

The Birth and Development of the Auditing System of Socialism with Chinese Characteristics

HISTORY IS THE ROOT OF REALITY.”¹ China has a time-honored history of auditing. To embark on any study of it, we need first to clarify the historical origins of the People’s Republic of China’s (PRC) government auditing system and the development course of the auditing system of socialism with Chinese characteristics established on the basis of past experiences. Only in this way can we have a profound understanding of the internal relation between government auditing and national governance, the development trend of government auditing and how the auditing system of socialism with Chinese characteristics will be further advanced.

1. HISTORY OF THE CHINESE AUDITING SYSTEM

Government auditing in China has a long history. Ancient Chinese used words such as *investigating*, *listening*, *counting*, *checking*, *comparing*, and so on to describe “audit” activities. The contemporary Chinese term for *audit* first appeared in the *Foreword to Sun-Tzu*, written by Cao Cao (155–220), a major warlord in the

¹ Xi Jinping’s speech at the College of Europe in Bruges, April 1, 2014.

Three Kingdoms period, who proposed, “Audit, as a well-planned action, should be precise and profound, without any misrepresentation.” The first government institution using the term *audit* was the Court of Auditors established in 1127 during the Southern Song Dynasty (1127–1279). Documentary resources appearing at different stages reveal the features and history of auditing system.

(1) Official Auditing System² during the Shang and Zhou Dynasties

The Official Counting System and Administrative Report System in the Shang and Zhou Dynasties were collectively referred to as the Official Auditing System. A great number of tribute activities were recorded in the Yin Ruins’ Oracle-Bone Inscriptions of the Shang Dynasty (1600–1046 BC), and the tortoise shell-bridge inscription, with records of tributes on the right bridge and verification words on the left bridge, is regarded as the earliest verifiable records of audit activities. After King Wu had overthrown the Shang Dynasty, Ji Zi, an aristocrat of the former dynasty wrote the *Great Plan*, summarizing the experience of the ousted dynasty in country administration, and presented it to King Wu. According to the *Great Plan*, the supreme ruler should insist that government officials give top priority to the “Eight Government Affairs” including the administration of the people’s food and wealth as well as the five critical factors of ruling the nation, including “Listening,” and not seeking private benefits and tyrannically abusing their power. “Listening,” meaning “Listening and Accounting,” covered the administrative performance of officials and the careful maintenance of financial records. Through proper listening, the supreme ruler can ensure officials are honest and never engage in fraud by applying supervisory tools such as accounting, auditing, and the like. Hence, the audit supervision connotation contained in “listening” is the same anywhere and at any time. In Chinese history, audit was always described as “Listening and Accounting” or “monthly and yearly accounts by listening to differences.” Both *audit* in English and *audition* in French were originated from *audier* in Latin. In the fourteenth century, the audit work of the United Kingdom was carried out by hearing a statement of the accounts.³ Even today, State organs exercise their

² In some studies of audit history, the auditing of this period was called *official auditing*, which was a designation relative to the “social (nongovernmental) auditing.” There was no “non-governmental auditing” in the Shang and Zhou Dynasties. To summarize the features of auditing system during this period more precisely, this book uses *official auditing*.

³ Wen Shuo, *The World History of Auditing*, Rev. ed. Beijing: Enterprise Management Publishing House, 1996.

important powers of economic supervision by listening to budget and audit reports.

The official ranks system of the Western Zhou Dynasty (1046–771 BC) was a political system used to appraise and supervise the administrative performance of officials in regard to finance and the economy. This took the form of accounting annually or every three years. The head of the accounting department undertook overall responsibility for the national finances and their accounting, and for related auditing; Zaifu (an official taking charge of the qualification assessment of all the officials and reporting the results to the monarch) mainly inspected and supervised decrees, policies and financial revenues and expenditures under the control of all officials. In the bureaucratic system of the Western Zhou Dynasty, Taizai (official rank), the head of six major ministers, took charge of national events, while Zaifu was affiliated to Xiaozai (official rank) under Taizai. According to the literature, such as the *Rites of Zhou*, Zaifu was responsible for supervising the implementation of decrees and rites, that is, to supervise the authority and the rankings of the king, ministers, and officials; conduct national governance and investigate offenders; report on governance performance and effect and achievements in finance and economy to the imperial court; audit and review government officials; recheck the accounts of income and expenditure; and report offenders found to be involved in document forging, manipulation of accounts, extravagant waste, and improper expenditure to the Taizai for punishment according to the laws and regulations. On the positive side, the recommended rewards for persons who saved on expenditure, sufficiently protected the treasury reserves and managed money well. The Zaifu could report any problems to the Taizai or even directly to the king of Zhou.⁴ In summary, the Zaifu mainly performed the duties of “guiding the methods of managing State affairs and formulating the laws governing the actions of officials” and achieved the governance goal of “defining the authority and rank of the king, ministers and officials” by audit supervision, which played an important role in maintaining the structure and capacity of national governance. Professor Michael Chatfield, an expert on the history of accounting and auditing in America, wrote in his book *A History of Accounting Thought*: “In the aspect of internal management, budgets and audit procedures, the Western Zhou Dynasty was unsurpassed in the ancient world.”⁵

⁴ Li Jinhua (chief editor), *The History of Audit in China*, Vol. 1. Beijing: China Modern Economic Publishing House, 2004.

⁵ (U.S.) Michael Chatfield, *A History of Accounting Thought*, translated by Wen Shuo, Dong Xiaobo, et al. Beijing: China Commerce and Trade Press, 1989.

The Spring and Autumn Period (770–476 BC) and the Warring States Period (476–221 BC) witnessed changes in the system of public land into private ownership with taxation on land and the system of enfeoffment changed into the system of prefectures and counties, while a hereditary system regarding appointments changed into one of recruitment and dismissal. To meet the needs of national governance, the official rank system was replaced by the System of Administrative Reports. Accordingly, local officials were supervised and restricted. They or personnel sent in their place had to regularly report to the imperial seat the situation regarding any changes in the revenue and expenditure related to households, farmlands, taxes, property, and so on within their jurisdiction, while such officials as Chuanji (official rank), Neishi (clerk of the capital), minister, and counselor-in-chief assisted the ruler in investigating, assessing, and meting out rewards and punishments. In the development of the auditing system, the Administrative Reports System made great progress in three aspects.

First, certain important auditing concepts appeared. Guan Zhong (c. 720–645 BC), a legalist chancellor, wrote in the book *Guanzi Youguan*, “If a country is dedicated to developing agriculture, industry and commerce, it will get rich; if a country can establish a legal system, develop common rules, scrutinize its policies, and cultivate competent officials, it will enjoy prolonged stability.” That is to say, auditing should not only verify and examine financial bookkeeping but also investigate and appraise decrees and policies.

Second, the *Law of Verifying the Properties of Government Departments* and other codified laws directly related to audit supervision were formulated. During this period, audit supervision and the dispersion of the results were widely mentioned in statute laws such as the *Canon of Laws* by the Wei Kingdom, *Law of the State of Qin* by the Qin Kingdom, the *Royal Orders* by the Chu Kingdom, the *Monograph on Criminal Law* by the Han Kingdom, *Law of the State* by the Zhao Kingdom, and so forth. Among them, the *Law of Verifying the Properties of Government Departments* in the *Law of the State of Qin* was specifically designed for audit supervision and imposition of penalties in regard to finance, economy, and discipline. It pointed out in the “Decrees for Checking Officials in the Capital and Counties” that “The excess or shortage of supplies and properties should be subject to evaluation, and penalties imposed according to the highest value therein.”⁶ It also prescribed that “If any problem is discovered in properties, supplies and account books, the person in charge of administration and accounting and other involved officials involved should be liable for the indemnification against the insufficiency.”

⁶ Edited by the Editorial Office of Zhonghua Book Company Gao Heng, “Several Issues about Officials in the Bamboo Slips of the Qin Dynasty,” In *Studies on Bamboo Slips of the Qin State from Yunmeng*. Beijing: Zhonghua Book Company, 1981. P207

Third, the idea that “chaos originates from the ruler’s arbitrary listening and accounting” came into existence. Up to the middle and later period of the Eastern Zhou Dynasty (770–256 BC), slackness in the laws and disciplinary measures led to the decay of the Administrative Reports System. The *Book of Lord Shang: Interdicts and Encouragements* pointed out limitations in the Administrative Reports System for local officials and the ruler’s arbitrary listening and accounting. In detail, as local officials remained far from the royal seat, they made decisions at their own discretion, which might have easily resulted in fraud, data misrepresentation, and unfaithful reporting, but the king could hardly discover the problems existing in many of the reports during the short period of the annual listening and accounting. Even if the ruler could find some problems, it was hard to investigate and make a judgment due to insufficient evidence. It was in order to solve such problems that Han Fei-tzu (280–233 BC) proposed the concept that “chaos originates from the ruler’s arbitrary listening and accounting.” He stressed that the king should rule by virtue of “Laws” and “Kingcraft” and should audit and supervise officials rather than the people. Besides, he also proposed methods such as “matching the items of accounts with real objects, collecting evidence on a wide range, and soliciting opinions from all walks of life” to address the existing problems and improve the system of “Listening and Accounting.” To sum up, audit should be conducted in such a manner as to ensure accuracy between cash in hand and the accounting ledger, and make comparison in a fair and public manner.

(2) Censorate Auditing System during the Qin and Han Dynasties

Following the successful national unification, the Qin Dynasty launched a centralized system under which the official ranks of Chengxiang counselor-in-chief, Taiwei commander-in-chief, and Yushi Dafu censor-in-chief were established to respectively handle administrative, military, and supervisory power, forming a political layout of separation of the three powers with mutual checks and balances. This was further consolidated during the Han Dynasty (206 BC–220 AD). As recorded in the *History of the Former Han*, the emperor set the official rank of Jianmu (supervisor) to supervise and detect any ministerial misconduct, and Sichu (auditor) to rectify the performance of supervision.⁷ Hence, a surveillance system with full authority came into being.

⁷ Yan Kejun, *All Three States Articles (Complete Collection of Literature from the Ancient Past through the Six Dynasties, Vol. 1)*, Vol. 21: *Discussion on Politics* by Xiahou Xuan, quoted from *Records of Wei: Biography of Xiahou Xuan*. Beijing: Zhonghua Book Company, 1965

On the one hand, the Qin and Han Dynasties carried on the Administrative Reports System and formulated the *Law of Administrative Reports System* under which the counselor-in-chief should serve as the head of the Administrative Reports Institution; on the other hand, a censor auditing mode of “comprehensive supervision and investigation, and united supervision and examination” was developed. The Censor Prefecture and the Prefecture of Counsellor-in-chief were collectively referred to as the “Two Prefectures.” The censor-in-chief was obliged to “enforce laws, give reference, lead and supervise all officials,” and the Censor Prefecture could directly participate in administrative reporting presided over by counselor-in-chief.⁸ The Censor could directly exercise supervision over the site of administrative reporting, investigate the gains and losses resulting from the decrees issued by the chief, magistrate, and assistant officers, and verify whether “books of accounts” and other economic accounts were true.⁹ Besides, the Censor could also inspect the local government authorities at various levels and carry out on-site auditing. The Han Dynasty also successively promulgated the *Nine Articles of Supervisory Censor* and *Six Articles for the Prefectural Governor*, in which the Supervisory Censor and Prefectural Governor were authorized to supervise local officials, review the financial ledgers, and report, investigate, and impeach offenders who levied unfair taxes and engaged in corruption, according to laws.

The auditing system was further improved during the Cao Wei Dynasties (220–265). The term *audit* in contemporary Chinese first appeared in *Foreword to Sun-Tzu* written by Cao Cao (155–220) for annotations to *The Art of War*. He proposed that “Audit, as a well-planned action should be precise and profound, without any misrepresentation.” Political strategy, military stratagems, and records of finance and military supplies were covered. The opening of Chapter 2, *Conducting Operations*, of the *Art of War*, reads, “In the operations of war, where there are in the field a thousand swift chariots, as many heavy chariots, and a hundred thousand mail-clad soldiers, with army provisions enough to carry them several hundred miles, the expenditure at home and at the front, including entertainment of guests, small items such as glue and paint, and sums spent on chariots and armor, will reach the total of a thousand ounces of silver per day. Such is the cost of raising an army of 100,000 men.” In this period, the establishment of Bibu (Court of Auditors) was the most significant development, replacing the Administrative Reports System.

⁸ Yan Shigu (*Tang Dynasty*) and Ban Gu (*Han Dynasty*), *The History of the Former Han*, Vol. 83: *Biography of Zhu Bo*. Beijing: Zhonghua Book Company

⁹ Li Jinhua (ed.), *The History of Audit in China*, Vol. 1. Beijing: China Modern Economic Publishing House, 2004.

(3) Bibu (Court of Auditors) Auditing System during the Tang and Song Dynasties

In the Tang Dynasty, the auditing system was developed based on the experience of previous dynasties, and the system of “unity of special audit, concurrent audit, and internal audit by different departments respectively” was formed.

First, Bibu—a professional audit institution—was set up. In Chinese, the character *Bi* means checking, examination, appraisal, evaluation, and so forth, which vividly generalizes audit work. Bibu, initiated in the Cao Wei Dynasties, was later affiliated with the Ministry of Justice in the Tang Dynasty and served as an institution specializing in auditing with a certain jurisdiction. As recorded in the *New Book of Tang: Records of Officials* and *Institutional History of Tang*, Bibu took charge of auditing and examining the revenues and expenditures of the central government, local authorities, military towns, and imperial family.¹⁰ The wide range of auditing and the details of audited items were unprecedented. The *Legislative Articles of Bibu* and *Conventions of Bibu* formulated by the Tang Dynasty were special audit laws elaborating on the scope, contents, procedures, timing, means, and results of the Bibu's auditing, and thus occupied an important position in the ancient audit laws. Bibu played an important role in national governance at this time. Yang Yan (727–781), counselor-in-chief of the Tang Dynasty, pointed out, “In the beginning, the country followed the old system and all properties were stored in the Left National Treasury; the Taifu (Ministry of Imperial Supplies) conducted accounting on a quarterly basis, and reported it to Bibu for rechecking. No loss was incurred.”¹¹ In the later period of the Tang Dynasty, most of the old systems of Bibu's auditing were abolished; accordingly, Bibu officials were made idle, which greatly impaired national finance.

Second, the audit functions of the Censorate were strengthened. According to the official system of the Tang Dynasty, the Censorate, apart from the Department of State Affairs, Department of Supervision, and the Central Secretariat, should also be subject to the emperor's direct supervision. The Censorate Auditing System that originated from the Qin and Han Dynasties was further developed in the Tang Dynasty. The *Collections of Liu Zongyuan* recorded that, in the 14th year of the Dali period (779), an administrative office for the two capitals (Chang'an and the Eastern Capital of Luoyang) was set up, consisting

¹⁰ Zhang Shuo, Zhang Jiuling, et al. *The Six Statutes of the Tang Dynasty*, Vol. 6: *Ministerial Directors and Vice Directors of Bibu*, Beijing: Zhonghua Book Company.

