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RESEARCH ON VALUE-ADDED INTERNAL AUDITING IN ENTERPRISES BASED ON VALUE CHAIN THEORY

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ABSTRACT
With the continuous development of the market economy, the business environment of enterprises has become increasingly complex. As a critical component of corporate governance, internal auditing plays a vital role in regulating business operations. However, traditional compliance-based internal auditing can no longer meet the development needs of modern enterprises. Researching value-added internal auditing to provide more effective value-added services for enterprises has become a significant topic in current internal auditing research and practice. Based on value chain theory, this paper introduces the concept of value-added internal auditing, explores the differences between traditional internal auditing and value-added internal auditing, analyzes existing problems in the implementation of value-added internal auditing in enterprises, and proposes a framework for constructing a value-added internal auditing system through organizational restructuring, institutional improvement, and the optimization of operational mechanisms.
KEYWORDS: *Value Chain, Internal Auditing, Value-Added Auditing*

1. INTRODUCTION

Internal auditing, as a critical internal management and supervision mechanism in enterprises, effectively assists management in overseeing and evaluating operational activities. Its role in corporate governance structures has become increasingly significant. Internal auditing not only fulfills the crucial responsibilities of ensuring the legality and compliance of economic activities but also serves as a key element in securing operational safety and enhancing efficiency. It functions as both a "firewall" and an "immune system" for enterprises. However, with the acceleration of globalization and the growing complexity of market environments, enterprise business models, operational scopes, and external conditions are undergoing profound changes. The single compliance-focused supervision provided by traditional internal auditing models is insufficient to meet the diversified and dynamic management needs of modern enterprises.

In this context, enterprises face both challenges and opportunities in strategic transformation. Traditional internal auditing, primarily focused on post-event error detection and correction, struggles to provide proactive responses to rapidly changing risk environments and to assist enterprises effectively in achieving value addition in competitive contexts. As a result, the functions and positioning of internal auditing are undergoing fundamental transformations, shifting from a purely supervisory role to a value-added internal auditing model centered on management services. This transition represents not only a milestone in the development of internal auditing practices but also a reflection of advancements in management philosophy and auditing technologies.

Value-added internal auditing, as an innovative auditing model, actively participates in corporate governance from a strategic perspective. Through forward-looking, comprehensive, and value-driven auditing activities, it enhances internal controls, improves risk management, and achieves objectives such as cost control and efficiency optimization. Compared to traditional internal auditing, value-added internal auditing emphasizes identifying and exploiting value-adding opportunities both within and outside the enterprise from the perspective of the entire value chain. It supports sustainable development by creating direct economic benefits through process standardization and efficiency improvements and by strengthening governance structures and optimizing resource allocation to build long-term competitive advantages (Xue, 2024).

Driven by the needs of rapid development in the new era, the application value of value-added internal auditing has become increasingly prominent. On the one hand, it employs dynamic analysis and continuous improvement to adapt flexibly to complex and volatile business environments. On the other hand, it focuses on risk warning and end-to-end monitoring, integrating auditing activities into the daily operations and management of enterprises to ensure the achievement of strategic goals. Consequently, value-added internal auditing, as an auditing model grounded in modern corporate governance principles and value orientation, has become a vital management tool for enterprises to address internal and external challenges and achieve high-quality development (Sun, 2021).

The emergence and development of value-added internal auditing represent an inevitable trend for enterprises seeking management upgrades and value creation in new environments. It not only drives comprehensive enhancement of internal auditing functions but also significantly supports improvements in operational efficiency and overall competitiveness. Enterprises must further prioritize and apply value-added internal auditing, establish robust systems and mechanisms, and fully leverage its role in optimizing resource allocation, mitigating operational risks, and achieving value creation (Li, 2024).

