision to shift the focus of work to the economic construction, requiring strengthened financial and economic management, establishment and improvement of the economic supervision system, and strong maintenance of the national financial and economic disciplines. Constitutional revisions in 1982 led to the establishment of the audit supervision system. The National Audit Office of China was formally founded in 1983, and local governments above county level generally set up their own audit offices within two years. Thereafter, audit offices at all levels actively created work conditions around the strategic objective, focus, steps, and policies associated with Chinese economic construction, carried out the key work of increasing revenue and reducing expenditure as well as seeking balance of the two, played their role in enforcing discipline in finance and economics, correcting accounting errors, strengthening management, and actively safeguarding smooth economic construction.

With the further deepening of reform and opening up, China gradually transformed itself from the traditional planned economy system into a socialist market economy, and accelerated progress in building a socialist country under the rule of law. Facing a more beneficial development environment, audit offices made great progress in gradual audit standardization. During this period, they launched industry auditing, special fund auditing, and special auditing investigations in a planned way, and gradually formed a regular audit system focused on national major deployments, including rectifying the overall economic order. Auditing expanded from enterprises to government departments, financial institutions, infrastructure investment, agricultural funds, and the utilization of foreign capital. The audit offices emphasized the truth and legitimacy of audit content, explored improved management and greater efficiency, and emphasized micro-auditing from a macroperspective. Audit supervision plays an important role in enforcing financial and economic discipline, promoting improvement and rectification, and safeguarding the smooth system reform. The Audit Law and the Implementation Rules were promulgated in 1994 and 1997 respectively. This was the point when the basic systems, including the principles of audit supervision, the responsibilities and authorities of audit offices, audit procedures, and legal responsibilities, were further defined and clarified, and the legalization, institutionalization, and standardization of

audit work were initially realized so audit offices and individual auditors could deepen their understanding of audit work and associated laws.

The 16th Party Congress proposed to “strengthen the restrictions and supervision on the use of power.” According to the requirement, audit offices adjusted their orientation, objectives, and priorities while continuing to adhere to basic audit policy: “to audit in accordance with laws, serve the overall situation, stay close to the center, stress the focus, and be pragmatic”³⁹ as they implemented the Audit Law revised in 2006. Through enhancing the level and quality of audit results, maintaining truthfulness as the basis, and exposing distorted or wrong accounting information as the focus, audit offices intensified the investigation and punishment of major violations of laws and regulations and economic crimes, strengthened the restriction and supervision of power, promoted audit results announcements and the handling of the performance audit, continued to deepen and improve the fiscal, financial, and business audits, actively explored the accountability audit, and built the “3 + 1” audit pattern. They also focused on strengthening the construction of talents, methods, and technologies, and enhanced the overall quality of audit teams, improving audit criteria and rapid adoption of modernized audit technical means. During this period, audit supervision played a positive role in maintaining economic order, deepening reform and development, strengthening restrictions on power, and promoting democracy, further improving the credibility, authority, and social influence of audit work.

Since the 17th Party Congress, audit offices have thoroughly studied and applied the *Scientific Outlook on Development*, firmly established a scientific concept of auditing, deepened understanding of the nature of auditing, and stayed close to the overall economic and social development. This required enhanced infrastructure construction of audit teams, and deeper study of law, information, culture, and theory in order to further promote audit work concerning fiscal affairs, finance, business, economic responsibility, resources and environment, and foreign capital. On the basis of ensuring truthfulness, compliance, and performance in regard to financial revenues and expenditures, more attention has been given to initiative, macroscopic, and constructive auditing and audit supervision of key areas, revealing and investigating major violations of laws and regulations, reflecting on problems in the system and mechanism, and conducting audit supervision at higher levels. Audit offices have sought to fully play the “immune system” function as a public finance guardian, actively promoted China’s political, economic, cultural, social, and ecological civilization construction, and played a positive role in improving national governance, safeguarding state security, maintaining financial order, improving

macroeconomic regulation and control, strengthening the creation of a clean government, managing state affairs according to law, deepening reform, and opening up economic and social development.