¹¹ Liu Xu, et al. (Later Jin Dynasty), *Old Book of the Tang*, Vol. 118, *Biography of Yang Yan*, Beijing: Zhonghua Book Company.

of a censor, five officers, and two clerks. The administrative office took charge of “accounting the expenses of these two stations, auditing and supervising whether the revenues and expenditures accrued thereof complied with the system at the end of each month and quarter.”¹² After the Bibu’s audit function weakened in the later period of the Tang Dynasty, the Censorate strengthened its supervision and inspection over national finances, and gave top priority to financial revenues and expenditures among all supervision of local and central organs. In this regard, Shu Yuanyu (791–835) alleged in the *New Creation of the Censorate: Records of the Imperial Secretariat Ministry* that the Censorate was “the place of accounting in the world.”¹³

Third, the system of internal auditing by the Ministry of Civil Affairs, the, Financial Revenue and Expenditure Ministry, and the Salt and Iron Management Ministry was established. The Tang Dynasty conducted internal and external auditing of financial revenues and expenditures. At the end of each month, all departments would prepare their account books recording revenues and expenditures, and conduct reconciliation on a monthly, quarterly, and annual basis. Therefore, fiscal institutions represented by the Ministry of Civil Affairs, Financial Revenue and Expenditure Ministry, and Salt and Iron Management Ministry were also required to conduct internal auditing of the administrative organizations, while Bibu and the Censorate conducted external auditing. Under the official system at that time, commissioners and vice commissioners of the three ministries served as the general leaders of internal auditing; a judge and patrol officer were in charge of reviewing different sectors; other officials like Shixia (official title), Liuhou (an official agent when the post of administrator or supervisor was vacant), Xunyuan (touring salt brokerage) and Jianguan (supervisor) were in charge of examining and reviewing the financial revenues and expenditures of all places. Internal auditing promoted standardized financial control. Han Huang (723–787), Minister of Financial Revenue and Expenditure Ministry, Liu Yan (715/716–780) and Pei Xiu (791–864), Forwarding Magistrates of the Salt and Iron Management Ministry, and so forth, were well known for their “proficiency in review and examination and resistance to offenders and consumption of public finance.”

This auditing mode of “unity of special audit, concurrent audit, and internal audit by different departments respectively” in general was inherited by the Song Dynasty (960–1279); however, the name and affiliations of audit institutions

¹² Shang Yongliang and Hong Yinghua, *The Collections of Liu Zongyuan*, Vol. 26: *Records of Administrative Offices*, Beijing: The Commercial Press, p. 704.

¹³ Li Fang, Song Bai, and Xu Xuan, *Best Literary Works*, Vol. 807, *The New Creation of Censorate: Records of Imperial Secretariat Ministry*. Beijing: Zhonghua Book Company

were changed in many cases. In the Southern Song Dynasty, the Court of Auditors had significant influence in the history of audit. Before the reform in the Yuanfeng's regime of the Northern Song Dynasty (960–1127), such organs as the Sanbugou Office, Dumokan Office, Mabujun Office, and Dupingyou Office under the three Ministries also had audit functions. Among them, the Sanbugou Office, as a professional audit institution under the Central Government, "took charge of reviewing and auditing the account books to observe the difference and prevent errors and malfeasance."¹⁴ However, the Sanbugou Office was affiliated to the three ministries, so it generally lacked auditing independence. Sometimes, it even faced retaliation of different sorts. As recorded in Volume 40 of *Extended Continuation to Zizhi Tongjian*, Liu Shi (949–997), the head of the Sanbugou Office, was framed by Li Weiqing (943–998), Minister of the Salt and Iron Management Ministry, and others as he disclosed through auditing that Li Weiqing's son-in-law had embezzled hundreds of thousands in governmental funds. The system of Three Councils and Six Boards was restored among the reforms made during Yuanfeng's regime. Accordingly, the three ministries of the State financial commission were deposed, and most of the audit work was reassigned to the Bibu under the Ministry of Justice. Thus, audit independence was enhanced. Besides, the rewards for audit officials were much highlighted in the reign of Emperor Yuanfeng, which is proved in the record of "an official who disclosed the embezzlement of public funds will be rewarded with three percent of the value involved."¹⁵ Afterwards, the audit functions of Bibu and censor were gradually weakened when the imperial seat of the Song Dynasty migrated to the southern region; however, some achievements were made in respect of professionalization of audit institutions. In the first year of the Jianyan Era of the Southern Song Dynasty (1127), the Zhuangou Department was renamed as the "Audit Department," also known as the Court of Auditors and collectively referred to as the Six Courts together with Court of Inspection, the Court of Capital Liaison, Court of Litigation, and so on. It was the first institution in the history of China specializing in auditing and using the contemporary term *audit* in its name. According to the *Inscriptions of All Departments by Supervisory Censor Wu Bogu*, Volume 8 of the *Xianchun Lin'an Zhi* ("Records about Lin'an from the Xianchun reign [1265–1274]"), "at the very beginning, the Court of Auditors was separated to take charge of accounting in relation to cavalry and infantry. In the second Yuanfeng year, these two courts were integrated under uniform leadership.

¹⁴ Li Tao, *Extended Continuation to Zizhi Tongjian*, Vol. 99. Beijing: Zhonghua Book Company

¹⁵ Tuotuo and Alutu, *The History of Song Dynasty*, Vol. 179: *Shihuo Zhi* I. Beijing: Zhonghua Book Company

Any official earning a salary must accept audit. Offenders should be judged according to the laws. All books of accounts in every aspect should be submitted to Danong (a government office in charge of tax incomes and expenditures). The Court of Auditors should provide the decision-making and consultation services while formulating any policies in relation to regulations on economy and plans of financial revenues and expenditures.”

The preceding historical materials account for the evolution and duties of the Court of Auditors in the Southern Song Dynasty and its duties, which are helpful in further understanding of the nature, functions, and operation mechanism of audit. The major features of the Court of Auditors are: (1) The decision-making and consultation function of audit was taken seriously and strengthened. In this case, the Court of Auditors should provide the decision-making and consultation services while making any policies in relation to economic regulation and plans of financial revenues and expenditures. (2) The range of audited entities became largely extended. Army, imperial family, and government officials should be audited. (3) The professionalization level of audit increased. Account books of revenues and expenditures, all taxes, and budgets for revenues and expenditures should be audited pursuant to the emperor's orders, laws, legislative articles, conventions, and so on.

(4) Kedao Audit Supervising System during the Ming and Qing Dynasties

In the 13th year of the Hongwu Era (1380) of the Ming Dynasty (1368–1644), Emperor Zhu Yuanzhang deposed his counselor-in-chief and decentralized the powers of the Imperial Secretariat and counselor-in-chief to the Six Ministries whose heads directly reported to the emperor. Two years later, the Censorate was set up. Audit functions were mainly manifested in the following three aspects: (1) to expose misdeeds in government offices and identify officials who took bribes, bent the law, and violated the decrees of finance and economy; (2) to appraise the administrative performance of officials over the economy; (3) to manage the Supervisory Censors from the Court of Censors in charge of auditing. As recorded in *The History of Ming* the latter were responsible for “investigating misdeeds of officials, auditing the account books, and checking the treasury, salaries, warehouse inventories, money, grain, salt, water transportation, tea and horses.”¹⁶ In addition, the Ming Dynasty assigned the

¹⁶ Zhang Tingyu, *The History of Ming*, Vol. 73: The Treatises on State Offices (Zhiguan Zhi) II. Beijing: Zhonghua Book Company

task to the Jishizhong (an imperial attendant) of the Six Ministries (Ministry of Official Personnel Affairs, Ministry of Revenue, Ministry of Rites, Ministry of War, Ministry of Punishments, and Ministry of Works), which directly reported to the emperor instead of the Censorate and other organs. *The History of Ming* recorded that Jishizhong was responsible for auditing on administrative control, supplement, appropriate and audit ministerial affairs at all levels.¹⁷ The Jishizhong could participate in government affairs, discuss politics and suggest persons to be given an official rank and dismissed, and also take charge of audit supervision over a wide range of activities.

The Supervisory Censors from the Court of Censors and the Jishizhong from the Six Ministries were collectively referred to as “Kedaoguan” (supervisory officials), exercising independent audit powers under mutual coordination and restraint. However, the Ming Dynasty encouraged the two sides to monitor and report on each other, to prevent Kedaoguan from deceiving the emperor. Consequently, this resulted in endless disputes and abuses of power. After the reign of emperors Jiajing and Wanli, the increasing factional strife aggravated this situation. “In the reign of emperor Shizong, the restrictions on public opinion were much relaxed, resulting in different arguments. It was a worry that some arguments were excessive and inapplicable. As they often bore ill wills more opinions would mean nothing but more chaos.”¹⁸

The Qing Dynasty (1644–1912) basically followed this auditing system. The system of combining supervision and examination was introduced. In the first year of emperor Yongzheng’s reign (1723), the Six Ministries were incorporated into the Censorate, thereby reducing their power to make remonstrance and deliberation. On the other hand, this strengthened the efforts of the Censorate to investigate, report, and rectify the acts of all departments and related officials. In the Censorate, the Six Ministries, Fifteen Departments, Imperial Office of Censor, and Censor Office of Imperial Household Supervision Department had audit power.¹⁹ The Six Ministries were to “verify all government affairs,” “investigate and interrogate the official business to write off official papers,” and so forth. Despite the different audit fields, the Six Ministries were jointly responsible for inspecting warehouses, water transportation, and provisions, as well as salt-related matters, where audit powers were mostly assigned to

¹⁷ Zhang Tingyu, *The History of Ming*, Vol. 74: *The Treatises on State Offices (Zhiguan Zhi)* III. Beijing: Zhonghua Book Company

¹⁸ Zhang Tingyu, *The History of Ming*, Vol. 215: *Collective Biographies* 130. Beijing: Zhonghua Book Company

¹⁹ Qing Emperor Gaozong, *The Total Annals of the Qing Dynasty*, Vol. 65: *State Offices*. Beijing: The Commercial Press

the Ministry of Revenue and Ministry of Works. The Fifteen Departments exercised certain audit power.²⁰ According to the *Wenxian Tongkao of the Qing Dynasty* (Comprehensive Investigations based on Literary and Documentary Sources), “Supervisory Censors from the Fifteen Departments were responsible for investigating the misdeeds of all officials, checking the records of lawsuits by all government offices, inspecting the capital garrisons, supervising all levels of examinations, and inspecting departments, courts and offices; externally, they were responsible for supervising the affairs relating to salt, transportation, warehousing and schools.” Among them, checking the records, supervising salt, and transportation were specifically related to the audit function.

The Kedao Audit Supervising System of combining supervision and examination was introduced in the Ming and expanded in the Qing Dynasty, to meet the needs of centralism under imperial power. On the whole, the system of “unity of special audit, concurrent audit and internal audit by different departments respectively” had been abolished, though it was a beneficial exploration in auditing. Accordingly, the Kedao Audit Supervising System was inevitably downgraded to a tool of imperial autocracy and rule by man. For example, in the Censor Office of the Imperial Household Supervision Department under the Censorate, “all revenues and expenditures of the Imperial Household Department shall be checked and compared by the censor in accordance with the budget of the Capital Province, in order to check the records of lawsuits by all government offices.”²¹ However, the Imperial Household Department, with more than 3,000 officials and tens of thousands of personnel under its jurisdiction, directly served the imperial family. On the contrary, the Censorate only assigned two 7-grade part-time officials and three 9-grade inferior officials to examine and audit the Imperial Household Department, making the work a mere rubber stamp. As a matter of fact, the Censorate was responsible for write-off, that is, to legitimize the expenditures of the imperial family and corruption of powerful ministers, which led to it being given the title of “the worst least useful government office of the Qing Dynasty.”

(5) Auditing System in the Early Days of the Republic of China and Nanjing KMT Government Period

From the early days of the Republic of China to the Nanjing Kuomintang (KMT) government period (from April 18, 1927, to May 20, 1948), the Court of

²⁰ Zhao Erxun and Ke Shaomin, *The Draft History of Qing*, Vol. 115: *State Offices II*. Beijing: Zhonghua Book Company

²¹ The Palace Museum, *Qinding Taigui*, Vol. 32: *Verification IV*. Haikou, Hainan Publishing House

Auditors was set up in parallel with the Executive Yuan (Ministry), the Supervisory Institute the Supreme Court, the Board of Examination, and other ministries, and then restructured into a subsidiary body of the Supervisory Institute. The system of combining supervision and examination was thus introduced. Under the five-chamber political system, the audit offices of the Republic of China were independent of the fiscal administration and government administrative systems, possessing certain independence. The auditing system had the features as set out below.

First, audit institutions were mandated by the Constitution. The legal status of auditing and duties of audit institutions were specified in the *Provisional Constitution of the Republic of China* promulgated in 1914, the *Constitution of the Republic of China* released in 1923, the *Draft Constitution of the Republic of China* unveiled in 1936, the *Constitution of the Republic of China* announced in 1947, and so forth. Correspondingly, four audit laws were promulgated successively.

Second, audit methods were flexible and diverse. Due to constant wars, heavy debts, and a weak financial position in this period, the audit institutions made great efforts to rectify the economic and financial order, so as to safeguard stability. They turned to ex ante audit, random investigation, field audit, travelling audit, off-office audit, and other methods, reflecting a strong trend of innovation and flexibility.

Third, the pilot project of a publicity system of audit results was carried out. The audit communique was prepared and printed by the audit institutions on a regular basis and made public. The announced contents were mainly associated with government decisions, laws and decrees on audit work, important instruments of audit business, disclosure of specific audit cases, and introduction of audit results.

Fourth, the professional quality of audit officials was emphasized. The special laws including the *Establishment Law of the Court of Auditors*, *Law of the Court of Auditors on Organization*, and *Law of Penalties on Audit Officials* provide a firm regulatory basis covering job requirements, qualifications for selection, salary and professional ethics, and so forth. In 1946, half of auditors in the Court of Auditors had a university degree, which was very rare among government institutions at that time.

Audit supervision played a certain role in consolidating financial discipline, combating corruption, increasing revenue and reducing expenditure, and assuring government operations. However, due to the corrupted political system and official system, the limitless abuse of power by a privileged class and financial chaos, different men and institutions in power, such as tycoons manipulating the economic lifeline and the military sectors that consumed

a huge of funds, repeatedly refused to accept audit supervision. As a result of long-term wars, it became increasingly difficult 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 KMT Regime.

2. AUDITING SYSTEM DURING THE NEW DEMOCRATIC REVOLUTION LED BY THE COMMUNIST PARTY OF CHINA

This period witnessed the founding of the Communist Party of China and the Great Revolution, the Agrarian Revolutionary War, the War of Resistance against Japanese Aggression, and the Liberation War. The specific forms and contents of the auditing system varied in each period, but audit supervision also played an important role.

(1) Auditing Exploration during the Establishment of the Communist Party of China and the Great Revolution Period

The Examination Department of Economic Committee incorporated by the Anyuan Railway and Mine Workers Club was the earliest audit supervisory institution to appear after the founding of the Communist Party of China (CPC). Established in May 1922, the Anyuan Railway and Mine Workers Club raised a large amount of funds through membership dues and subsidies from the bureaus of railway and mines. In April 1923, the Club set up an Economic Committee directly attached to the supreme congress. This was responsible for examining all economic revenues and expenditures of the Club and verifying the books of accounting shares each month. The audit results would be made public to all members. Yu Hanhua served as the First Director of the Examination Department. In the second election, in August 1924, the Club decided to separate the Examination Department from the Economic Committee and individually set up the Economic Review Committee, specializing in economic examination.

