

# Analysis on Present Status and Development Tendency of Performance Audit in China

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**Abstract:** Performance audit has become a mainstream-trend in the development of modern government audit currently. However, the launch of performance audit in China is unbalanced, which the performance audit with Chinese characteristics develops quite fast, while the full sense of performance audit develops quite slowly. Except factors such as different recognition of performance audit, the main reason of this development imbalance is that development of performance audit is limited by the current audit system. Nevertheless, it is not hard to find some positive aspects existing in the development of performance audit in China, concluding developments and changes of the environment of performance audit in China over the recent years.

**Keywords:** government audit; performance audit; public expenditure; budget reform

One of the breakthrough developments of worldwide government audit in the second half of 20<sup>th</sup> Century is to bring the public expenditure performance audit into the audit field. Public expenditure performance audit, which its goal and coverage are evaluation and supervision at public resources managed by government departments or at economy, efficiency and effectiveness of public expenditure utilized by government, has become one principal duty of audit organizations in many countries. Currently, performance audit has become a mainstream-trend of the development of modern government audit. In order to find difference in development of performance audit between China and foreign countries, we should give fully view and conclude development of Chinese performance audit with an international insight, and therefore to further understand and summarize the regular pattern of performance audit development in China, and to come up with better solutions and ideas for development of Chinese performance audit.

## I. Fundamental Recognition of Present Status of Development of Chinese performance Audit

In fact, Chinese audit profession began to study performance audit (which was probably called as economic performance audit) in 1980s. The Audit Administration has been advocating and encouraging audit agencies to explore and launch performance audit in their audit applications. For example, the Development Planning on Audit Work

for Year 2003 to Year 2007 composed by the Audit Administration said, "for future audit coverage and mode, an authentic and legal audit on fiscal finance revenue and expenditure and the VFM audit (value for money audit) should be emphasized at the same time, and share of the VFM audit should be added gradually and in year 2007, the goal for input on the VFM audit should be a half of the whole input of audit work" According to Audit Administration's Development Planning on Audit Work for Year 2008 to Year 2012, the Audit Administration will concentrate on building system of valuation and mode of performance audit, specifically, to establish valuation system of performance audit in year 2010 and to build mode system of performance which accords with China development facts in year 2012. "All audit projects in China will execute performance audit in year 2012" said by Jiayi Liu, the Administrator of Audit Administration, in the 6<sup>th</sup> Performance Audit Seminar of World Audit Organization opened in Beijing in 2010.

Viewing the planning of the Audit Administration, performance audit has already become an ordinary work of audit agencies currently. While the reality presents another conclusion: several local audit agencies do not think they generally carry out performance audit, moreover, the performance audit part in Audit Administration's development planning fails to be executed time and time again; Besides, situation of decreasing performance of public expenditure over the past years has not been reversed fundamentally,

which demonstrates from the other side that development of performance audit is slow, for reason that performance audit does not actually show effects on restraining strategic decision errors of public expenditure and on enhancing government investment performance.

Results of the three questionnaire survey made by the author of this article offer some instructions and supports for the conclusions above.

The First Questionnaire: in 2002 June, the author got a conclusion from a questionnaire about present situation of audit in China that currently Chinese audit agencies primarily conduct the authentic and compliance audit and rarely conduct performance audit.

The Second Questionnaire: in 2006 June, the author sent out 1500 shares of questionnaire forms about development issue of government audit in China in a national wide, and the survey objects included the NPC (the National People's Congress), the Audit Administration, the Local people's Congress, government and local audit agencies, fiscal institutions and scientific research institutions. One of the questionnaire topics was that "currently, the performance audit, the goal and coverage of which are evaluation and supervision at utilization performance of public resources, has not really launched in China", and this topic got approval and fundamental approval answers from 94% respondents.

The Third Questionnaire: in February 26, 2012, the author hold one questionnaire about performance audit for 180 auditors from Wuwei Municipal Financial Bureau on the training class of audit work held by this agency. When asked "Do you think performance audit has generally conducted on the basic- unit audit agencies?" 96% respondents chose the answer "No".

One news report also supports viewpoint of the author. When the journalist from Beijing News asked news spokesman of Beijing Municipal Audit Administration that "is there a standardized and complete valuation system for performance audit", the spokesman answered that "not yet till now, and the whole nation is exploring the performance audit, and applications to audit mode, coverage, standards, method and finding are all in the exploration stage". Exploration means performance audit is still in its original stage, and at least means it does not generally exist.