The 18th Party Congress established the historical status of the Scientific Outlook on Development, interpreted the rich connotation of socialism with Chinese characteristics and eight basic requirements to gain new victories, and proposed the objectives of building a moderately prosperous society in an all around way, comprehensively deepening reform, and opening up work on the major deployments. This included the Five-in-One overall arrangement—namely, socialist economic construction, political, cultural, social, and ecological civilization construction, and the major task of comprehensively improving the scientific level of Party building. Guided by this spirit, government audit offices treated rule of law and improved livelihood for the people through reform and development as the starting point and supreme goal, to fulfill their audit supervision responsibilities, promote overall implementation of the Five-in-One arrangement, facilitate the building of a moderately prosperous society in an all around way, and play a practical role in safeguarding the sound operation of the national economy and society and promoting national governance.

Through 30 years of development, the audit supervision system of socialism with Chinese characteristics has been basically established and became a modern government audit system. This covers a number of key fields:

- **To build a relatively complete audit law system.** Multilayered but inherently coordinated norms of audit law now exist on the basis of the Constitution, with the Audit Law and the Rules for the Implementation of the Audit Law as the core, supported by audit standards.
- **To safeguard the independent exercise of audit supervisory power in accordance with the law.** Government audit supervision responsibilities have to be exercised consistently within the national governance mode. The Constitution specifies that the government audit legal status should be independent of the decision-making and performance system, and free from restraints by any vested interests and interference by any other administrative organization, social group, or individuals.
- **To form an audit system suitable for China's national conditions.** The State Council has set up the National Audit Office, which exercises independent audit supervisory power under the premier's guidance. Local people's governments above county level set up audit offices with independent supervisory power under the guidance of the head of government at

the corresponding level and responsible to that government as well as to the next higher level of audit office.

- **To authorize extensive and effective responsibility and authority.** To ensure government auditing plays an active role in national governance, laws and regulations stipulate extensive audit responsibilities, including the accountability audit, and as defined by the Constitution, government audit offices are granted effective authority through such means as administrative coercive measures, transference of major issues, and audit sanctions.
- **To form a coordinated and efficient audit operating mechanism.** Through 30 years of exploration and practice, a complete, coordinated, and efficient audit operating mechanism suited to national conditions has been established for such aspects as audit work programs and plans, field implementation of audit projects, audit result reports, audit rectification tracking, and audit relief, ensuring government audit offices can fully exercise their responsibilities.

Over 30 years' development has laid a solid foundation for the improvement of government audit theories. Meanwhile, its functions have effectively promoted reform and opening up, as well as the construction of democracy and rule of law. Specific details are as follows:

- **Providing timely, objective, and reliable information for scientific decision making in national governance, so as to promote the implementation of needed policies and measures.** Chinese audit offices pay much attention to analyzing and reflecting on the implementation of relevant state policies and measures, management of major projects, and associated problems. In this way, support is given to scientific state decision making, improving macrocontrol policy and strengthening management of public investment projects. In order to ensure the timeliness of the information provided, various follow-up auditing methods have been used. In the past few years, follow-up auditing has been conducted for major projects like the Beijing-Shanghai High-Speed Railway, the second line of the West-East natural gas transmission project, the Three Gorges Project, and postdisaster reconstruction after the Wenchuan earthquake, as well as important events, including the Beijing Olympic Games, Shanghai World Expo, and the Asian Games. Policy implementation problems have been exposed and corrected in a timely manner. For example, for four consecutive years, more than 20,000 auditors conducted follow-up

auditing of the anti-earthquake and relief work and postdisaster reconstruction after the Wenchuan earthquake, involving over 22,500 investment projects. This had a positive impact on the smooth progress of relief and reconstruction.