After the “May Thirtieth Movement (1925),” the CPC set up the Canton-Hong Kong Strike Committee, consisting of an Audit Bureau working in parallel with such administrative institutions as the Financial Committee, Bureau of Legislative Affairs, and Bureau of Directors. This was the first Chinese institution incorporated with the term *audit* in its name under the leadership of the CPC, and Huang Wenshao served as its first director. On March 29, 1926,

the Canton-Hong Kong Strike Committee issued the *Organization Law of the Audit Bureau* to stipulate the staffing and duties of the Audit Bureau.²² Through direct affiliation, the Audit Bureau was entitled to conduct audit on all current expenditures of all organs under the Canton-Hong Kong Strike Committee. The funding expenditures were effectively monitored through audit, which thus provided an effective assurance for the strike campaign led by the CPC.

During this period, the audit work was going through an exploratory stage. It not only played an important role in implementing the CPC's resolutions and safeguarding the implementation of its policies, but also accumulated experiences in auditing by the Chinese Soviet areas under CPC leadership during the Agrarian Revolutionary War Period.

(2) Auditing during the Agrarian Revolutionary War Period

In April 1927, the CPC Central Leadership initiated the position of the Central Audit Commissioner after the 5th CPC National Congress, with Ruan Xiaoxian taking the post. In July 1928, the *Constitution of the Communist Party of China* adopted at the 6th CPC National Congress made specific stipulations: "In order to supervise the finance, accounting and performance of all organs of the CPC, the CPC Congresses, at national, provinces, counties and citie levels should set up Financial Review Boards at the central, provincial, city or county level." Accordingly, the Congress established the Central Review Board where Liu Shaoqi, member of the CPC Central Committee, served as Secretary and Sun Jinchuan, Ruan Xiaoxian, and Zhang Kundi served as commissioners. In August 1932, the *Interim Organizational Guidelines of the Ministry of Finance*²³ was adopted at the 22nd Executive Meeting of the Central People's Committee. The Audit Department with Ruan Xiaoxian as Director was set up under the Central Financial Committee, and Audit Offices set up under Provincial Financial Departments. The Audit Department took charge of examining national overall budgets and final accounts, checking the bookkeeping, and reviewing matters concerning preparatory expenditures and the treasury's cash and deposits. In order to strengthen audit supervision on inner-party funding, the Fifth Plenary Session of the 6th CPC Central Committee held in January 1934

²² China Audit Society and Scientific Research Institute of the China National Audit Office: *Compilation of the History of China's Revolutionary Base Areas*. Beijing: Beijing University of Technology Publishing House, 1990, p. 204.

²³ China Audit Society and Scientific Research Institute of the China National Audit Office: *Compilation of the History of China's Revolutionary Base Areas*. Beijing: Beijing University of Technology Publishing House, 1990, p. 205.

set up the Central Review Board of the CPC, with Lin Boqu, Ruan Xiaoxian, and Teng Daiyuan as commissioners and Lin Boqu as Central Audit Commissioner.

In September 1933, the 49th Meeting of the Central People's Committee decided to establish an Audit Committee directly subordinate to it and independent of the department of finance. In February 1934, the First Session of the 2nd Meeting of the Central Executive Committee decided to assign the power of review and approval for budgets and final accounts to the Central Executive Committee with the subordinate body of the Central Audit Committee in parallel with the Central People's Committee, Central Revolutionary Military Affairs Committee, and Provisional Supreme Court,²⁴ with Ruan Xiaoxian as First Director. Meanwhile, Chairman Mao Zedong approved the promulgation of the *Audit Regulations of the Executive Committee of Central Government of Chinese Soviet Republic*,²⁵ which became the first audit law of the regime under CPC leadership. Consisting of 19 articles, the Regulations covered the auditing authority, auditing system, audit scope and task, audit work reporting system, audit procedures, audit disposition, reconsideration measures, delegated review, and so forth. During this period, the Central Audit Committee audited the budgets and final accounts, which strengthened audit of the financial expenditures of state-owned enterprises and mass organizations, leading to the exposure of some major corruption cases. Some audit results were published by newspapers in the Soviet area, reflecting the high transparency of audit work.

All revolutionary base areas positively implemented the regulations of the Provisional Central Government for establishing the auditing system. The revolutionary base areas such as Hubei-Henan-Anhui, Sichuan-Shaanxi, Zuojiang, and Youjiang Region and Hunan-Western Hubei set up specialized audit institutions or supervision and examination institutions with audit power. Some base areas also formulated the work requirements and regulations on the audit work according to their respective actuality, and audited the fiscal spending, economic activities, and related institutions, thus ensuring the construction of base areas and the corresponding military struggles.

During this period, the auditing system had become an important part of power building of the CPC. The Party always carried out audits in line with the

²⁴In 1934, the *Law of the Central Government of Chinese Soviet Republic on the Organization of Chinese Soviet Republic* issued by the Temporary Central Government of the Chinese Soviet Republic stipulated, the Central Executive Committee would set up the Central Audit Committee in parallel with the Central People's Committee, Central Revolutionary Military Affairs Committee and Provisional Supreme Court, taking charge of auditing the financial revenues and expenditures and supervising the implementation of State budgets.

²⁵*Audit Regulations of the Executive Committee of Central Government of Chinese Soviet Republic*, *Red China*, Issue 153, 5th and 6th eds., March 22, 1934.

economic construction and military needs of the anti-encirclement struggle of the revolutionary base areas by means of on-site audit, audit through submitted documentaries, mandated audit, commissioned audit, and the like, all of which had far-reaching influence in improving the auditing system of socialism with Chinese characteristics.

(3) Auditing during the Period of the National War of Resistance against Japanese Aggression

In February 1937, the Provisional Central Government of the Chinese Soviet Republic set up the Auditing Commission headed by Xie Juezai. The army and local governments at various revolutionary base areas established their own audit institutions in succession. The anti-Japanese bases led by the Communist Party of China fought behind enemy lines under tough conditions. They were required not only to resist the Japanese invaders but also to maintain effective strength for the longer struggle. To this end, it became increasingly important to maintain basic financial supply, to strictly control the fiscal budget, financial revenues, and expenditures, and to abide by fiscal discipline. In its guidance of audit work and the construction of an auditing system of such bases as those in Shaanxi-Gansu-Ningxia, Shanxi-Chahar-Hebei, Shanxi-Hebei-Shandong-Henan, Shandong, and Central China, the CPC insisted on the basic principle of meeting the demands of war and ensuring logistic supply. Audit institutions were mostly established in the financial departments. For example, the audit institutions under the government of the Shaanxi-Gansu-Ningxia border region restored the system of audit office under the financial department in July 1942, after making multiple changes along the way. Meanwhile, the changes of war also caused instability in the work of audit institutions, and some were revoked and then rebuilt. To comply with the political structure unifying the CPC, government, military, and the people in all the anti-Japanese bases, personnel from the CPC, government, and military institutions also joined the audit institutions, which were not only able to adapt to the needs of a highly unified organizational system in wartime but also facilitated close cooperation.

During this period, all anti-Japanese revolutionary base areas formulated the specialized audit laws or others that covered audit; for example, in January 1942, the *Interim Organizational Regulations of the Government of the Shaanxi-Gansu-Ningxia Border Region* were issued stipulating the establishment of audit institutions and the necessary audit assignments; on February 20, 1943, the financial department of Administrative Committee of Shanxi-Chahar-Hebei

Border Region issued the *Rules of Procedures for Auditors*,²⁶ making specific provisions on the work of all dispatched specialist auditors; on April 1, 1944, the Shanxi-Suiyuan Border Region issued the *Audit Regulations* on the procedures for auditing the organization and authority, budgets and final accounts, army provisions, quilts, and clothing, representing a relatively complete audit law among those emerging in all the base areas²⁷ and so forth. The contents of these audit laws showed that the financial revenues and expenditures, budgets, and final accounts were mostly incorporated into the objective of audit supervision, and the regulations covered the audit methods, audit institutions, procedures for budgets and final accounts, and audit of the treasury. (See Table 1.1.)

(4) Auditing during the Liberation War of China

Despite different audit institutions and auditing systems, all liberated areas established their respective auditing systems according to the conditions in terms of political, military affairs, and economic situations. Quite a few liberated areas set up an Auditing Commission consisting of principals from military institutions, government, and the Party to serve as the actual leading authority of audit work.²⁸ However, it was a common practice to set up audit institutions within the financial department in view of the fact that the work was relatively simple and there were few qualified personnel available at that time, which not only facilitated the cooperation of financial and audit practices, but also kept down the operating costs. For example, the North China People's Government was established officially in September 1948. The *Organizational Regulations on All Departments of the North China People's Government* implemented in October prescribed that the North China Financial and Economic Committee, separated from the Ministry of Finance, was authorized to take charge of auditing; however, in reality, subject matters were still handled by the Ministry of Finance. In May 1949, it further specified that the audit institution of the North China People's Government was the Audit Department under the Ministry of Finance.

During this period, all liberated areas continued to improve laws and regulations in accordance with the targets of the liberated areas and their central tasks,

²⁶ China Audit Society and Scientific Research Institute of the China National Audit Office, *Compilation of the History of China's Revolutionary Base Areas*. Beijing: Beijing University of Technology Publishing House, 1990, p. 89.

²⁷ Compiling Group of Financial and Economic History of Shanxi-Suiyuan Border Region, *Selections from the Financial and Economic History of Shanxi-Suiyuan Border Region*. Taiyuan: Shanxi People's Publishing House, 1986, pp. 141–145.

²⁸ Li Jinhua (chief editor): *The History of Audit in China*. Vol. 2. Beijing: China Modern Economic Publishing House, 2004, p. 371.

TABLE 1-1 Establishment of Auditing System in All Border Regions during the National War of Resistance against Japanese Aggression

Audit Institution	Main Responsibilities	Leadings Officials	Main Laws and Regulations
The Shaanxi-Gansu-Ningxia Border Region: There were two types of audit institutions: Auditing Commission like the Auditing Commission established by the Provisional Central Government of the Chinese Soviet Republic; and Audit Departments, Branches, and Audit Offices set up by all levels of governments of the border regions. The Shanxi-Chahar-Hebei Border Region: Auditing commissions at the level of border region and special region were established in 1942; namely, "Auditing Commission of the Shanxi-Chahar-Hebei Border Region" for the border region, "Auditing Commission of Central Hebei Province of the Shanxi-Chahar-Hebei Border Region" for the Central Hebei Province, and "Auditing Commission of No. X Region of Shanxi-Chahar-Hebei Border Region (Special Region No.)" for the special region.	To examine the compliance and use of outlays by all organs and the army, approve fiscal budgets and final accounts for financial revenues and expenditures, etc. To audit the budgets and final accounts for money and provisions of military departments, check and impeach the extravagance, corruption, and other matters at all levels of military departments, etc. To understand the staffing of all units, examine the budgets and final accounts for money and army provisions check production revenues and expenditures, and impeach anyone guilty of extravagance, corruption, and other related matter.	Xie Juezai served as Chairman of Auditing Commission of the Central Government. Xiao Ke served as the Director of Auditing Commission of the Shanxi-Chahar-Hebei Border Region; Zhao Erlu, Gao Peng, Luo Yuanfa, Wang Ping, Liu Daosheng, and Xiao Wenjiu served as the Directors of Auditing Commission of the First, Second, Third, Fourth, Fifth, and Sixth Special Regions, respectively. Xiao Tong, Zhang Yejian, Wang Zhuozhi, Li Xin, Li Jirong, and Chen Guanghan served as auditors of financial departments of these six Special Regions.	<i>Interim Organizational Regulations of the Government of the Shaanxi-Gansu-Ningxia Border Region, Decision of the Central Committee on Strictly Establishing the Financial and Economic System, Notice on Outlays of All Organs, etc.</i> <i>Rules of Procedures for Auditors</i>

(continued)

TABLE 1-1 (continued)

Audit Institution	Main Responsibilities	Leadings Officials	Main Laws and Regulations
United Auditing Commission in 1943. In 1945, auditing commissions at the level of border region, administrative office, special region and county were established.	To take charge of examining and approving the budgets and final accounts on army provisions, quilts and clothing, funds construction, as well as foreign exchange and acceptance of donations of all organs, troops and schools of the Party, the government, and the army.	The Auditing Commission of organs directly under the Party, government, and military of the Border Region consisted of Tang Yanjie, Pan Zili, Wu Xian'en, Cheng Hongyi, and Yao Yilin, with Tang Yanjie serving as the Chairman.	Audit Regulations
Shanxi-Suiyuan Border Region: Auditing Commission The Shanxi-Hebei-Shandong-Henan Border Region introduced institutions and personnels including Auditing Commission, Audit Department, Audit Office, and auditors.	Auditing is a mandated by law as a part of financial administration. No revenues should be collected unless approved through audit. Expenditures shall be rejected unless approved through audit. Offenders regarded as guilty of corruption.	Lv Zhengcao served as the Chairman, and Wang Dacheng, Bai Rubing, Chen Manyuan, Chen Xiyun, etc. served as commissioners; Wang De, Sun Zhiyuan, Sun Chaoqun, Luo Guibo, and Yao Zhe served as chairmen of Auditing Branches of all subregions.	Auditing Procedures, Interim Auditing System

Source: Li Jinhua (chief editor), *The History of Audit in China*, Vol. 2. Beijing: China Modern Economic Publishing House, 2004, pp. 298-314.

and promoting the continuous improvement in the auditing system. For example, the Draft Constitution of Autonomy for the Shaanxi-Gansu-Ningxia Border Region proposed to strictly implement an auditing system in September 1946; Shanxi-Suiyuan and Shaanxi-Gansu-Ningxia Border Regions promulgated the *Provisional Auditing Stipulations for the Shanxi-Suiyuan and Shaanxi-Gansu-Ningxia Border Regions (Draft)* in March 1948, and the *Provisional Auditing Regulations of the Shanxi-Suiyuan and Shaanxi-Gansu-Ningxia Border Regions* in October; the Shanxi-Hebei-Shandong-Henan Border Region released the *Auditing System of the Party, Government, People and Academia at the Border Region Level* in February 1948; the Government of Shanxi-Hebei-Shandong-Henan Border Region and Shanxi-Chahar-Hebei Administrative Office of the Shanxi-Chahar-Hebei Administrative Committee promulgated the *Auditing Regulations (Draft)* in July; the North China People's Government issued the *Provisional Auditing Procedures of North China* in March 1949 and the *Rules for Implementation of Provisional Auditing Procedures of North China (Draft)* in May; the *Auditing Procedures of North China* was officially issued and implemented in July. These regulations guided and standardized auditing procedures most effectively.

During this period, the audit work of liberated areas had to be adjusted to the needs of unifying the administration of financial revenues and expenditures, strengthening fiscal administration and strictly enforcing economic discipline in wartime. As the financial revenues and expenditures were mainly used for the war of liberation and for administrative affairs, the liberated areas closely supervised the implementation of regulations on expenditures and the financial systems of governments at all levels, organs, schools, and the army, with a focus on auditing the expenditure budgets and final accounts, and strengthening prior approval, real-time examination, and post-auditing, in the form of unified law enforcement and examination in collaboration with the departments of financial revenues and expenditures, public sector entities, military audit departments, and others. This played a positive role in stabilizing and boosting the economy of liberated areas, supporting the war of liberation, preventing corruption and extravagance, and maintaining the spirit of being honest in performing official duties.