Several audit theoretical and practical professionals also put forward the same viewpoint as this article made. Zhen-dong Qi and his co- authors cites that the goal for input on the VFM audit should be a half of the whole input of audit work in the Development Planning on Audit Work for Year 2003 to Year 2007 composed by the Audit Ad-

ministration, and claims that although empirical researches on implementation degree of this planning are not common, the problems disclosed from the newly released audit report are more about compliance audit and authentic audit, and there is a long way to go to get the ideal goal in the planning of the Audit Administration. Chuanbin Xiao claims that although each level of audit agencies actively launches performance audit work, a relatively complete and all- round norm of legal on performance audit has not built yet and the train of sought is still not out of financial audit. Yusheng Feng in his article argues that there are bunch of projects such as performance audit projects existing in names only on the official website of National Audit Administration; currently some audit agencies are launching performance audit that still applies traditional audit method of financial revenue and expenditure. In nominal it is performance audit and in fact it is traditional financial revenue and expenditure audit or project cost audit, which stays in stage of authentic and compliance audit. Jeli Li claims that so far local audit agencies have not fully carried out performance audit, and performance audit is rarely involved in general audit projects, and if this situation lasts, it is hard to meet requirements that to conduct performance audit in all audit projects in year 2012. Huasheng Ouyang and Chang Song analyze the audit findings and announcements released by the Audit Administration and local audit agencies respectively, and both authors emphasized that there are few announcement projects of performance audit.

By comprehensively summarizing development of performance audit in china over the past years, understandings can be drawn as follows.

Firstly, development of performance audit in China is imbalanced as a whole. There is a large difference between full sense of performance audit (namely an independent type of performance audit complies according to international practice) and the performance audit with Chinese characteristics. What the audit agencies carry out is mainly the so- called performance audit with Chinese characteristics, which is a combination of general audit and performance audit, instead of independent type of performance audit.

Secondly, Chinese present performance audit should give priority to problems exposure, and stress on disclose issues such as severe loss or waste and stated- owned asset resulted from mismanagement and erratic decision- making instead of conducting comprehensive performance audit and policy performance audit.

Thirdly, the scope of performance audit is primarily on financial capital, and the goal of performance audit is to

enhance management standard and utilization performance of public capital, for instance, arrange certain of performance audit coverage into public project investment audit and fiscal special capital audit to promote enhancement on management standard and utilization performance of construction capital.

Fourthly, development of Chinese performance audit is basically an expansion of internal work of audit agencies, and the external environment especially the NPC is not the main driving force of the development of performance audit.

Lastly, the social significance and macro meaning have not appeared clearly, and basically this development of performance audit is still an enlargement of effects of traditional financial audit.

## II. Fundamental Analysis on Present Situation of Development of Performance Audit in China

Why is there such a huge difference between the present situation of development of performance audit and Audit Administration's development planning of performance audit? The author of this article thinks that there may be the following reasons.

First of all, there is a recognition gap of the definition of performance audit. Just as the news spokesman of Beijing Municipal Audit Bureau said, "There are two types of performance audit, one is contained in the general audit, and the other one is an independent project audit, and at present, most of the department audit include performance audit, and the three projects that performance audit are conducted as individual project audit were rural compulsory education, community health service station and energy conservation and emission reduction". Conclusively, an understanding that performance audit has generally carried out will be drawn if performance audit is considered as an expansion of general audit; and if performance audit is regarded as individual project audit, there will be a recognition that performance audit hardly developing. It is not difficult to find from present situation of development of performance audit that development of the full-sense performance audit is still lagging and in many local audit agencies performance audit makes no development; however, performance audit with Chinese characteristics has already been carried out, namely the performance audit that contained in general audit has become the mainstream-trend of performance audit in China. In other words, the primary type of performance audit launched in China currently is not the full sense of independent type of performance audit

that launched in foreign countries. Just as the Audit Administrator Jiayi Liu said, "phenomena of unauthentic, incompliance and low-efficiency performance audit are common and integrated. Instead of imitating foreign countries to arrange special auditors to conduct performance and financial audit respectively, China now can only connect and blend these two kinds of audit together. There will be different emphases based on different situations for audit in different regions and projects." Namely that the current primary type of performance audit in China is not at full-sense performance audit, instead, it is traditional audit integrated goals and coverage of performance audit: Either to tightly connect traditional financial audit with performance audit, and to make goals and coverage of authentic, compliance and performance together; either to tightly connect performance audit with audit investigation, for example, audit projects the Audit Administration promotes on airport construction, municipal fundamental utilities construction, etc. are audit investigations involved with performance ideas.