- **Playing a restriction and supervisory role in the state power system and promoting normalized allocation and exercise of power.** In accordance with the Constitution, the Audit Law, and other relevant laws and regulations, audit offices should conduct auditing or special auditing investigation of all units, projects, and events involving management or use of public funds. Since 1999, pursuant to provisions of the CPC Central Committee General Office and the General Office of the State Council on strengthening the accountability audit, audit offices at all levels have been required to further promote the accountability audit. In December 2010, the CPC Central Committee General Office and the General Office of the State Council promulgated *The Provisional Regulations on Accountability Auditing of Party and Government Officials and Leaders in State-Owned Enterprises*, summarizing the development and effect of over a decade of accountability auditing. These regulations stipulate that audit offices should conduct an accountability audit of the primary leaders and cadres of local governments at all levels, judicial and procuratorial organs, functional departments of central and local governments at all levels, public institutions, mass organizations, and legal persons of state-owned or state-holding enterprises. In recent years, audit offices nationwide have conducted an accountability audit of over 500,000 leaders and cadres. Through audit supervision, examination, and evaluation, the power of governments and officials has been restricted within the scope of people's authorization; thus the match of power and responsibility has been promoted and auditing's role of standardization, restriction, and supervision is brought into full play.
- **Focusing on weak economic and social links and risks, so as to safeguard national security.** It will always be the primary task of national governance to ensure a country's survival and security, and a common responsibility for almost all departments of national governance. Audit offices have taken on safeguarding national security as a major task, focusing on energy and strategic resources, fiscal and financial operation, state information, internal governance and supervision of financial institutions, and protection of resources and the environment. They analyze weak links and potential economic and social risks in a timely manner and provide reliable information for safeguarding national security. Especially

in 2011 and 2013, in accordance with State Council requirements, more than 40,000 auditors were mobilized to comprehensively audit the debts of local governments at province, city, and county levels. Through figuring out the basic situation, reflecting performance, revealing problems, and making suggestions, audit offices played a positive role in eliminating improper statements at home and abroad about Chinese national security and economic and social development, improving the fiscal administration system, revising relevant laws, and so on.

- **Revealing violations of laws and regulations as well as behavior involving abuse of power, and maintaining economic and social order.** Chinese audit offices always take it as their obligatory responsibility to ensure the laws are strictly observed and enforced, and law violators must be brought to justice so as to strengthen the “immunity” of the national governance system. They focus on studying the characteristics and laws of corruption cases under the new situation, and give attention to key sectors, positions, and links prone to corruption, thus becoming an importance force in combating corruption. Audit offices also focus on analyzing loopholes in institutional construction and implementation and positively promoting system improvement. In addition, for timely treatment of major law and regulation violations, a joint conference system and coordinated consultation mechanism has been established involving public security, procuratorial organs, and inspection departments. Treatment results of transferred audit cases have been publicized, promoting the deterrent effects of auditing.
- **Reflecting problems at the system, mechanism, or institution level, and promoting innovation in national governance.** Chinese government auditing is characterized by strong independence, a wide range of coverage, familiarity with laws and regulations, and mastery of full and accurate information. On the one hand, government auditing focuses on reflecting the problems of audited units in budget enforcement, financial management, and internal control, including less-stringent management, failure in ensuring system implementation, and low quality of accounting information, so as to strengthen management, supervision, and restriction. On the other hand, from the micro- and overall perspective, government auditing focuses on reflecting problems such as institutional barriers, mechanism distortions, and system defects, so as to promote reform in the fiscal and financial system, state-owned businesses and investment system, and so forth. Over the past 30 years, audit offices have submitted more than 40,000 reports, and promoted the formulation and improvement of

an equal number of rules and regulations. The National Audit Office has made suggestions including refining government budget management, promoting disclosure, and strengthening local government's debt management. All the suggestions are conducive to improving national governance.