3. ESTABLISHMENT AND DEVELOPMENT OF THE AUDITING SYSTEM OF SOCIALISM WITH CHINESE CHARACTERISTICS

Audit methods of the revolutionary base areas and liberated areas were carried over in the early days after the founding of the People's Republic of China in 1949. The Central Government and local finance departments also set up audit

institutions within their jurisdiction. After the implementation of the planned economy system, audit supervision was executed by supervisory or management bodies of the finance department respectively, in combination with the fiscal administration. In December 1982, the *Constitution of the People's Republic of China* was adopted at the Fifth Session of the 5th CPC National Congress. It officially specified the implementation of the audit supervision system and initiated new approach to Chinese audit.

(1) Establishment of the Auditing System in the Early Days of the Reform and Opening-up Period

The period 1978 to 1985 witnessed the early stage of Chinese reform and opening up. In 1978, the Third Plenary Session of the 11th CPC Central Committee made the strategic decision to shift the focus of work to economic construction, including the tasks to further promote socialist democracy and improve the socialist legal system. In 1982, the 12th CPC National Congress put forward the important concept of building socialism with Chinese characteristics and establishing strategic objectives, focuses, steps, and guidelines and policies needed for economic construction. In October 1984, the Third Plenary Session of the 12th CPC Central Committee adopted the *Decision of the CPC Central Committee on Economic System Reform* to enhance the policy of invigorating the domestic economy and opening up, and speeding up economic restructuring with cities as the core. Catering to requirements of enhancing financial and economic management, establishment and improvement of the economic supervisory system, strong maintenance of national financial and economic discipline, and assurance of reform and opening up and sound development of the overall economy, the government auditing system emerged at this historic moment as a result.

1) Government Audit System Stipulated by the Constitution

In May 1981, Yao Yilin, then vice premier of the State Council, pointed out at a National Fiscal Work Symposium that it was quite necessary to strengthen financial supervision and prevent tax evasion fraud, corruption, and extravagance. Financial discipline should be strictly executed and the effective system adopted before should be resumed and enhanced. On January 12, 1982, Hu Qiaomu, then Secretary of the Secretariat of the CPC Central Committee, stated in his letter to Finance Minister Wang Bingqian that China needed to set up an audit institution (named either Audit Bureau or Court of Auditors) under the State Council during the ongoing adjustment of national institutions. From

February to March 1982, Hu Qiaomu, entrusted by Peng Zhen, Vice Chairman of the Standing Committee of the National People's Congress and Vice Chairman of the Constitutional Amendment Committee, stressed the importance of setting up audit institutions, establishing their mandate and ensuring the independence of auditing while explaining the *Draft Amendments to the Constitution (Exposure Draft)* to the Constitutional Amendment Committee on two occasions. According to him, audit independence was a general practice of most countries, therefore audit institutions should be subordinated only to law and independently exercised the right of financial supervision, without any interference from administrative organs. In April 1982, the *Draft Amendments to the Constitution* was published to solicit public opinions, including the implementation of the audit supervision system and establishment of audit institutions. In December 1982, the new Constitution was adopted at the Fifth Session of the 5th CPC National Congress. It defined the main responsibilities of the auditing system and the audit institutions and set out basic principles of audit supervision. This marked the establishment of the auditing system of socialism with Chinese characteristics as one of China's fundamental institutional arrangements.

2) Establishment of Audit Institutions

In June 1981, the Ministry of Finance submitted the *Suggestions on Setting up National Audit Institutions to the Standing Committee of the National People's Congress*, suggesting that affiliated agencies should be established under it to independently exercise audit supervisory power. Local audit institutions at all levels should accept inspection and supervision from the budget committee of the National People's Congress at the same level. With about 500,000 personnel, all levels of audit institutions nationwide took charge of regular, comprehensive and direct audit supervision of budgets, revenue and expenditures, and economic and financial activities of all regions and units. In July 1981, the State Council proposed to set up an audit institution under financial departments for the purpose of strengthening financial supervision. In October 1981, the Ministry of Finance submitted a report entitled *Opinions on Establishing National Audit Institutions (Exposure Draft)* to the State Council, proposing three programs: (1) Establishing the National Court of Auditors or Auditing Commission under the leadership of the Standing Committee of the National People's Congress. Its major leaders should be directly appointed by the NPC, and local branches should be established under the vertical leadership of the headquarters. (2) Establishing the National Ministry of Audit or National General Administration

of Audit under State Council leadership. Its major leaders should be directly appointed by the State Council, and local branches should be established under the vertical leadership of the headquarters. (3) Establishing the General Administration of Audit under the leadership of the Ministry of Finance. Local branches should be established and audit work should be subject to the vertical leadership of the headquarters. In June 1982, the Preparatory Group of Audit Institutions under the Ministry of Finance issued a *Report on Preparation and Building of Audit Institutions Submitted to the State Council*, proposing that the State Council should establish the national court of auditors, while provinces, autonomous regions and municipalities should establish the court of auditors with branches in counties and cities. Afterwards, the term *national court of auditors* was mentioned repeatedly in various documents, such as the *Notice on Recruiting Cadres for the National Court of Auditors* issued by the Organization Department of the CPC in January 1983. In March 1983, the *Notice on Issues Concerning Establishment and Staffing at All Levels of Local Audit Institutions* issued by the State Council pointed out that “in accordance with the provisions of the Constitution, the State Council should establish the China National Audit Office (CNAO) of the People’s Republic of China, and the people’s governments of provinces, autonomous regions and municipalities should establish an Audit Bureau.” Henceforth, the CNAO and Audit Bureau were formally established respectively as audit institutions under the State Council and the people’s governments above county level. In June 1983, the First Session of the 6th CPC National Congress appointed Yu Mingtao as Auditor General of the CNAO, and it was founded on September 15, 1983. In more than two years thereafter, the local people’s governments above county level generally established their own audit institutions. In March 1985, the 10th Session of the 6th NPC Standing Committee decided and appointed Lu Peijian as Auditor General of the CNAO. By the end of 1985, there were 3,007 audit institutions nationwide with a total of 27,900 auditors.

3) Thereafter, Audit Work Was Positively Explored and Carried Out

Following the policy of “working while establishing” released by the State Council to centralize economic work, the CNAO mainly audited the use of extra budgetary funds, losses by State enterprises, losses and waste incurred in production and operation, and major violations of financial disciplines, aiming to increase revenues, reduce expenditures and ensure basic balance in the that year. Meanwhile, audit pilots were launched focusing on financial revenues and expenditures, specific industrial sectors, special funds, special cases and economic benefits, which marked the first significant step of audit supervision. For example, the CNAO conducted a trial audit on Tianjin Iron Plant, Huaihai

Cement Plant, Hubei Jianli Foods Company, and Beijing Shuanqiao State Farm in 1983, becoming the first examination of industrial enterprises, capital projects, merchandising business, and agricultural enterprises since the CNAO's establishment. In April 1984, to ensure better management and use of foreign capital, the CNAO supported six cities including Beijing and Shanghai to audit dairy projects in collaboration with the World Food Program, which was the first foreign-assisted audit project undertaken by State audit institutions. In order to explore the most feasible auditing method on final statements of local governments, the CNAO organized the trial audit on the general financial accounts of Liaoning Province from August to September 1984. Audit on financial institutions also started at this time. In 1985, the CNAO audited the financial revenues and expenditures and final settlement of the Agricultural Bank of China, covering the headquarters, branches, and over 1,330 grassroots units. A total of 890 million yuan was identified as being involved in violations. Some local audit institutions also tried to carry out the regular documentary audit of administrative institutions. In 1985, the experience of Hubei Xiangfan Audit Bureau was replicated in 17 provinces, autonomous regions, and municipalities. Based on the pilot audit, they preliminarily established the system of regular audit on financial revenues and expenditures of administrative institutions, the accountability audit of factory directors leaving their posts, contract operation responsibility audit, self-financing infrastructure funding audit, and other regular auditing systems, which were beneficial in realizing the regularization and institutionalization of audit work.

In more than two years from 1983 to the end of 1985, audit institutions at all levels audited 81,300 sectors and units, and investigated activities violating financial regulations involving around 13.7 billion yuan, including around 3.4 billion yuan duly turned over to the fiscal authority. In detail, in 1985, the audit verified 544 major violations of rules each involving an amount over one million yuan and 158 cases of corruption involving an amount over 10,000 yuan. A total of 1,114 persons were subject to disciplinary action or criminal punishment. Audit supervision played an active role in strictly observing financial and economic discipline, rooting out improper conduct in various trades, promoting and improving management, enhancing economic efficiency and strengthening macro control and management.

4) *Standardization of Audit Work*

In August 1983, the State Council approved the *Application of the China National Audit Office for Instruction on Several Issues concerning Audit Work*, which specified policies, management principles, tasks, and powers at the stage of

establishment of audit institutions, the relationship between local audit institutions and the people's government at the corresponding and superior levels, and the relationship between internal auditing and government audit. In August 1985, the State Council promulgated the *Provisional Regulations on Government Audit Work* defining the establishment of audit institutions, reporting system, tasks, powers, internal auditing, social auditing as well as audit procedures, audit reports, audit conclusions and decisions, application for review, and other contents. During this period, the CNAO successively developed some administrative rules of auditing in combination with audit practice, in accordance with the *Application of the China National Audit Office for Instruction on Several Issues Concerning Audit Work Approved and Distributed by the State Council* and the *Provisional Regulations on Government Audit Work*, including following four aspects. First, the *Notice on Audit Supervision of Financial Insurance Institutions* specified the jurisdictional scope of audit on financial institutions issued in May 1984. Second, the *Procedures for Trials in Audit Work* stipulated on the auditing procedures of audit institutions as well as work contents, requirements, and formats of audit documents in each step issued in October 1985. Third, in order to exercise the rights of disposal and punishment of audit institutions under the *Provisional Regulations on Government Audit Work*, the CNAO, the Ministry of Finance and the People's Bank of China jointly released the *Notice for Enforcing Audit Institution Decision on Handling Payments, Deductions, Suspension of Financial Appropriation, and Bank Loans* in December 1985. Fourth, in order to deal with certain specific problems during the implementation of the *Provisional Regulations of the State Council on Government Audit Work*, the CNAO issued the *Notice on Several Issues Concerning the Enforcement of Provisional Regulations of the State Council on Government Audit Work* to further specify the principles of auditing activities at all levels according to law and emphasize that all local audit bureaus were under the dual leadership of the people's government at the same and superior levels.

(2) Auditing System in the Period of Transition from the Planned Economy to Socialist Market Economy

From 1986 to 1993, China's economic system was gradually transformed from central-planned to socialist market economy. During this period, objectives and tasks of the Party and the State in regard to socialist construction, economic system reform improvement, and rectification influenced a lot on the formation and adjustment of audit policy, the deepening of audit practice, and improvement of the auditing system. In April 1986, the Fourth Session of the 6th CPC

National Congress approved the *Seventh Five-Year Plan of the People's Republic of China for National Economic and Social Development* drawn up by the State Council. This was a key period of transformation from old to new in China's economic development strategy. In October 1987, the theory of the "primary stage of socialism" was systematically elaborated on at the 13th CPC National Congress. It proposed the basic line of taking economic development as the central task, adhering to the "Four Cardinal Principles" and persevering in reform and opening up, and further specified and stressed the objectives, focal points, and emphasis of the overall economic development strategy. In September 1988, the Third Plenary Session of the 13th CPC Central Committee proposed the guiding principle of regulating the economic environment and economic order and comprehensively deepening reform. In November 1989, the Fifth Plenary Session of the 13th CPC Central Committee decided on further improvement, rectification, and deepening reform. In October 1992, the 14th CPC National Congress explicitly proposed that the objective of China's economic system reform was to build a socialist market economic system. According to the instructions of the CPC and the State Council, audit institutions were required to adhere to the working guidelines and guiding principles of "stressing essentials and enhancing the foundations"; "positive development and gradual improvement"; and so forth. This was to be the vision to continuously improve the audit framework, enrich and deepen audit contents, and promote the construction of legality and standardization of audit work. It played an important role in strictly observing financial and economic discipline, promoting the improvement and rectification, and ensuring the smooth development of economic system reform.

1) Continuous Improvement of the Audit Institution System

Audit institutions saw continuous improvement along with the development of the audit work. The State Council introduced two institutional reforms to adjust the functions of the CNAO and internal institutions. In particular, affiliated agencies of audit institutions were established. First, to strengthen supervision of the central enterprises and institutions across the country, the CNAO established affiliated audit offices in large- and medium-sized cities where subordinate bodies of central enterprises and institutions run. With approval from State Council, the CNAO established resident audit officers for a trial run in Shanghai, Shenyang, Wuhan, and Guangzhou, respectively, in 1986, and assigned directors general to take charge. Those resident audit offices performed their duty under the authorization of CNAO. The primary mission was to conduct audit supervision on the financial revenues and expenditures of subordinate bodies

of Central Government departments at provincial and municipal level as well as surrounding areas. The supervision went further on the monetary efficiency of large-scale capital construction projects in previous statement. By 1994, 16 out of 18 planned CNAO resident audit offices had been established. Second, CNAO's attached audit offices were established in all departments of the State Council. This was a product of Chinese Government institutional reform. At that time, considering that such reforms of the State Council might nullify the internal audit institutions and weaken audit forces, the CNAO proposed to restructure the internal audit institutions of all departments into the CNAO's attached audit institutions to bolster this newly established audit team. In 1988, the CNAO set up attached audit offices in 41 departments under the State Council after the completion of the institutional reform process. The attached audit offices mainly took charge of auditing financial revenues and expenditures and the economic benefits of enterprises and institutions of all departments in Beijing, assisting in the industry management of relevant departments, and organizing and guiding their internal audit work. The attached audit offices implemented a dual leadership system both by the CNAO and the corresponding department. The staffing and funding were allocated by the CNAO, while the logistics support was undertaken by the relevant departments.

During this period, the government audit team kept expanding. In April 1988, in collaboration with the Ministry of Labor and Personnel and the Ministry of Finance, the CNAO issued the *Notice on Headcount Increase and Redeployment at All Levels of Audit Institutions*, which stipulated an increase of 50,000 personnel for audit institutions within five years, including 5,000 personnel to be assigned to relevant departments and regions. By the end of 1988, there were 100,000 personnel in audit institutions across the country. The CNAO had a total of 6,269 staff members (including 5,300 in resident audit offices and 414 assigned to attached audit offices). By the end of 1993, there were 3,179 audit institutions with 81,000 staff members actually at the level of county and above, representing a 2.8-fold increase from early 1986.

2) Establishing Professional Auditing System of Various Industries

During this period, the State Council required audit institutions to "gradually exercise regular audit supervision in lieu of an annual general check-up on financial work,"²⁹ "conduct audit work on important issues, especially in terms of the public economy and at all levels of fiscal and financial auditing," "play a role in the

²⁹ National Audit Office of the People's Republic of China, *Selections of Important Files of Audit Work*. Beijing: China Audit Publishing House, September 1993, p. 187.

high-level macro control and supervision,”³⁰ and so forth. On August 31, 1985, Auditor General Lu Peijian presented his *Work Report of Audit Institutions since Establishment* at the 12th Session of the Standing Committee of the 6th National People’s Congress, which was the first work report delivered since the establishment of the CNAO. By the end of 1991, the CNAO promulgated and implemented the *National Audit Work Outline (1991–1995)* as the country’s first medium-term audit plan, which guided and provided necessary concepts for the development of the auditing system of socialism with Chinese characteristics. By focusing on major issues, including improving the economic environment and regulating the economic order, audit institutions launched industry auditing, special fund auditing, and audit investigations in a planned way, and gradually formed a regular auditing system. Afterwards, auditing expanded from enterprises to government departments, financial institutions, infrastructure investment, agricultural funds, and the utilization of foreign capital. Based on micro perspective, audit institutions highlighted the authenticity and legitimacy of audit, thus resulting in better improved management and higher efficiency. During economic system transformation, the auditing system of socialism with Chinese characteristics was positively explored and developed mainly in the following seven aspects.