Scholar Longping Zhang also claims that the launching of performance audit in China is not ideally proceeding, and problems concentrate on that most of the audit agencies have not arranged performance audit as an independent audit type and instead they pay attentions on problems existed in operating management and performance while conducting financial compliance audit, and suggestions of performance evaluation and improvement management are rarely referred in the financial audit reports. The present situation can still be described as what the former Audit Administrator Jinhua Li concluded about the launching of performance audit in China ten years ago that "Did we carry out any performance audit over the past years? I think we did, and early at the beginning of the establishment of the Audit Administration, and we later proposed to expand financial revenue and expenditure audit to performance and management audit. In last year's national audit work conference, we suggested combining financial revenue and expenditure audit with performance audit, which you can find in the six measures aimed to enhance audit quality, and we have a lot of great audit cases of this combination in practices. Because of this kind of combination, some comprehensive reports that we handed in to the State Council were quite valued by leaders in the Council." Thus it can be seen that from the angle of performance audit with Chinese characteristics, a kind of performance audit, namely "a performance audit emphasizes on disclose severe losses, wastes and stated-owned capital losses", is easily adapted and carried out in China and seems like can be completely promoted and popularized in China, and ac-

According to the development planning of the Audit Administration, it will take a couple of years to accomplish achievements that the foreign countries took decades of years to make. However, based on a full sense of performance audit, the development of performance audit over the past years was still quite slow. Therefore, the differences in implications and types of performance audit will not directly lead to difference recognitions and viewpoints on development situation of performance audit in China.

Secondly, there are no special standards or guides of performance audit in nationwide so far, and thus the performance audit has no compliance and progressiveness. Scholar Peijian Lv thinks that performance audit in China is superficial either on recognition or practice layer. A suitable mode for performance audit including the goals and scopes setting, plan making, procedures, methods, etc. has not formed yet, "Basically we conduct performance audit along with the familiar idea and methods of traditional financial audit." Some local audit agencies such as Wuxi Municipal Audit Bureau make combining and penetrating performance audit (which is another call for the non full- sense performance audit) as the breakthrough point to promote performance audit steadily, however, from respect of practices, part of combining and penetrating performance audit have blurred audit goals, presenting problems such as 'giving priority to compliance audit and making performance audit the ornaments' or 'make intended performance'. Since "the objectives of performance audit are quite complicated, although superior audit agencies and Wuxi Municipal Audit Bureau make several beneficial explorations on guides of performance audit. Plus, considering that a lot of guides still take marks of financial compliance audit, the mutual problems the Wuxi Municipal Audit Bureau and others audit agencies are facing is how to actualize standardization of procedures and methods of performance audit as soon as possible."

Thirdly, audit agencies are constrained by present situation of resources. Along with development of economy and every undertakings in China, the contradiction between the limited resources of audit agencies and increasing loaded audit tasks is getting more significant. Under such circumstances, it is possible for audit agencies to make certain exploratory attempts on performance audit, while it will make audit agencies under heavy burdens more burdened if performance audit becomes norm. Thus audit agencies are conducting repeatable audit or doing performance audit nominally but doing compliance audit practically.

Fourthly, performance audit is limited by the current

audit system. The analyses of the three aspects above are beneficial for understanding of the present situation of development of performance audit in China; however, the analyses are unable to disclose deeper causes of the slow development of Chinese performance audit for they fail to involve the issue of current audit system (especially the audit frame). It is well known that audit frame is the core of audit system of one country and also is the decisive factor to constrain audit to give full play of its role and to depress the launching of audit work. Only combining audit frame when doing research on development issue of performance audit can catch the principal aspect of a contraction, which is greatly beneficial to analyze and solve development problems of performance audit and even to explore the rule of development of performance audit.

The creation and development of performance audit is a long term historical development process, which relates with politics, economy and social cultural environment of specific periods. Viewing the developments of performance audit in foreign countries, a dialectical relationship can be clearly seen that the legislature promotes development of performance audit and the audit agencies in turn pay more attention on the service offered by the legislature. This is an implicated causation, which affects government audit from multiple aspects. Guarantees to achieve this causal relationship are legislative powers, budget rights and supervision rights owned by the legislature. Cases of individual countries show that the legislature and government audit occupy quite important positions in budget management of government fiscal. This kind of position and role presents not only in procedure law and regulations that the legislature and government audit put on the budget of governmental public expenditure, but also in restrictions that the legislature and government audit put on governmental departments.