- **Focusing on people's livelihood and resource and environment protection, endeavoring to safeguard people's fundamental interests, and promoting ecological civilization construction.** Protecting people's fundamental interests is the basic goal for audit offices. They focus on the management of livelihood projects or funds for the Three Rural Issues (i.e., agriculture, rural areas, and farmers), low-income citizens, education, medical treatment, housing, and social security; they also focus on fund use performance and implementation of policies and measures related to resource exploitation and development, as well as ecological environmental protection. For example, in 2012, more than 40,000 auditors nationwide conducted a full audit of the country's 18 social security funds. The audit work took seven years to complete and involved various departments including human resources, social security, civil administration, health, and finance at the province, city, or county level. Auditors have grasped the basic situation of the social security system, examined policy implementation and effect, revealed difficulties, and proffered advice for system improvement and standard management.
- **Implementing the system of disclosing audit information and rectifying and tracking problems, and endeavoring to ensure people's right to know and participate in national governance.** With the development of democracy and legal construction, the audit offices have gradually improved the system of announcing audit findings and issuing audit information, and have insisted on investigating problems and promoting rectification and disclosure simultaneously. Thus, the supervisory role of auditing is brought into full play. Since implementing the system of announcing audit results in 2003, 24,000 audit results have been made public. Audit offices also disclose information on rectification and disposal of detected problems. For five consecutive years, the National Audit Office has disclosed the rectification and reform result of problems concerning central budget execution and financial revenue and expenditure, and each announcement comprehensively and objectively reflects the rectification and reform situation. At the same time, audit offices have invited news media to conduct follow-up reporting on major audit projects and reveal the whole audit process. Publicizing the audit plan, procedure, and results according to law not only serves as an important channel for

promoting rectification of audit findings and fulfilling duties, strengthening the responsibilities and performance awareness of audited units, but also helps the public to understand the duty performance of governmental departments and participate in national governance.

TERMINOLOGY

At the beginning of 2003, the SARS epidemic aroused deep concern in China, and the government spent a vast amount of money to tackle the problem. How to manage and use these funds and their effects became key questions. The National Audit Office issued the No. 1 Announcement of Audit Findings in December 2003. Since then, the system to issue audit results to the public has become an important part of audit disclosure.

National governance goals change in different historical periods, and the requirements for government auditing are different, along with its responsibilities and missions. The function of auditing cannot be given full play in a more effective way until we understand, master, obey, and apply the laws throughout the whole process and continuously adjust the thinking of audit work. ■

IV. CORE VIEW OF THE NATURE OF AUDITING FROM THE NATIONAL GOVERNANCE PERSPECTIVE

To understand and comprehend the nature of audit work from the national governance perspective meets the objective requirements for profound changes of the external audit environment. It stands for significant development and breakthrough in government audit theory. It is a significant innovation of socialist audit theories with Chinese characteristics, taking government audit practice in recent years into consideration. It is of strong guiding significance to socialist audit practice with Chinese characteristics and will also have far-reaching significance. The key points can be briefly described as follows:

- Government auditing is an important part of the national political system and is a kind of institutional arrangement to supervise and restrict power by power in accordance with law.
- Government auditing is an important aspect of national governance, and strengthening audit supervision is a significant approach and method to obtain improvement. The demand of national governance determines the emergence of government auditing; the goal of national governance

determines the direction of government auditing; and the mode of national governance determines the system of government auditing.

- Government auditing is one of the endogenous supervision and control systems of national governance; it serves the decision-making process, and supervises and restrains the execution system of national governance.
- Government auditing, as an “immune system” endogenous within the overall system of national governance, with functions of exposure, resistance, and prevention, is a cornerstone and important assurance for national governance.