First, establishing an accountability audit system for persons in charge of State-owned enterprises when leaving their posts. In September 1986, the CPC Central Committee and the State Council promulgated the *Work Regulations on Factory Directors of Industrial Enterprises Owned by the Whole People*, which specified that “before a factory director leaves his/her post, competent authorities of enterprises should (or in collaboration with the administrative organ of cadres) request audit institutions to conduct an accountability audit of the said factory director.” In December 1986, the CNAO issued the *Notice on Several Issues Concerning the Accountability Audit of Factory Directors Leaving Their Posts*, defining the scope, contents, procedures, and methods involved. This was the earliest documented regulation on the accountability audit. The audit institutions in many places conducted the contract operation responsibility audit, and some local governments also stipulated “contract once audited” and “cash in once audited.” In February 1988, the State Council issued the *Provisional Regulations on the Contractual Management Responsibility System of Industrial Enterprises Owned by the Whole People*, which stated that “for the contractual management responsibility system, the government audit offices and other authorized audit institutions should audit contract parties and business operators.”

³⁰ National Audit Office of the People’s Republic of China: *Selections of Important Files of Audit Work*. Beijing: China Audit Publishing House, September 1993, p. 251.

Second, establishing a regular auditing mechanism on financial revenues and expenditures for the Party and government organs and institutions. In 1987, the CNAO made an announcement on the regular auditing system of the above-mentioned issues. In 1989, the *Regular Auditing System of Administrative Units* was promulgated. At that time, it attached great importance to opening up a new prospect of auditing and building up the authority of audit supervision.

Third, establishing the auditing system on financial revenues and expenditures for local governments. From 1990, audit institutions independently supervised the revenues and expenditures of people's governments at lower levels according to the *Audit Regulations of the PRC*. Henceforth, public finance audit was no longer combined with the tax inspection. In 1990, the CNAO organized audit institutions nationwide to audit the revenues and expenditures on 31 provinces, autonomous regions, municipalities and municipalities with independent planning status. In 1991, it defined the objective to "promote the process of institutionalization, legalization and standardization to gradually realize the goal of 'auditing once every two years with a two-year duration each time' and enlarge the audit coverage to around one-third" for public finance audits.

Fourth, implementing system on fixed assets investment prior to the commencement of construction. The mechanism of "examination before approval" for self-financing infrastructure capital was gradually implemented from 1987. The sources of funds were audited before the approval of self-financing infrastructure plans. The audit results served as a basis of approval by the planning departments. In 1992, the CNAO, the former State Planning Commission, and the former Ministry of Construction jointly released the *Provisional Measures for Auditing of Fixed Assets Investment Prior to the Commencement of Construction*. In 1998, audit institutions suspended their checks on fixed asset investment prior to commencement of construction in order to thoroughly execute the audit laws meet the requirements of investment and financing system reform, lay stress on key auditing points, and prevent auditing risks.

Fifth, establishing the regular auditing system on financial revenues and expenditures for the State-owned financial institutions. The system of auditing by rotation was introduced in 1986. Specifically, audit institutions audited one or two State-owned financial institutions, focusing on violations of laws and regulations. In 1990, auditing on State-owned financial institutions was set as the norm. The audit covers revenues and expenditures, safety of credit funds, and implementation of the "Three Provisions"³¹ by financial institutions.

³¹ In 1993, the Central Committee issued a document which proposed the improvement and rectification of the financial order and required financial institutions not calling in loans in violation of regulations, investing in self-operated entities and improving the deposit and loan interest rate, which were called the "Three Provisions."

Sixth, establishing an auditing system for Chinese-foreign equity and contractual joint ventures. Complying with the continuous expansion and requirements for the utilization of foreign capital, China issued the *Audit Regulations of the PRC* in 1988, defining the auditing system of Chinese-foreign equity and contractual joint ventures with State-owned assets. In 1993, the CNAO released the *Auditing Measures for Chinese-Foreign Equity and Contractual Joint Ventures*, which advanced and standardized the corresponding audit work.

Seventh, establishing the auditing system on assets, liabilities, profits and losses of the State-owned enterprises. From its inception, the CNAO attached importance to business audits, with a focus on unreasonable losses, general loss and wastage, poor management, and other prominent issues. In 1986, the CNAO organized the first audit on 3,700 material enterprises across the county, uncovering financial funds of 660 million yuan to be reclaimed. From 1987 to 1988, it organized an audit on 1,500 agricultural enterprises above the county level, and the audit was extended to more than 1,800 grassroots supply and marketing cooperatives. This curbed embezzlement and speculative selling of agricultural products by abusing management powers, and offered suggestions on improving the agricultural exclusive operations and correcting improper conduct in trades. In 1991, the CNAO conducted the “Two-extension”³² pilots in 67 large- and medium-sized enterprises, which contributed to an increase of economic benefits totaling 270 million yuan that year after they adopted the opinions on improving business management. In 1993, the CNAO, the former State Commission for Economic Restructuring and the former State Economic and Trade Commission jointly distributed the *Regulations for Audit Supervision on the Operational Conversion Mechanism of Industrial Enterprises Owned by the Whole People*, which further specified the auditing of assets, liabilities, profits, and losses as key points of a business audit. In the same year, an audit was conducted on 969 Chinese-foreign equities and contractual joint ventures in 24 provinces, municipalities, and autonomous regions including Sichuan, Tianjin, and Xinjiang. It uncovered an aggregate deficit of 3.37 billion yuan, latent losses of 410 million yuan, and investment losses of 1.84 billion yuan to be paid back to the State.

3) Promoting Framework Building of Audit Laws and Regulations

In November 1988, the State Council published the *Audit Regulations of the PRC* (Audit Regulations), implemented from January 1, 1989. It elaborated regulations stipulated by the Constitution, which laid a solid foundation for

³² Work Conference proposed that audit institutions at all levels should determine a batch of large- and medium-sized enterprises to conduct regular audits. They not only audited the authenticity and legality of financial revenue and expenditure, but also extended the examinations to relevant internal control systems and economic benefits (the “Two-extensions” for short, as an exploration of effective audit).

achieving its legalization, institutionalization, and standardization. Three principles of audit supervision were stipulated as follows. First, auditing according to law, which means that the activities of audit supervision must be conducted according to the legal requirements. Second, independent audit, which means that audit supervisory power, a power of government economic supervision, should be exercised by all levels of audit institutions independently and according to the law, without any interference by any other administrative organ, social organization, or individual. Third, dual leadership, which means that audit institutions are supervised by both the government at the corresponding level and the superior audit institution from administrative perspective, and audit work is led by the superior audit institution from professional perspective. In accordance with the Audit Regulations, supervision covers State administrative organs, financial institutions, enterprises and institutions owned by the whole people and infrastructure units, other units entitled to State financial allocations or subsidies, Chinese-foreign equity and contractual joint ventures involving national assets, domestic affiliated businesses, and other enterprises. Mainly targeting truthfulness, compliance, and performance in regard to financial revenues and expenditures, the Audit Regulations explicitly stipulated the specific contents of audit supervision, and described the principal powers of audit institutions as supervision and checking, economic processing, administrative processing, and application for judicial sanction. In order to ensure that audit institutions exercise their audit supervisory power according to the law, and that audit institutions and auditors duly perform their duties. Audit Regulations also stipulated punishments for units and individuals (including auditors) violating the regulations. The specific provisions on audit work procedures included: determining the focus of audit work, drafting of audit plans, clarifying the relationship between audit institutions and audited units, regulating audit reporting mechanism making audit conclusions and implementing audit decisions, rechecking and dealing with complaints, and so forth.

To implement the Audit Regulations, the CNAO formulated the general rules and regulations on audit work, that is, the *Rules for Implementation of Audit Regulations of the People's Republic of China*, the *Provisions of the National Audit Office on the Implementation of Audit Work Procedures*, as well as specialized rules and regulations on finance, banking, fixed asset investment, enterprises, administrative affairs, agriculture, and foreign capital auditing. In compliance with requirements of the 14th CPC National Congress for “strengthening audit and economic supervision and improving the rational macro management system,” in December 1992, the CNAO issued the *Opinions of National Audit Office of*

China on Strengthening Audit Supervision. It emphasized that audit supervision, as a high-level comprehensive supervision on finance and economy, should fully exert its role in macro management and serve socialist market economic system building. At the same time, local governments at various levels and audit institutions should positively promote the improvement of audit regulations according to local conditions. Some places formulated relevant rules and regulations for audit work in the aspect of the contract operation responsibility audit, off-term directors (managers) auditing, economic benefit auditing, and so on, in combination with the requirements of reform, opening up, and economic development.

(3) Auditing System at the Establishment of the Socialist Market Economic System

The years 1993 to 2002 marked a period of initial establishment of the socialist market economic system. In November 1993, the *Decision of the Central Committee of the Communist Party of China on Some Issues Concerning the Establishment of the Socialist Market Economic System* was adopted at the Third Plenary Session of the 14th CPC Central Committee. It specified the basic framework of socialist market economic system, and the related major issues. In March 1996, the Fourth Session of the 8th CPC National Congress adopted the *Ninth Five-Year Plan of the People's Republic of China for National Economic and Social Development and Outlines of Objectives in Perspective of the Year 2010*, the first medium- and long-term plan formulated in developing a socialist market economy. In September 1997, the 15th CPC National Congress put forward and discussed the basic program of the Party at the primary stage of socialism systematically and completely. It made a strategic deployment for the cross-century socialist modernization, and also proposed to accelerate the pace of building a socialist country under the rule of law. In November 2002, the 16th CPC National Congress systematically summarized the former experience of reform and opening up and modernization after the Fourth Plenary Session of the 13th CPC Central Committee. It comprehensively elaborated the fundamental requirements of the important thought of the “Three Represents,” explicitly putting forward the objective of building a well-off society in an all-round way, and made an all-round deployment for economic, political and cultural reconstruction with corresponding reforms. The basic strategy of building the socialist market economic system and ruling the country by law provided a more favorable environment for further improvement of the auditing system. In 1994, the *Audit Law of the*

People's Republic of China was implemented, which witnessed audit work has entered into a regulated and legal framework, as a result great progress was made in developing auditing system of socialism with Chinese characteristics.

1) Adjusting the Institutional Setting and Reinforcing Audit Independence

In May 1994, the Seventh Session of the 8th NPC Standing Committee decided to appoint Guo Zhenqian as Auditor General of the National Audit Office. In March 1998, the First Session of the 9th CPC National Congress decided to appoint Li Jinhua to the post. In 1998, part of the functions and institutions of the CNAO were adjusted during the institutional restructuring of the State Council. First, assigning the CNAO's function of managing social audit to the Ministry of Finance but reserving the duties to supervise the quality of audit reports by social audit institutions. Second, assigning the function of management and supervision of internal audit to China Institute of Internal Audit, but reserving the guidance duties. Third, adding the function of organizing the accountability audit of the Party and government cadres and leaders. Fourth, adjusting the administrative status of attached audit offices as part of CNAO and under its direct leadership instead of the then dual leadership. Therefore, those attached audit offices didn't function as internal audit units of relevant departments any more. Fifth, streamlining administrative departments of CNAO and adjusting the audit scope of different fieldwork units according to different industries, such as public finance, financial institutions, and enterprise audits, so as to reduce overlapping and fragmentation.

2) Preliminary Establishment of the Audit Law System

During this period, a relatively complete system of audit laws was established in accordance with the Constitution, with the *Audit Law of the People's Republic of China* and its Rules of Implementation as the subject based on audit standards.

(a) In August 1994, the *Audit Law of the People's Republic of China* was adopted at the Ninth Plenary Session of the 8th NPC Standing Committee. To meet the requirements for building a socialist market economic system, the Audit Law extracted valuable experiences of audit practice and stated in a legal format. The Audit Law stipulated audit supervision of budget performance, submission of audit reports to people's governments at corresponding levels, and submission of audit reports to the National People's Congress upon entrustment by the Government, notification, or promulgation of audit results, and so forth. This not only incorporated the budget execution audit as an indispensable link

in the State's fiscal administration mechanism, but also had far-reaching influence on the audit work in the long run.

Based on the *Audit Regulations of the PRC* promulgated by the State Council in 1988, the Audit Law also made explicit provisions on some fundamental issues that existed in practice over several years. First, audit institutions could examine revenues and expenditures under the management of the finance department at the same level. Second, audit institutions could submit audit reports of budget execution to the corresponding people's government, and the audit reports of budget execution and other financial revenues and expenditures to the NPC Standing Committee upon government entrustment. Third, audit institutions were entitled to conduct a special audit investigation of relevant specified matters related to national financial revenues and expenditures. Fourth, an avoidance system of personnels was adopted for the seeking of audit independence. Fifth, audit institutions were required to notify the relevant government departments or make public the audit results. Sixth, audit opinions and decisions were to be generally applied. Seventh, audit funds were to be revealed, and so forth. The contents saw much change. First, among the duties of audit institutions, that related to major State-owned businesses was given top priority. Second, among legal liabilities, acts related to fiscal and financial revenues and expenditures violating the national provisions were clearly highlighted to strengthen disposal and punishment. Third, audit procedures specified the rights and obligations of audit institutions and the audit targets, simplified the compilation of audit work plans, audit documents on file, and other internal management procedures. Fourth, the regulations on internal audit and social audit were revised from a special chapter to a single article, with major content adjustment. Fifth, the regulation that audit institutions might entrust matters within the scope of the audit to internal audit institutions and social audit institutions was deleted. Sixth, the regulation that "audit institutions can notify the bank regarding the withholding the corresponding payments" was revised into "apply to a people's court for compulsory execution." Seventh, the funds necessary for performance of duties of audit institutions should be incorporated into the financial budget ensured by the corresponding people's government.

(b) Two provisional regulations for the accountability audit were formulated. In May 1999, the General Office of the CPC Central Committee and the General Office of the State Council issued the *Provisional Regulations Concerning Below-County-Level Party and Government Leading Cadres' Economic Accountability Audit* and the *Provisional Regulations Concerning Leading Personnel of State-Owned Enterprises and State Holding Enterprises in Regard to the Economic Accountability Audit during Their Term of Office*. Later, the CNAO developed

relevant implementation rules. This provided the fundamental basis for audit institutions to conduct an accountability audit. In October 1999, the Central Commission for Discipline Inspection, the Organization Department of the CPC Central Committee, the former Ministry of Personnel, the Ministry of Supervision, and the CNAO established the “Economic Accountability Audit Joint Meeting,” and a Joint Meeting Office was set up within the CNAO. In 1999, the General Office of the CNAO set up the Administrative Office of Economic Accountability Audit and Audit Techniques. In 2001, it began using the signboard of the Office of Economic Accountability Audit, taking charge of relevant coordination.

(c) In October 1997, the State Council issued the *Regulations for the Implementation of the Audit Law of the People's Republic of China*. Maintaining consistency with the Audit Laws in contents, it elaborated the basic requirements of the auditing system established according to the Audit Law, explained the provisions therein, and explicitly defined issues prone to dispute. Additionally, it also specified the matters covered by State Council stipulation, further improving the audit laws and regulations.