Foreign audit generally give audit priority to governmental public expenditure, which is required by the legislature institutions to promote development of government audit. Government audit can develop more audit mode (for example, performance audit) to serve the legislature better (the matter of face is specific political system) only by fatherly improving its supervision function, and which is also the inevitable choice for government audit to fully play its independent role and function of supervision. Social demands of public is the first factor of launching performance audit, and the social tension created by expectations of effects that performance audit makes from the legislature and the public in developed western countries is exactly the original driving force of the creation and development

of performance audit. Thus shall we make a conclusion that the creation and development of performance audit is not a result of self-entertainment of the audit agencies, and instead it meets requirement of governing a country or it is driven by certain of important aspects of reform and development on governance system of a country. Just as the Audit Administrator Jiayi Liu said, "creation and development of government audit originates from country governance. The requirements of governing a country determine creation of government audit and the goals of governing a country decide directions of government audit."

Looking back the development history of Chinese performance audit, it is not hard to find that system changes in performance audit in China concentrate on the mandatory change of system advocated positively in central and local by the Audit Administration and local audit agencies in order to follow the development trend of the international government audit, in other words, the change and development of audit system in China is a top-down transformation that driven by audit agencies, and also is affected by government administrative system. Whether this reform will be promoted smoothly and deepened greatly depends on the identity degree and demands on this system by the audited unities (government and public departments).

As a profound supervision system, performance audit lacks of engine and pressure for its self-development in internal audit agencies in the current frame. What audit should do or what it should not do depends on environment out of audit. Thus, does the external environment create beneficial conditions for fast development of performance audit? Do audit agencies occupy a more powerful place with rights of supervision on government? Therefore, the reasons of slow development of performance audit should be found in external environment and system rather than in self-factors of audit agencies. For instance, sense of political performance of many local governmental leaders decides or affects decision-making and performance of public expenditure, and fundamentally, performance audit should suppress disorder and messy practices of public capital applications by governmental leaders to a certain degree, which is determined by the nature of performance audit, while will performance play such role of restriction on power in reality?

Supposing that the main reason for low efficiency of public expenditure is erratic decision-making, and most of the decision makers of numbers of governmental investment projects are the government or governmental leaders, problems brought with are can these decision makers be audited? And if the answer is no, and then who will primari-

ly conduct the accountability? The series of problems are hardly to be guaranteed by current frame and system, since budget and execution of public expenditure, inspection and supervision of the executive result are all operated and recycled in the same frame and system, which can be hardly effective without external supervision. Audit should be a setting of external supervision. Currently, the long term existence of these problems is demonstrating the weakness of current supervision system as well as the invalidation of traditional internal mode of self-supervision.

### III. Analysis on development tendency of performance audit in China

Summarizing development and changes of performance audit environment of China, it is not difficult to find that there are some positive and expectable advantages existing in development of performance audit in China, mainly including:

Firstly, the full sense performance audit tends to be increased. This feature can be found from the answers given by Yongjun Li, the deputy director general of Beijing Municipal Audit, on the interview with journalist from Beijing News that "in year 2010, there will definitely be more performance audit projects with wider range. In last year, the number of performance audit project was 3 and this year the number is around 6". In fact, audit agencies in various regions have explored practices of full sense performance audit to different degrees over the recent years.

Secondly, performance audit tends to develop independently. Along with the widespread practices on performance audit, on aspect of audit systematic construction, performance will develop from causality to mandatory and from scattered, rough audit practices with high elasticity to uniformly organized audit activities with certain scale and impacts. There will be systematic construction, which is different from general audit, on performance audit especially from various aspects such as legislation, planning, arrangement on project and procedures. For example, some province and cities have contained performance audit in local legislations, namely to allow a separate legislation on performance audit; when listening to report of annual budget execution, the standing committee of the National People's Congress requires governmental departments to select and hand in some of performance audit reports, or some local standing committees ask government to select one to two priority projects and listen to reports of the according performance audit every year, and which suggests that performance audit can exist as an independent audit activity. For instance, Beijing Audit Regulations plan to include perfor-

mance audit, to establish and improve relative audit system through legislative process and to regulate behaviors of audit subjects and objects, and to achieve legalization, institutionalization, and normalization of performance audit. Simultaneously, Beijing regulates that government should report situation of budget performance management and performance audit to municipal standing committee of NPC each year.