2. OVERVIEW OF VALUE-ADDED INTERNAL AUDITING

As the complexity and dynamism of corporate management environments increase, the limitations of traditional internal auditing have become increasingly apparent. The concept of value-added internal auditing represents not just a breakthrough from traditional auditing models but also an innovation grounded in modern management theories and practical needs. By embedding the core principle of value creation into the internal auditing framework, it integrates corporate strategic objectives, operational efficiency, and risk management, thereby endowing internal auditing with a new meaning and making it a vital tool for enhancing overall corporate governance.

2.1 The Concept of Value-Added Internal Auditing

Internal auditing involves independent evaluations and recommendations within an organization to ensure the compliance and authenticity of daily operations and internal controls. Value-added internal auditing builds on this foundation by assessing and controlling management activities, leveraging existing resources and conditions to reduce costs, enhance operational efficiency, and generate more economic value, thereby achieving continuous growth in corporate value.

Value-added internal auditing evolves from traditional internal auditing by emphasizing verification and consultation functions beyond evaluation and supervision. It focuses on improving its operational efficiency while helping organizations reduce costs and enhance quality. Within this framework, internal auditing departments gain deeper insights into both internal business operations and external environments. By comprehensively analyzing organizational information, these departments use their functions to anticipate and assess risks beforehand, mitigate and control risks during operations, and provide recommendations during reviews. This process ultimately aims to improve corporate governance effectiveness, operational efficiency, and overall value. The key characteristics of value-added internal auditing include:

Independence: Although internal auditing departments are part of an enterprise, they maintain independence, granting them the authority to conduct their work without interference from other departments or personnel. This independence ensures the effectiveness, impartiality, and objectivity of audit results.

Service-Oriented Approach: Value-added internal auditing shifts away from primarily evaluative and supervisory roles to adopt a service-oriented approach. By leveraging the professional expertise of internal auditors, this model diagnoses and analyzes issues in corporate management processes, offering recommendations and measures for improvement to enhance operational management.

Value Orientation: Value-added internal auditing focuses on increasing corporate value and operational efficiency. It not only seeks to optimize and redesign various stages of the enterprise’s production and operational processes to reduce costs and increase profits but also aims to reduce internal auditing costs and enhance its efficiency, thereby contributing to overall corporate value.

2.2 Differences Between Value-Added Internal Auditing and Traditional Internal Auditing

Audit Positioning: Traditional internal auditing has relatively low alignment with corporate strategic objectives, focusing primarily on examining economic activities and financial conditions. Its role is to effectively monitor and evaluate the authenticity, rationality, and compliance of economic matters. In contrast, value-added internal auditing targets the enterprise's overall strategic objectives and decision-making processes, integrating deeply with corporate strategy. It broadens the scope of auditing to emphasize internal controls, risk management, and business processes, offering actionable recommendations for enterprise development. The goal is to help enterprises achieve strategic objectives and maximize benefits.

Audit Service Targets: Traditional internal auditing primarily serves senior management by assisting in the supervision and evaluation of various aspects of the enterprise. Value-added internal auditing, however, serves management at all levels, including functional and operational departments. It focuses on various aspects of production and operations, identifying potential risks in business processes and offering effective suggestions to optimize related workflows, ultimately enhancing operational efficiency (Li, 2024).

Audit Methods: Traditional internal auditing primarily involves post-event auditing and supervision. It generally focuses on verifying the accuracy and completeness of financial accounting system data and ensuring regulatory compliance in operational activities. In contrast, value-added internal auditing spans the entire lifecycle of the audited matters, including pre-audit, ongoing audit, and post-audit phases. This extended timeframe enables comprehensive supervision across all enterprise operations.

Audit Relationships: In traditional internal auditing, the relationship between the auditing body and the audited entity is primarily supervisory. The auditor identifies violations of laws, regulations, and corporate policies, requiring the entity to rectify these issues. This dynamic creates a supervisor-supervised relationship. However, under the value-added internal auditing model, the relationship is collaborative. Auditors and audited entities engage in active communication and mutual discussion during the auditing process. Using collected information, auditors provide constructive suggestions for improvement, fostering a service-provider and service-recipient dynamic.