(d) In July 1995, the State Council issued the *Interim Measures for Audit Supervision of Central Budget Implementation*. It stipulated the main contents of audit supervision on central budget implementation and other financial revenues and expenditures, time of audit implementation reporting procedures, that materials should be proposed to CNAO by the finance and tax authorities of the State Council and other central departments, principles of audit disposal and related legal liability, and so on. Upon the implementation of the Measures, local governments formulated adaptable measures for audit supervision on local budget performance within their jurisdiction. These regulations guaranteed the audit supervision on corresponding levels' budget performance and other financial revenues and expenditures.

(e) In 1996, the CNAO issued 38 audit standards including the *Basic Principles of Government Audit*, implemented on January 1, 1997. In 1998, the CNAO revised, supplemented, and improved these 38 auditing standards. In November of that year, the CNAO set up the Draft Argumentation and Revision Committee of Auditing Standards System that divided the system into basic auditing standards, specific auditing standards, and professional audit guidelines. By 2003, 20 single auditing standards had been formulated in succession.

(f) The “Eight Restrictions” for auditing were implemented. To practice the spirit enunciated by then Premier Zhu Rongji for achieving strict management of audit teams, the CNAO issued the *National Audit Office's Provisions on Strengthening Audit Discipline Inspection* in January 2000. It stipulated that

auditors should have no economic ties with any person or organization being audited, and practically maintain audit work independence. Local audit institutions formulated relevant measures successively in light of actual conditions.

3) *Continuously Enhancing Audit Supervision*

(a) Strengthening the budget implementation audit. Before the promulgation of the Audit Law, the public finance audit was mainly subject to the approach of “lower-level audited by higher-level”; that is, the higher-level audit institution audited the financial revenues and expenditures of the lower-level government. The Audit Law proposed to conduct same-level public finance audit and establish the system of submitting audit reports to the NPC Standing Committee, which enriched the socialist audit supervision system. From October 1995 to April 1996, the CNAO audited the central budget implementations of the previous year, which was the first such audit carried out. It then submitted an audit report to the State Council. On July 3, 1996, Auditor General Guo Zhenqian was entrusted by the State Council to present the *Audit Report on the Central Budget Implementation in 1995* to the Twelfth Session of the 8th NPC Standing Committee, which was the CNAO’s first audit report of central budget implementation to a standing committee of the State’s supreme authority in accordance with the laws and regulations. Since then, such documents are respectively submitted to the State Council and the NPC Standing Committee in the form of audit result report and audit work report every year. It is also a statutory requirement for the NPC Standing Committee to hear and deliberate on the audit work report every year, which has energetically brought into play the role of audit in promoting budget management and financial reform. For example, the CNAO has continuously suggested to standardize and elaborate budgets in its audit work report submitted to the NPC Standing Committee ever since 1996. In 1999, the State Council decided to conduct budget reform in central departments from year 2000 according to the resolution made by the NPC Standing Committee.

Adapting to tax-distribution reforms introduced in 1994 while strengthening the budget execution audit, the CNAO, respectively, in October 1995 and March 1996, organized a phased audit on the central tax revenue collection of 17 provinces, autonomous regions, and municipalities. Afterwards, CNAO conducted audit investigation and extended the audit to taxation departments at the prefecture (city) and county levels. Strengthening audit on tax collection administrative departments became an important function of auditing, considering the budget performance at various administrative levels. Additionally, the CNAO also organized and conducted the audit on budget

funds collected and allocated by the treasury system, extending the audit scope to the budget implementation and drafting of final accounts of departments and units.

(b) Strengthening the special audit. This mainly covered the audit of financial statements of people's governments at lower levels, audit on financial revenues and expenditures of administrative institutions, and special fund audits. Specifically, in 1995, the CNAO organized its resident offices to audit the 1994 financial statements of 16 provinces, autonomous regions, and municipalities including Heilongjiang and Shanghai. Priority was given to the special audit investigation on the authenticity of deficits in financial statements, the raising and use of funds from the central government for supporting rural development, as well as the set-up and use of extra budgetary special funds. A total of 70 capital construction projects were audited. Besides, local audit institutions audited the financial revenues and expenditures of 3,276 judicial and public security organs above county level in 1994, including the funds for handling cases, fines and confiscation, and charges, as well as the agricultural funds invested by 202 counties of 20 provinces in 1993–1994. In 1996, CNAO organized its resident offices and attached audit offices and local audit institutions at various levels, to conduct an audit on the pension insurance fund and the unemployment insurance fund for national enterprise employees, and the financial revenues and expenditures, as well as the pension insurance fund of enterprise employees from 11 departments (i.e., the Ministry of Railways and the Ministry of Communications) under the integrated system in 1995.

(c) Strengthening the audit of financial institutions. To meet the goal of safeguarding the financial order and promoting financial reform, this period saw a focus on exploring and improving the new way of auditing the assets, liabilities, profits and losses of financial institutions. In 1995, the CNAO conducted the audit investigation on the losses of some State-owned financial institutions. In 1996, it organized local audit institutions and resident audit offices to audit the assets, liabilities, profits, and losses of the Agricultural Bank of China, Bank of China, China Construction Bank, and China International Trust and Investment Corporation and their affiliates during the fiscal year of 1995. To rectify the financial order and maintain the stability of financial position, the CPC Central Committee and the State Council required a joint audit carried out by the People's Bank of China and the CNAO on non-banking financial institutions across the country in 1997. The CNAO organized audits on 110 trust investment companies nationwide, and submitted two special reports to the State Council in succession. The CNAO proposed suggestions on the settlement of existing issues concerning violations of financial regulations and the

way to control economic risks of trust investment companies. Meanwhile, audit supervision of the application of foreign funds was further strengthened. Every year, the CNAO audited the aid and loan projects of such international organizations as the World Bank and Asian Development Bank.

(d) Strengthening audit on important enterprises. With a view to macro-regulatory services, audit institutions checked the assets, liabilities, profits, and losses of key enterprises according to law, with a focus on State-owned assets supervision. The industry audit received priority. The audit revealed the existing problems of the whole industry during the operation of State-owned assets, providing a basis for government macro control. From 1995 to 1997, audit institutions checked the industries of grain, posts and telecommunications, transportation, medicines, tobacco, and so forth. In accordance with the arrangement of the State Council, the CNAO, in May 1998, organized over 50,000 auditors to spend over half a year auditing the source and application of credit funds of the Head Office of the Agricultural Development Bank of China and its 2,499 branches in the first five months of 1997 and 1998, in collaboration with the Ministry of Finance and the former State Planning Commission. They audited 30,850 grain collection and storage enterprises for newly increased on-record financial accounts and other irrational handling of loans of the Agricultural Development Bank of China from April 1, 1992, to May 31, 1998. Meanwhile, they also carried out the special audit or audit investigation on 2,681 competent departments of grain and 2,594 financial departments. Audit institutions found out 1,181 violations of laws and regulations, such as major misappropriation of acquisition funds, severe damage due to disorderly management, illegal acquirement of public funds, and individual embezzlement of public funds, and so on. This had a great influence on society. Later, the CNAO presented the *Audit Report on Grain Inventory* and the *Report of Suggestions on Deepening the Reform of Grain Distribution System*. In 2000, it organized an investigation of 1,290 enterprises that discovered 78 clues of major and serious cases, and helped put forward suggestions on further deepening enterprise reform and speeding up the establishment and improvement of a modern corporate system and market withdrawal mechanism.

(4) Auditing System during Improvement of the Socialist Market Economic System

In 2003, the *Decision of the Central Committee of the Communist Party of China on Some Issues Concerning Improvement of the Socialist Market Economic System* was adopted at the Third Plenary Session of the 16th CPC Central Committee.

It proposed the objective of improving the socialist market economic system and the guiding ideology and principles involved in deepening economic system reform. Thus, the reform and opening up entered a new period involving improvement of the socialist market economic system. In September 2004, the Fourth Plenary Session of the 16th CPC Central Committee adopted the *Decision of the Central Committee of the Communist Party of China on Enhancing the Party's Governing Capacity*, which stressed, "We will tighten supervision and oversight on the exercise of State power to ensure that the powers bestowed by the people are used for the benefit of the people." During this period, audit institutions proposed an audit policy of "conducting audit according to law, serving the overall situation, focusing on the central task, highlighting the key points and being realistic and pragmatic." This also involved formulating the *National Audit Work Plan (2003–2007)* to further specify objectives and orientation of audit work, by taking the opportunity of comprehensively implementing the Audit Law and focusing on improving the audit quality and audit performance. Through maintaining a basis of truthfulness, and exposing distorted or wrong accounting information as the focus, audit institutions intensified their investigation and punishment of major violations of laws and regulations involving economic crimes, strengthened their restrictions and supervision over the exercise of power, promoted audit result announcement, and enhanced the work on the performance audit. They continued to improve the fiscal, financial, and business audits; actively explored ways to expand the efficiency of the accountability audit; and built the "3 + 1" audit pattern. They also focused on strengthening talents, methods, and technologies, improving audit criteria and the overall quality of audit teams, promoting rapid adoption of modernized audit technical means. Audit supervision played a positive role in maintaining the economic order, deepening reform and development, strengthening restrictions on the exercise of power, and promoting democracy.

1) Defining Guidelines for Audit Work

After the 15th CPC National Congress, the CNAO's Party Group conscientiously summed up the achievements and experience of audit institutions over the 15 years since its establishment, researched audit tasks, and proposed the guidelines of "conducting audit according to the law, serving the overall situation, focusing on the central task, highlighting the key points, and being realistic and pragmatic."

- **Auditing according to the law** means to conscientiously implement the CPC Central Committee's strategy of building a socialist country under the

rule of law, and comprehensively perform duties in accordance with provisions of the Constitution and the Audit Law. It requires to strengthen audit supervision from the perspective of maintaining the sanctity of the law, ensure audited units strictly abide by financial and economic discipline, and perform their duties and obligations according to law. It highlights the truthfulness, compliance, and performance in regard to handling financial revenues and expenditures.

- **Serving the overall situation** means to support reforms, promote development, and maintain stability of the overall situation. Catering to the guideline, auditing should strengthen comprehensive analysis, pay attention to research into universality and various global trends through audit, create more high-level audit results, and serve the goal of strengthening macro control and improving national policies and regulations.
- **Focusing on the central task** means to conduct audits by focusing on economic construction and determine the objectives and tasks of auditing according to State Council requirements.
- **Highlighting the key points** means to strengthen audit supervision of key funds, projects, and units.
- **Being realistic and pragmatic** means first to set standards for all work, specify responsibilities, and ensure practical results; and second, carry out the basic audit work effectively, further implement and improve audit standards, and improve the quality and level of audit work. The principle played an important guiding role in the development of the audit cause.

2) Building the “3 + 1” Audit Pattern

To meet the requirements of building a socialist market economic system, the CNAO integrated and adjusted the originally scattered business layout into a “3 + 1” audit pattern (public finance audit, audit on financial institutions, enterprises audits, and accountability audit), stressing resource integration in terms of key projects, audit plan, audit work plan and organizational strength, and highlighting work emphases.

(a) Public finance audit. The public finance audit gradually shifted from previous equal attention to financial revenues and expenditures to the focus on these aspects to reveal problems. Through auditing and audit investigation, the CNAO made suggestions on strengthening budget control and improving budget regulations overall, thus promoting reform of the budgetary system. Meanwhile, the CNAO positively explored the government performance audit, promoted the establishment and improvement of the government performance

control system, and explored an “integrated” approach to the public finance audit to improve efficiency and results.

(b) Audit on financial institutions. Following the main objective of preventing and defusing financial risks, the CNAO focused on “risk, efficiency, and management” and gave priority to key issues, especially gathering evidence in major cases. Statistics show that, from 1998 to 2007, the CNAO discovered and transferred evidence in more than 470 major cases investigated by related institutions through audit of financial institutions, involving more than 67 billion yuan and more than 920 officials. This brought a tremendous shock in the financial sector and society, playing an important role in preventing financial risk.

(c) Enterprise audits. By “exposing distorted or wrong accounting information” in the financial fields, the CNAO established the working principle of “relying on truthfulness and making in-depth disclosure to promote development.” Evidence in a number of major cases was uncovered, which promoted the gradual improvement in the corporate governance structure of large- and medium-sized State-owned enterprises. As the State-owned enterprises supervision system improved, the audit emphasis shifted from the audit of general financial revenues and expenditures to the accountability audit of corporate leaders. By these means, audit institutions combined the audit of financial revenues and expenditures and the performance audit, and bore equal attention to supervision and services.

(d) Accountability audit. By the end of 2003, a total of 31 provinces (autonomous regions and municipalities) set up the Economic Accountability Audit Joint Meeting or Leading Group. Some of them also set up the Economic Accountability Work Leading Group involving major leaders of the Party Committee and government. Audit institutions at various levels and nearly 2,000 county-level audit institutions of over 400 prefectures and cities set up professional agencies of accountability audit. In 2005, the accountability audit of Party and government cadres was extended from at and below the county level to the prefectural level. In 2006, the revised Audit Law incorporated the contents of accountability audit, specifying its legal status. In the same year, the Organization Department of the CPC issued the *Trial Measures for Comprehensive Assessment and Evaluation of the Local Party and Government Leading Team and Leading Cadres in Conformity with the Scientific Outlook on Development*, which incorporated the conclusions and evaluation opinions of the accountability audit into the organization departments' overall investigation and evaluation of leading cadres, providing a basis for effective application of audit results.

3) *Improving Talents Capacity, Legal Framework, and Technologies*

When auditing leading officials and the legal system, auditing methods and technologies become the key factor in auditing, and they also serve as the basis and guarantee of continuous audit development. Since its establishment, the CNAO has given top priority to developing a “solid foundation.” In 1998, the CNAO’s Party Group summarized this aspect as the development of “talents, legal framework, and measures.” Premier Zhu Rongji modified “measures” to “technologies” after listening to the CNAO’s work report. The development of “talents, legal framework, and technologies” was determined thereafter. Following the people-oriented concept, this reflected the principle of building a socialist country under the rule of law and auditing according to the law and keeping up with the times, thus providing a solid guarantee for sustainable development of the audit cause.

(a) Talents refer to team building. During this period, audit institutions strengthened leadership and team building in an all-round way, deepened reform of the personnel system, optimized the personnel structure and made efforts to train multiskilled personnels, improve vocational education of audit cadres, strengthen the building of clean government and achieve stricter management of the audit teams. To solve problems in department staffing and auditors’ status, the CNAO reduced the total number of resident audit offices from 5,050 to 2,710, and began to emphasize administrative staffing in March 2006, in accordance with the *Approval of the State Commission Office for Public Sector Reform for Transferring the Staffing of the CNAO’s Resident Audit Offices to Administrative Staffing*.

(b) Legal framework refers to legal enhancement. During this period, audit institutions strived to efficiently revise audit laws and regulations, and established the audit quality control system to conduct whole-process quality control of audited projects, improve various audit standards and further regulate audit management and audit behavior.

(c) Technologies refer to skills and techniques. During this period, priority was given to strengthening planning, management, organization, and coordination of information-based construction of the auditing system. Audit institutions accelerated the construction of the “Golden Auditing Project,” realized office system informationization, promoted computer-aided audits, and made great efforts to promote and improve audit sampling, internal control evaluation, risk assessment and other audit methods.