Thirdly, performance audit has already connected with performance supervision and more social activities. Facing plenty problems existed in public expenditure, the isolated audit agencies can hardly effectively solve problems from the root actually. Performance supervision, a means of governance that excelled performance audit, has gradually stepped into people's horizon. The so-called performance supervision is created to better combine supervisions on budget compilation, adjustment and execution with supervisions on utilization performance of budget capital, and to avoid and prohibit situation that "easily get money and casually spend money" existing in certain departments and units. Some regions keep exploring to regard performance audit findings as proofs of budget compilation and seeking procedures and paths of opening the performance audit findings to the public, and some places even bring performance into government supervision valuation and conduct performance accountability. Conclusively, performance supervision connects society supervision, NPC budget supervision, performance management of financial departments, and performance audit of audit agencies, pursuing and establishing mechanism and measures that enhancing performance of public expenditure with starting points of different departments and different duties.

Fourthly, attentions and promoter actions on performance audit from the NPC are more and more apparent. Various level of NPC are more valuing issues on performance audit during the budget supervision process these years, and several local NPCs originally bring performance budget and performance valuation into the budget supervision. For example, Beijing Municipal Standing Committee of NPC initially made performance supervision on utilization of public capital an essential part of improving and enhancing budget supervision jobs of NPC in 2009, to promote budget compilation and scientific, reasonable usage of capital through pushing forward municipal government strengthen the performance supervision on capital utilization. Compared with former budget supervision, which focused on whether the budget expenditure is executed following the budget and whether there are violations of laws and disciplines, performance supervision emphasizes on fea-

turing effects of expenditure on basis of authentic and compliance, namely values the effects of utilization of public capitals. To sum up, while the strengthening NPC's performance supervision role is greatly improving developments of performance budget in departments of finance and performance audit of audit agencies, performance audit on public expenditure is playing more important roles of cooperating and strengthening NPC's budget supervision and which the meanings are more apparent. This interrelation reflects tendency of development of performance audit on public expenditure both institutionally and systematically to some extent.

Fifthly, the construction of legal system will be valued. Legislation first is the laws protection of implementing performance audit. Launching performance audit needs support of legislation, which means to clarify position of performance audit and give it an equivalent status as financial budget executive audit has. Currently there is no complete system of laws and regulations for performance audit in China. Content of performance audit is rarely involved in introduced laws and regulations, except certain rule and regulations issued in locals, there is no authority system of operation guidance of performance audit suitable for Chinese audit. Article 2, Section 3 in the 1994 Audit Law only principled regulates audit agencies to "conduct audit supervision on authentic, compliance and performance of fiscal revenue and expenditure or of financial revenue and expenditure". In revised edition of Audit Law in year 2006, only one reference that "enhance utilization performance of public capital" was added in the Article 1, while the authorization of law on performance audit was not sufficient. Since that Audit Law does not clearly authorize audit agencies the rights of conducting performance audit, neither clarify performance audit on financial revenue and expenditure, thus there are a lot of obstacles when carrying out performance audit for audit agencies in this frame of law. It is more likely to legislate laws of performance audit with gradual strengthening and improvement of NPC's legislation and supervision system in the future, to regulate on the side of legislation and to maintain authority of performance audit. Besides, certain specialty system and standards will be gradually establishes such as Standards of Performance Audit. There will be a series of standards and regulations to normalize execution procedures of performance audit including planning, execution, report and evaluation, etc.

Lastly, budget reform may have an influence that can not be underestimated on development of performance audit. On one hand, Article 12 in the new budget law carried out in year 2015 clarifies that "budget of each level

should comply with the principles of plan as a whole, thrifty, act according to one's ability and balance budget". Plus the Article 49 claims that the NPC should request its own level People's Committee presidium to give advice and suggestions on "annual budget execution, budget management improvement, budget performance enhancement, budget supervision strengthening, etc." in gross budget drafts and review reports of last year's gross budget execution.

Conclusively, to emphasize performance of public budget is one important principle of the new budget law, which is undoubtedly advantageous for development of performance audit. On the other hand, according to the execution situation of the new budget law and the announced publicly 2014 Budget Execution Situation in Central and Locals and 2015 Budget Draft for Central and Locals (Contract), there are still several insufficiencies of budget reform, and among which one important point is the lack of budget information and especially the performance information make the NPC and Standing Committee feel difficult in deeply executing approval and supervision job on budget. An increasing deepening of budget reform will definitely give great push to performance audit in the links of budget compilation and execution, for refinement of budget compilation and budget information (especially the Three E data of budget expenditure) are indispensable reference data and audit proofs of launching performance audit.

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