3. CHALLENGES IN CURRENT PRACTICES OF VALUE-ADDED INTERNAL AUDITING

Although value-added internal auditing holds strong theoretical significance, it faces numerous challenges in practical implementation. Currently, enterprises are in the early stages of understanding and applying value-added internal auditing. Many organizations have not fully adapted to the requirements of this model in terms of auditing concepts, organizational structures, and technological applications. This disconnect between theory and practice significantly undermines the effectiveness of value-added internal auditing.

3.1 Insufficient Awareness of Value-Added Internal Auditing

With the evolution of internal auditing functions, value-driven auditing has been increasingly promoted. However, in practice, some enterprise managers fail to fully recognize the value-added role of internal auditing. They often perceive it as a cost center rather than a profit generator, leading to inadequate resource allocation and support for internal auditing departments. In some cases, organizations cut internal auditing budgets in an attempt to reduce costs, which adversely affects the quality of auditing work and, to some extent, hinders enterprise development.

3.2 Lack of Independence in Internal Auditing

In some enterprises, organizational structures are not well-established. For instance, many lack an audit committee or an independent internal auditing body. Internal auditing departments are often subordinate to finance departments, operating at a lower hierarchical level, which compromises their independence. This lack of independence makes internal auditing susceptible to interference from other personnel, preventing the objectivity and impartiality of audit results. Consequently, the authority of internal auditing is weakened, making it difficult to implement corrective measures. This issue poses a significant challenge to the sustainable and healthy development of enterprises.

3.3 Lagging Techniques in Value-Added Internal Auditing

The broader an enterprise's business scope, the more complex its operations become. While advances in information technology have enhanced financial management through increasingly sophisticated financial systems, most enterprises' auditing systems remain far behind in terms of digitalization. Traditional methods, such as reviewing accounting vouchers and financial statements, are still widely used to evaluate business performance. These methods fail to leverage auditing systems for real-time monitoring, data collection, and analysis of business processes. This limitation reduces the efficiency of internal auditing and hampers the realization of its value-added functions.

4. CONSTRUCTING A VALUE-ADDED INTERNAL AUDITING SYSTEM

Constructing a value-added internal auditing system requires integrating theoretical research with practical exploration, aligning internal auditing functions with the goal of value creation. By incorporating advanced auditing concepts and technological tools and optimizing organizational structures and operational mechanisms, enterprises can establish a robust framework for value-added internal auditing, thereby better serving their strategic objectives.

4.1 Theoretical Foundation

The value chain theory, initially proposed by Harvard University's Michael Porter, identifies value chains as dynamic processes of value addition during business operations. These processes comprise a series of activities, categorized into primary activities (such as production and sales) and support activities (such as logistics and human resources). These activities are interdependent, collectively forming the enterprise's value chain.

By continuously optimizing various activities within the value chain, enterprises can enhance their overall value. With economic globalization, internal auditing has progressively evolved from traditional supervision and evaluation functions to management service functions. This transition involves shifting from error detection to risk management and value creation, thus enabling internal auditing to better serve enterprises' value-added goals. Value chain theory provides a fundamental theoretical basis for this functional transformation. Beginning with value chain analysis, value-added internal auditing actively engages with and coordinates enterprise value activities. It evaluates value-adding processes comprehensively and from multiple perspectives, ultimately creating value for enterprises and enhancing their capacity for value optimization.

4.2 Constructing a Value-Added Internal Auditing System from Three Dimensions

(1) Establishing a Robust Organizational Structure for Value-Added Internal Auditing

The effective implementation of value-added internal auditing begins with strengthening the top-level design of internal auditing and establishing a comprehensive organizational structure.

On one hand, enterprises should form an audit committee to coordinate and optimize auditing resources. The audit committee is primarily responsible for reviewing internal auditing policies, medium- and long-term plans, and annual plans. It also reviews annual reports from internal auditing bodies and evaluates their performance. The audit committee can delegate several audit teams to conduct audits and report their results regularly to the committee.