We will mainly introduce the building of legal framework of audit, covering two important aspects.

First, the Audit Law was revised. In February 2006, the 20th Session of the 10th NPC Standing Committee adopted amendments to the Audit Law. The following four aspects were revised:

- (a) The audit supervision mechanism was further improved. This was mainly reflected as follows. First, defining the legal basis with which audit institutions conduct audit evaluation and make audit decisions in conformity with other laws and regulations on financial revenues and expenditures. Second, strengthening guidance and supervision of the NPC and its Standing Committee on audit work, and promoting the organic combination of audit supervision and NPC supervision; carefully putting forward requirements for rectification of issues and reports made by audited units and related departments. Third, stipulating the duties and management of branches of audit institutions and the appointment and removal of principals of local audit institutions at various levels.
- (b) Audit supervision responsibilities were further defined. This was mainly reflected as follows. First, clarifying that audit institutions are obligated to conduct audit supervision on financial revenues and expenditures of the national institutions and other organizations using supplied funds, and on budget performance and final accounts of projects invested in and supported by government investment. Second, stipulating that audit institutions should conduct the accountability audit of the Party and government leading cadres and State-owned enterprise leaders during their term of office, and specifying the legal status of audit institutions in the accountability audit. Third, defining the duties of audit institutions to guide and supervise internal audit work and verify the relevant audit reports issued by social audit institutions.
- (c) The means of audit supervision were further strengthened. This was mainly reflected as follows. First, clearly differentiating audit responsibilities and accounting responsibilities, empowering audit institutions to use electronic data and necessary computer technical documentation and other materials of financial revenues and expenditures stored and processed by the audited units via computer. Second, empowering audit institutions to inquire into the accounts of audited units at financial institutions and individual deposits therein, upon approval. Third, specifying the power of audit institutions to take compulsory measures against any behavior of transferring, concealing, altering, and damaging related data, and transferring and concealing illegal assets. Fourth, specifying the right of audit institutions to request the organs of public security, supervision, finance,

taxation, customs, price, industry, and commerce administration to assist in performing the audit supervision responsibilities. Fifth, stipulating that audited units should execute the audit decision.

- (d) Behavior in regard to audit supervision were further regulated. This was mainly reflected as follows. First, not issuing auditor's opinions and changing audit reports as internal instruments of audit offices to published reports with free access to the public with legal force. Second, strengthening hierarchical supervision of audit institutions at a higher level over those below, and stipulating that the former can order the latter to alter or revoke any audit decision made in violation of national relevant regulations, and also can make a decision on alteration or revocation if necessary. Third, further specifying the legal action on audit reconsideration and designing different remedy channels for audit decisions on the fiscal and financial revenues and expenditures. Fourth, defining the legal responsibilities for auditors' disclosure of national secrets and business secrets they may have acquired.

Second, auditing standards were revised and improved. In 2003, the CNAO formulated the *Measures for the Quality Control of Audit Projects of Audit Offices (Trial)*, consisting of 100 articles. It respectively prescribed the quality control of auditing program, audit evidence, audit report, auditing files, and other aspects, specified the corresponding responsibilities of quality control and required implementing the quality responsibility evaluation system for audit projects.

4) Building the System of Announcement of Audit Findings

In 2001, Premier Zhu Rongji instructed audit institutions to draw on the U.S. experience to build the system of announcement of audit findings, after he had met with U.S. Auditor General David Walker. To this end, in 2002, the CNAO successively published the *Trial Measures of National Audit Office of China Announcement on Audit Findings* and the *Provisions of National Audit Office of China on Announcement of Audit Findings*, to specify the implementation of the system of announcement on audit findings. Except for specific announcements involving the national secrets or other special cases, all audit results of projects under the unified organization of the CNAO should, in principle, be reported to the general public. Meanwhile, the main contents of the announcement were stipulated, including the audit results of central budget implementation and other financial revenues and expenditures, fiscal and financial revenues and expenditures organized by government departments or enterprises and

institutions of the State, relevant industries or special funds, and corresponding economic accountability during a term of office. In 2003, the CNAO made public the “Announcement of National Audit Office of China on Audit Results of Special Funds and Social Donations for Preventing and Controlling SARS.” The audit results announcement system raises higher requirements for quality work by audit institutions, further mobilizes society to participate in supervision, and plays a positive role in promoting the disclosure of budget and government information.

(5) Auditing System during the Overall Building of a Well-Off Society in the New Period

In October 2007, the 17th CPC National Congress proposed that we should (1) insist upon comprehensive, coordinated and sustainable economic and social development; (2) advance all-round economic, political, cultural, and social development; (3) coordinate all links and aspects of our modernization drive; and (4) build a resource-saving and environment-friendly society that coordinates growth rate with the economic structure, quality, and efficiency, and harmonizes economic growth with the population, resources, and the environment, so that our people can live and work under sound ecological and environmental conditions and our economy and society can develop in a sustainable way. We should focus on strengthening oversight on leading officials and especially principal ones, over the management of human resources, financial and material resources, and key positions. We should improve the systems of inquiry, accountability, accountability audit, resignation, and recall to make them more effective. In February 2008, the *Opinions on Deepening the Reform of Administrative System* adopted at the Second Plenary Session of the 17th CPC Central Committee explicitly proposed, “We should improve the supervision system for the exercise of power. The governments at various levels must actively accept the supervision by people’s congresses and their standing committees at their respective administrative level, accept the supervision system of the Chinese People’s Political Consultative Conference, and fully exert the role of specialized supervision, i.e., inspection and auditing.” In 2012, the 18th CPC National Congress proposed the goal of (1) building a moderately prosperous society in all respects and deepening reform and opening up in an all-around way; (2) making overall arrangements for stimulating socialist economic, political, cultural, social and ecological advancement in an all-around way; and (3) comprehensively improving the rational level of Party building. The congress emphasized that we must unswervingly follow the path of socialism with Chinese

characteristics and must have every confidence in our path, in our theories and in our system. In November 2012, the *Decision of the CPC Central Committee on Several Important Issues of Comprehensively Deepening Reform* adopted at the Third Plenary Session of the 18th CPC Central Committee proposed that the overall goal of deepening reform comprehensively was to improve and develop socialism with Chinese characteristics, and to promote the modernization of the national governance system and capacity. In addition, it expounded on the significance and future trend of deepening reform comprehensively and made detailed deployment plans for the strategic emphasis and means of deepening the reform. In 2014, the *Decision of the CPC Central Committee on Some Major Issues Concerning Comprehensively Promoting the Rule of Law*, adopted at the Fourth Plenary Session of the 18th CPC Central Committee, proposed that the general target was to establish a system serving “the socialist rule of law with Chinese characteristics” and build a country under “the socialist rule of law,” and specially proposed to strengthen the national supervision, including inner-party supervision, NPC supervision, democratic supervision, administrative supervision, judicial supervision, audit supervision, social supervision, and public opinion supervision, so as to form the scientific and effective restriction and supervision system of power operation and make it more effective. Specifically, it gave explicit deployment plans for improving the auditing system and safeguarding the independent exercise of audit supervisory power in accordance with the law. Checking by audit institutions should fully cover public funds, State-owned assets, State-owned resources, and leading cadres’ performance of their economic accountabilities. Additionally, it highlighted that higher-level audit institutions must enhance the leadership of lower-level audit institutions and explore the unified management of audit institutions below the province level in human resources and financial and material resources, so as to promote the construction of audit professionalization. In August 2014, the newly revised Budget Law put forward new requirements for audit work. The *Opinions of the State Council on Strengthening Audit Work*, issued in October of that year, put forward the requirements for fully exerting the guaranteed role of audits in promoting the national major decision-making deployment and strengthening the role of audit supervision in the new period. In December 2014, General Secretary Xi Jinping put forward the strategic layout of “Four Comprehensives” (comprehensively building a moderately prosperous society, comprehensively deepening the reform, comprehensively implementing the rule of law, and comprehensively strengthening Party self-discipline), and specified the strategic direction, key fields, and main objectives of the undertakings of the Party and the State.

During this period, guided by the socialist theoretical system with Chinese characteristics, audit institutions treated the rule of law and improving livelihood for the people through reform and development as the starting point and supreme goal, seriously investigated the major issues of violating laws and disciplines as well as economic cases. Audit work also focused on revealing problems at the institutional level and strived to safeguard national security. It concerned more on further advanced audit work concerning fiscal affairs, finance, business, economic accountability, resources and environment, and foreign capital. Audit offices positively explored the real-time audit and working hard to further improve the audit system of socialism with Chinese characteristics by undertaking five fundamental tasks—audit teams, rule of law, informationization, theory, and culture.

1) Improving the Government Audit Pattern

In March 2008, the First Session of the 11th CPC National Congress decided to appoint Liu Jiayi as the Auditor General of the CNAO. During this period, in line with the overall layout of “Five-in-One” covering the political, economic, cultural, social, and ecological civilization, China’s government audit pattern was further developed and improved, and the six major audit patterns, including public finance audit, audit of financial institutions, enterprise audit, accountability audits, resources and environment audit, and overseas audits were formed. Basically covering the key fields of government auditing, these audit patterns complied with the requirements of national governance for government audit and promoted the national auditing playing a role in national governance. Among them, public finance audit is the basic responsibility and eternal theme of government auditing, which is recognized by all countries. Auditing on the State-owned financial institutions and State-owned enterprises is adapting to China’s basic economic system of keeping public ownership as the mainstay of the economy and allowing diverse forms of ownership to develop side by side. The accountability audit is one with Chinese characteristics and complying with China’s supervision system of cadres. It means audit offices should inspect and evaluate the fulfillment of the duty of leading officials, which was entrusted by corresponding departments. Conducting the audit on resources and environment and promote the ecological civilization building and sustainable development is a common concern of audit institutions throughout the world and it also forms an important responsibility of the government auditing. Adapting to the development strategy of “bringing in” and “going global,” the audit on the management and utilization of foreign capitals, overseas investment of State-owned enterprises, and other foreign matters is an important means for government auditing to promote the reform and opening up.

2) *Exploring and Innovating the Audit Methods and Ways*³³

The audit methods and ways affect the efficiency and effect of audit supervision. During this period, the audit methods and ways were mainly innovated and explored as follows on the basis of regular auditing.

(a) Explore the comprehensive audit methods. With the deepening reform, the macro perspective and overall importance of audit work were further strengthened, and the audit objective had been shifted from single projects to the combined multiple projects. Hence, the combination and complementary advantages of all professional audits were highlighted. Audit institutions set forth the “Five Unified” principle (i.e., financial audits should stick to a unified audit plan, unified audit program, unified audit implementation, unified audit report, and unified audit handling), and insisted upon the “Six Combinations” (i.e., the combination of “same-level audit” with “lower-level audited by higher-level,” the combination of fiscal audits with special audits enterprises and economic accountability audit, the combination of audit, with audit investigation, and combination of regular audit with real-time audits, the combination of the audit on authenticity and legitimacy with the performance audit, the combination of revealing the problems with promoting rectification), positively exploring how to promote the integration of the audits of business and resources.

(b) Explore the real-time audit methods. Real-time audit refers to the involvement of audit institutions at a certain key link during the course of handling the audited matter, and also a kind of persistent dynamic supervision activity following the progress of the audited matter.³⁴ The *CNAO Program for the Development of Audit Work 2008–2012* clearly set forth the following rules that real-time audit shall be conducted in the entire process of major construction projects concerning the people’s livelihood, particular resource development and environmental protection, major emergencies relating to public matters, and the implementation of major state policies and measures. During this period, audit institutions successively implemented the total real-time audit on national major investment projects like the Beijing-Shanghai High-Speed Railway; the second line of the West-East natural gas transmission project and the Three Gorges Project; the anti-earthquake and relief work after

³³ Liu Jiayi (chief editor), *Study on the Auditing Theory of Socialism with Chinese Characteristics* (Rev. ed.). Beijing: The Commercial Press, China Modern Economic Publishing House, 2015, pp. 107–150.

³⁴ Liu Jiayi (chief editor): *Study on the Auditing Theory of Socialism with Chinese Characteristics* (Revised Edition). Beijing: The Commercial Press, China Modern Economic Publishing House, 2015, p.119.

the Wenchuan, Yushu, and Zhouqu earthquakes; post-disaster reconstruction; and major public projects such as the Beijing Olympic Games, Shanghai World Expo, and the Asian Games. Those audit practices effectively guaranteed the vigorous and orderly implementation of major projects, post-disaster reconstruction, and also ensured the smooth and complete success of major events and meetings. Audit institutions also organized the real-time audit on the implementation of major policies and measures. For instance, to promote the implementation of major policies and measures of the Central Committee for expanding domestic demands, the CNAO concentrated efforts to conduct audits and special audit investigations on the implementation effects of the Central Committee's policies and measures for expanding domestic demand and promoting the steady and rapid economic development in 17 provinces, autonomous regions and municipalities and relevant units since September 2009. In order to promote the implementation of policies for stabilizing growth, promoting reform, adjusting structure, and benefiting people's livelihood, the CNAO carried out real-time audits on the implementation of the above policies since August 2014. To do the real-time work well, the CNAO concentrated efforts and broke the boundary of different departments and sections to develop the audit ways involving multiple professions.

(c) Innovate modes for unified audit of large-scale projects. In view of difficulties, major issues, and matters concerned by the society, the audit institutions at higher levels organized a number of audit offices at the lower levels to jointly conduct the comprehensive auditing from three dimensions and from multiple angles, so as to know the base number, expose problems, analyze their causes at the mechanism and system level, make suggestions, and better provide reference and basis for decision making. For instance, in accordance with the arrangements and requirements of the State Council, the CNAO organized the audit institutions nationwide to conduct all-round auditing on the debts of local governments at provincial, city, and county levels, according to the principle of "conducting the audit by transaction and item on the basis of inspecting involved personnel, accounts, and objects in person," respectively, in 2011 and 2013. In 2012, the CNAO organized audit institutions nationwide to conduct all-round auditing on the national social security funds. And in 2014, audit institutions were mobilized to carry out the all-round audit on revenues and expenditures of land leasing and farmland protection.

The selection of a unified audit mode for large projects focused on the integration of resources, and aimed at safeguarding audit independence, exerting a joint force of supervision and fostering the concept of "one game of chess" by adhering to the "Five Unified" principle (i.e., financial audits should be subject

to unified design, unified planning, unified implementation, unified reporting, and unified handling). In light of the different features of audit projects, the mode of flat management, that is, unified planning, hierarchical responsibility, or breaking of level restrictions, could be adopted for specific organizations and implementations. For instance, the mode of unified implementation and hierarchical responsibility was adopted for the audit of governmental debts and social security funds. The CNAO built a unified audit group to conduct auditing within its jurisdiction, and all regions adopted the way of “lower-level audited by the higher-level” and “cross audit” or built a unified audit group to conduct auditing. When the CNAO audited revenues and expenditures of land transfers and farmland protection, they adopted the flat management mode featured by a large audit group at the country level and a comprehensive group for each provincial audit group, instead of leadership organizations at all prefectural audit groups any longer. The CNAO’s personnel could serve as the group leaders of all audit groups at various provincial and prefectural levels, and the deputy positions and division heads of provincial audit institutions and directors of prefectural audit institutions, respectively, served as the deputy group leaders. The audit teams dispatched by all prefectural audit groups to districts and counties shall be subject to the unified agreement of the CNAO. Under the direct command of the CNAO, all prefectural audit groups assigned certain auditors report to the CNAO and give feedback to when encountering difficulties and issues. While replying to all prefectural audit groups, the CNAO would provide feedback to all provincial comprehensive groups synchronously. Audit groups were required to report clues of major cases to a higher-level audit group with a copy submitted to the CNAO. The particularly significant matters shall be directly reported to the CNAO. Such scheduling and organization and reasonable redeployment of audit forces could effectively exert the joint forces of audit supervision and enhance the integrity of audit work from the macro perspective.