To comprehend government auditing from the national governance perspective has profound implications for further clarifying the guiding ideology, fundamental objective, basic approach, and working guidelines. Under the direction of this theory, the National Audit Office of China advocates that government auditing must hold socialism with Chinese characters as its soul and guideline, and scientific audit concepts should be firmly established. The fundamental objective of auditing is to protect people’s fundamental interests, which at the present stage can be specifically described as “to promote rule by law, reform and development, and to safeguard people’s livelihood.” The primary task for audit work is to safeguard national security and can be expressed as “to protect national economy security, to safeguard national interests, to promote democracy and rule of law, and to promote comprehensive and coordinated sustainable development.” Government auditing must follow the guideline of “conducting audit according to law, serving the overall situation, focusing on the central task, highlighting the key points, and being realistic and pragmatic.”

To comprehend government auditing from the national governance perspective reflects a new profound understanding and conclusion of the nature of audit work against a new historical background. This theoretical view has aroused broad consensus in China’s audit theory and practice, and is widely recognized by audit circles of various countries. In 2013, the 21st International Organization of Supreme Audit Institutions Conference was held in Beijing, issuing the Beijing Declaration, stressing that it is the common objective for supreme audit institutions to promote good national governance. The Declaration provides an important basis and basic principles of setting the future development direction, tasks, and goals for audit offices of various countries. The International Audit Organization Strategic Plan (2011–2016) also clearly requires that supreme audit offices of all countries should exert more efforts to combat corruption and strengthen accountability, transparency, and good governance. It can be foreseen that with the development of audit practice and

better performance, theories of auditing for national governance will also be continuously enriched.

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19. A country's public systems can be divided into basic systems and specific systems. Basic systems like building foundations pursue durability; basic systems like the building framework highlight stability; and specific systems like the functional decoration of rooms emphasize suitability and effectiveness, and can be adapted and changed according to changes in demand. Obviously, these three systems differ in effectiveness: basic systems pursue permanence; basic systems highlight long-term stability; and specific systems underline adaptability. Yan Jirong: *Modern National Governance and Institutional Building*, *Chinese Public Administration*, Issue 5, 2014, pp. 58–63.
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30. Hans Kelsen, *General Theory of Law and State*, Beijing: Commercial Press, 2013, pp. 269–270.
31. Generally speaking, participatory governance is a process in which policy-interested individuals, organizations, and governments jointly participate in public decision making, resource allocation, and cooperative governance.
32. “The Four Fundamental Principles,” as one of the two focal points of the CPC’s basic line for the primary stage of socialism, refer to the adherence to the socialist road, the people’s democratic dictatorship, the leadership of the Communist Party of China, and Marxism, Leninism, and Mao Zedong Thought. The Four Fundamental Principles reflect the fundamental interests and will of the CPC and people of all ethnic groups. They are the fundamental principles for socialist modernization, reform, and opening up, the basis of rejuvenating the country, and the political cornerstone for the survival and development of the Party and the state.
33. “Three Represents” means that the CPC always represents China’s advanced productive forces, advanced culture, and the fundamental interests of the overwhelming majority of the Chinese people. It is the foundation of Party building, the cornerstone of governing, and also the source of force.
34. *Series of Important Speeches of General Secretary Xi Jinping*, 2014, People’s Publishing House.
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36. The Qing Dynasty once set up the auditing office—namely, the Huikaofu (an audit organization dealing with Money and Cereal affairs)—during the reign

of Emperor Yongzheng. After Emperor Yongzheng took the throne, he promoted fiscal consolidation, set up the Huikaofu to conduct large-scale auditing nationwide, rectified the official system, and punished corruption. All his reforms were effective. Unfortunately, after three years, the Huikaofu was dissolved. The main reason was the system of power balance strongly contradicted with the feudal autocracy.

37. In September 1906, Emperor Guangxu said in Decision on Yikuang and Others' Auditing of Administrative Offices of the Central Government that "To accept different advices, the Advisory Parliament should set up some new offices. Court of Auditors should be responsible for the auditing of the funds. Other offices should be set up under the control of Court of Auditors." Quoted in *The World History of Auditing* by Wen Shuo, 2nd edition, 1996, p. 134.
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39. See the State Audit Policy in Section III of Chapter 4.