(d) Explore digital audit methods. During this period, through the construction of “Golden Auditing Project,” phase I and phase II and application practice, the overall framework of the national audit informatization was basically established, which consisted of an application system meeting the needs of audit services and audit management, a set of data resources supporting audit services and audit management, a network system achieving interconnection and information sharing, a safeguard system maintaining information security and system operation, a service system safeguarding system maintenance and application promotion, and an audit team satisfying real-time informational needs. It provided the technical support for audit informatization

and digitization. The audit management, the audit management system (OA), the on-site auditing system (AO), and the online auditing system as the subject were widely applied during the audit implementation, audit management and handling of office affairs. Meanwhile, audit forces positively conducted the information system audit, and explored the digital auditing of “overall analysis, doubt discovery, dispersion verification, and systematic research.” The audit capability and technical level were continuously improved.

The said digital audit mode was to make the overall analysis of the situation or data acquired through audit, find an appropriate method for overall data analysis by summarizing audit experience, so as to precisely guide auditors in the field to verify the key points, eventually to summarize audit findings, systematically analyze causes, and make recommendations. This new mode of audit institution could greatly reduce the uncertainty for auditors in the audit field, enhancing the orientation and efficiency of auditing. With the audit data platform as the basis, the data analysis team as the support, and the audit informatization system as the guarantee, many audit institutions positively explored the new mode of audit groups under the guidance of the Headquarters (Head Office and Corporation) and with the interaction among different levels and the explicit division of labor, strengthening the supervision on the trans-market, cross-industrial, and cross-sector large-value transactions and fund flows. They not only realized the routine supervision and appropriate feedback of hot issues during the economic operations, but also improved the level of reporting issues and accelerated the pace of revealing problems. Good achievements were obtained. It is estimated that, on the condition that the staffing of audit institutions nationwide remained basically unchanged, the number of audited units increased by 15 percent. By means of IT technology, audit institutions had jointly improved revenues and reduced losses by 300 percent, and increased the number of transferred clues of major violations of laws and rules by 100 percent, with a great improvement in system maintenance. As a result, the application of information technology, especially the exploration of digital audit methods, was an important and foundational factor.

3) Improving the Audit Law System

(a) Revise the Rules for the Implementation of the Audit Law. In accordance with the newly revised Audit Law, the 100th Executive Meeting of the State Council deliberated and adopted the new Rules for the Implementation of the Audit Law in February 2010. The following four aspects were revised.

First, the revisions for improving the audit supervision mechanism and strengthening audit supervision, are mainly as follows: (1) further specify the legal basis for affiliated audit offices to carry out audit work; (2) require the principal of audited units to make written commitments on the authenticity and integrity of the provided materials; (3) empower audit institutions to punish the relevant principals of audited units violating the Audit Law or national regulations on financial revenues and expenditures; (4) empower audit institutions to suggest the punishment imposed on the principals who default in fulfillment of an audit decision; (5) stipulate that the masses have the right to report cases to audit institutions, which in turn shall handle them according to the law in time.

Second, the revisions for explicitly defining the audit responsibilities and fully exerting the role of audit supervision, are mainly as follows: (1) further specify the duties and authority of the audits of financial revenues and expenditures; (2) explicitly require audit institutions to conduct audit supervision on enterprises and financial institutions whose State-owned capital accounts for over 50 percent or below 50 percent of the total capital (capital stock) of the enterprises and financial institutions, but the State-owned investment subjects control actual right; (3) further define the scope of construction projects invested and supported by government, and adjust the scope and way of supervision on relevant units under the government-invested projects; (4) further determine the scope of auditing on social security fund and social donation funds; (5) further define the scope of special audit investigation; (6) clarify the legal status of internal audit self-discipline organization, specific ways of guiding and supervising the internal audit work by audit institutions, and ways of verification and handling of relevant audit reports issued for social audit institutions.

Third, the revisions for standardizing the audit behaviors and maintaining the lawful rights and interests of audited units, are mainly as follow: (1) remove the original restrictions on the scope of audit matters in published audit results and make special regulations on the results of audit reports from audit firms and the procedures for audit results of listed companies; (2) specify that audit institutions have the obligation to inform audit plans to audited entities where State-owned assets occupy a holding or leading position; (3) formulate regulations on the procedures of an audit hearing.

Fourth, the revisions for improving the audit procedures and ensuring the quality of auditing, are mainly as follows: (1) specify the requirement that an audit institution should carefully prepare an audit plan before the auditing; (2) stipulate that audit institutions can directly carry out the audit on the strength of an audit notice in a special case; (3) explicitly stipulate the audit review system; (4) standardize the behavior of proposing audit reports, making

audit decisions and handling the transfer issue of auditing; (5) specify the procedures for handling the violations of laws and rules during the special audit investigation; (6) improve the mode of serving the audit instruments, and define the way of confirmation of delivery date; (7) further improve the way of handling the audit decisions violating relevant state provisions made by the audit institutions at the lower levels.

(b) Improve the system of the accountability audit. In October 2010, the General Affairs Office of the CPC Central Committee and the General Affairs Office of the State Council issued the *Regulations Concerning accountability Audit for Leading Officials of the Party and Government and Leaders of State-Owned Enterprises* (hereinafter, the Regulations), which specified auditees, audit plans, organization and coordination, audit contents, audit implementation, audit evaluation, definition of responsibilities, application of results and so forth. In May 2011, the Central Commission for Discipline Inspection, the Organization Department of the CPC Central Committee, the Ministry of Supervision, the Ministry of Human Resources and Social Security, the National Audit Office of China, and the State-Owned Assets Supervision and Administration Commission of the State Council jointly issued the opinions on implementation of the above regulations. In July 2014, the Central Commission for Discipline Inspection, the Organization Department of the CPC Central Committee, the State Commission Office for Public Sector Reform, the Ministry of Supervision, the Ministry of Human Resources and Social Security, the China National Audit Office, and the State-Owned Assets Supervision and Administration Commission of the State Council printed and distributed the *Rules for Implementation of the Regulations Concerning Accountability Audit for Leading Officials of the Party and Government and Leaders of State-Owned Enterprises*. These documents further improved the legal system of accountability audits and laid a solid legal foundation for promoting the rational progress of accountability audits.

(c) Forming an appropriate government auditing system. In July 2010, in view of various practical development and changes, the CNAO integrated the former audit standards, and incorporated the former basic principles of government auditing and general audit standards into the *National Auditing Standards of the PRC* (hereinafter, the Standards), forming a unified auditing system that was implemented from January 1, 2011. Inheriting the mature regulations of the original version, this stressed a rational audit concept and use of advanced audit technologies, systematically summarized effective approaches from years of audit practice, and drew on useful lessons from the international community, with the sense of Chinese characteristics and high applicability. Meanwhile, the single audit guide was gradually formed according to the new

audit standards, and a national system with a clear structure and detailed regulations came into being. Throughout the Standards, there has been a strong emphasis on the great importance of improving China's auditing system and realizing its standardization.

The establishment and development course of the auditing system of socialism with Chinese characteristics shows that the system was established in conformity with the needs of national governance in the context of reform and opening up, and continuously developed and improved within the overall auditing needs. This is a process that continuously converts and incorporates successful experiences with a theoretical approach, and it is also a process of continuously creating a better institutional environment for audit development through institutional innovation.



4. CONCLUSION AND ENLIGHTENMENT

We can draw the following basic conclusions by reviewing the above contents.

First, the mode of national governance determines the system and form of government auditing. The system and practice of governance are the fundamental issues concerning the nature and competitiveness of a country.³⁵ The evolutionary history of China's government auditing shows that government auditing emerged and developed to meet the demand of national governance and it has always been related to it. As the goals of national governance changed in accordance with different historical periods, requirements for government auditing differ as well. Functions and roles, institutional setting, and functional positioning of government auditing must always adapt to the objective needs of national governance. For instance, the Zhou Dynasty (1046–256 BC) advocated the “rule by rites,” and the governance goal of “defining the authority and ranks of the king, ministers and officials,” with the *Zaifu* required to perform the duties. In the Qin and Han dynasties, rulers advocated “grand unification” and an auditing mode of “supervising all officials, rectifying from every aspect and achieving the integration between supervision and auditing” by the censor. This embodied the orientation of strengthening centralized governance. The Tang Dynasty adopted the governance mode of Three Councils and Six Boards, forming the auditing system of “unity of special audit, concurrent audit and internal audit by different departments respectively.”

³⁵ Commentary Department of the People's Daily, *Learning and Reading of 'Four Comprehensives'*, 1st ed. Beijing: People's Publishing House, March 2015, p. 123.

In history, the prosperity of a dynasty and stability of a regime are closely linked with the performance of national supervision system, including national audit. Generally speaking, a period of great prosperity and well-developed politics attached importance to supervisory tools, which usually ensured the powers of decision making, execution, and supervision were well balanced and coordinated, giving better play to the role of national governance. However, in a period of a declining dynasty and political corruption, the supervisory system, including auditing, would generally be on the decline first, and thus normally could not play a proper role serving national governance. In this aspect, Han Feizi proposed that “chaos existed at the beginning of emperor’s arbitrary listening and accounting.”³⁶ The Western Zhou Dynasty was relatively advanced in its budget and auditing system in ancient times, and its national governance was also appraised by Confucius and others. The Tang Dynasty executed the audit of “unity of special audit, concurrent audit and internal audit by different departments respectively,” which played an important role at that time and was closely associated with Tang’s well-known prosperity. However, in sharp contrast, the Censor Office of the Imperial Household Supervision Department declined to “the worst Yamen (government office) of the Qing Dynasty” in the later period of the Qing Dynasty. After the Nanjing Nationalist Government came to power, financial tycoons refused to accept audit supervision. In this sense, we may say that national governance reflects the level of government auditing to a great extent, while the capacity of government auditing also embodies national governance ability to a certain degree.

Second, government auditing is a fundamental institutional arrangement for China’s national governance, serving as its bedrock and important guarantee. The development history of auditing reveals that historical periods with a relatively perfect auditing system considered this as a fundamental institutional arrangement and made corresponding provisions in the fundamental law or special laws, where the auditing system was endowed with certain authority and responsibilities, becoming an important and indispensable “institutional infrastructure”³⁷ of national governance. For example, the *Rites of Zhou* in the Western Zhou Dynasty, *Law of Qin* in the Qin Dynasty, *Legislative Articles of Bibu* and *Conventions of Bibu* in the Tang Dynasty made provision in regard to the

³⁶ Mr. Yang Shizhan, a contemporary accounting and auditing expert, also proposed the thought—“a ruler should firstly manage accounting and auditing to govern the country well.”

³⁷ Hu Angang, “The Essence of Governance Modernization is Institutional Modernization.” *People’s Tribune*. November 2013, p. 20; Wang Shaoguang, “National Governance and Basic National Capacity.” *Journal of Huazhong University of Science and Technology, Social Science Edition*, No. 3, 2014. Special Edition, P3

auditing system. The auditing system of socialism with Chinese characteristics was established and developed according to the *Constitution of the PRC*. The stability, coerciveness, and authority of government auditing determine its role as the bedrock and important guarantee of national governance.

Judging from the functions and roles of government auditing, it is like the “immune system” of the human body and plays a similar role in national governance system by safeguarding the healthy development of the national economy and society. Since the establishment and development of the auditing system of socialism with Chinese characteristics more than 30 years ago, and adapting to the needs of different periods, audit institutions always consciously consider overall economic and social development when tackling the central tasks, and make continued efforts to improve the overall system and its operational mechanism, perfect audit laws and regulations, and adjust audit duties and authority, thus playing an important role in safeguarding the economic and financial order, improving the effective use of financial funds and promoting China’s healthy economic and social development.

Third, the scope of duties and role of government auditing are mainly defined on the principle of “jurisdictional control, employment of talents and wealth management.” From “centralized governance” to “well-planned action,” “establishing a legal system and common rules and scrutinizing its policies,” “formulating any policies in relation to economic regulation and plans of financial revenues and expenditures,” the scope of duties throughout auditing is mainly determined by three key considerations, the officials to be audited, their actions, and the funds involved. To a great extent, the evolution of auditing system was based on the politics, economy, and culture prevailing at a specific time, and became an arrangement and adjustment to bring into full play the role of auditing in “jurisdictional control, employment of talents, and wealth management.”

National governance involves elements such as labor, finance, 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. The political scientist E. A. Rees has proposed that the center of all studies on a political system is concerned with the issues of the nature of a State, while the focus of studies on the State rests with control and accountability.³⁸ As an important part of national governance, government auditing is required to supervise and constrain the State’s execution of power execution through the audit activities of checking and supervising losses and risks, so as to realize the

³⁸ E. A. Rees, *State Control in Soviet Russia*. New York, NY: Macmillan Press, 1987, p. 1.

governance goal of “defining the authority and ranks of the king, ministers, and officials,” promote good national governance and safeguard public interests.

Fourth, an important aspect of the auditing system is to maintain its independence and authority. The vicissitudes of China’s political system and evolution of auditing system show that the authority and independence are mainly safeguarded by the following three measures.

(a) Audit institutions are authorized legally. In different periods in history, the establishment of the government auditing system and authorization of audit institutions were under the rule of law. For example, “defining the authority” in the *Rites of Zhou* written by Zaifu in the Zhou Dynasty, *Law of Administrative Reports System* in the Han Dynasty, *Legislative Articles of Bibu* in the Wei and Jin Dynasties, procuratorate auditing system incorporated into the *Constitution of the Republic of China* during the period of the Nanjing Nationalist Government, the government auditing system incorporated in the *Constitution of the PRC* upon the founding of new China, all embodied the concept that laws serve as a guarantee for the independence and authority of audit.

(b) Audit institutions reported to the most senior decision makers. In the course of history, the affiliations of audit institutions were mostly changed, leading to different ranks of auditors, but all should report to the most senior decision makers (rulers).

(c) Professional audit institutions were established independently. Audit institutions, fiscal institutions, and supervisory organs suffered vicissitudes during thousands of years of development course. However, on the whole, the more independent and professional the audit institutions could be, the stronger government auditing became, along with a higher level in serving the cause of national governance.

General Secretary Xi Jinping has pointed out: “Today’s China is developing based on the past. To govern today’s China, we should have a profound understanding of the history and traditional cultures of China, and also positively summarize the ancient explorations and wisdom in ruling and administering the country.”³⁹ Only by integrated analysis of the course of government auditing can we understand and effectively steer the development, historical law and future trend from a more comprehensive and objective perspective. Thousands of years of development of China’s government auditing have helped to accumulate abundant historical experience for establishing and improving the auditing system of socialism with Chinese characteristics.

³⁹ Xi Jinping, “Keep Firmly in Mind the Historical Experience, Lessons and Cautions—A Speech at the 18th Collective Learning of the Political Bureau of the CPC Central Committee.” *Xinhua Daily Telegraph*, October 14, 2014.