On the other hand, enterprises should establish a chief audit executive (CAE) system. Appointing a CAE enhances the independence of internal auditing, providing institutional assurance for its effectiveness and objectivity. Compared to internal audit heads, the CAE holds a higher position, with greater authority and broader responsibilities. The CAE should possess advanced auditing expertise and strong communication and management skills. Serving as a bridge between the board of directors or senior management and internal auditing bodies, the CAE is responsible for coordinating internal auditing policy development, devising auditing work plans, recommending improvements to organizational structures and team development, overseeing the rectification of identified issues, and assisting the board in establishing robust internal control and risk management systems.

(2) Improving the Regulatory Framework for Value-Added Internal Auditing

A sound regulatory framework is fundamental to fulfilling internal auditing responsibilities effectively. For value-added internal auditing, enterprises must implement relevant national laws and regulations, tailor policies to the specific characteristics of value-added auditing, and align these with their operational context. Timely development and refinement of internal auditing rules are essential to ensure that operations are governed by clear guidelines.
Key aspects of a value-added internal auditing regulatory framework include:

- Defining clear timelines and budgets for completing audit projects.
- Establishing specific requirements for audit costs, site operations, and quality standards.

- Developing mechanisms to supervise the execution of audit projects to ensure their effective implementation.
- Enhancing budget management by specifying personnel, time, and cost requirements for audit projects.
- Implementing real-time efficiency monitoring of audit sites.
- Comparing audit costs with outcomes to ensure that the benefits of auditing exceed its associated costs. This ensures high-quality auditing work while maximizing value creation (Li, 2024).

(3) Optimizing the Operational Mechanism of Value-Added Internal Auditing

Pre-Audit: Defining Audit Objectives

Enterprises must first emphasize the status and importance of internal auditing departments. By granting them greater authority, organizations can ensure their effective execution of responsibilities in strengthening internal controls and mitigating risks. Within the principle of cost-effectiveness, value-added internal auditing aims to identify potential risks, provide actionable recommendations, improve corporate governance and operational efficiency, and achieve enterprise value growth and strategic objectives.

Additionally, enterprises should broaden the scope of audits, integrating value-added internal auditing into daily operations. When developing audit plans, enterprises should carefully balance audit breadth and depth, prioritizing high-risk areas within the corporate value chain. The plans should align comprehensively and strategically, focusing on risk avoidance and value creation while establishing medium- and long-term internal audit strategies and annual work plans that align with corporate objectives.

During the Audit: Innovating Audit Methods

In the execution phase, value-added internal auditing should move beyond traditional methods like document reviews, sampling, and inventory checks. It should incorporate information technology to innovate audit methodologies, freeing auditors from tedious, time-consuming traditional practices. This approach reduces audit duration, cuts costs, and improves efficiency.

Utilizing Big Data: By collecting, summarizing, and analyzing vast amounts of data, auditors can filter relevant information and derive preliminary results to aid judgment.

Developing Intelligent Auditing Systems: Enterprises should build and enhance intelligent auditing systems that integrate seamlessly with other corporate systems, such as production and sales. Bridging informational gaps avoids data silos. By setting controlled parameters, auditing systems can monitor business processes in real time and improve risk warning capabilities. Auditors can access relevant data across systems, increasing the reliability and authenticity of evidence, thus enabling comprehensive supervision of business activities (Meng, 2024).

Post-Audit: Leveraging Audit Results

Departments across the enterprise are both the subjects of audits and the recipients of internal audit services. To maximize the impact of audit results, internal audit departments and audited entities should establish effective communication and feedback mechanisms. Open dialogue during the audit process fosters collaborative problem analysis, enabling auditors to offer more constructive insights.

Upon project completion, internal audit recommendations should guide audited departments in implementing corrective actions. Ensuring that corrective measures are executed strengthens the utility of audit findings. Audited departments must take audit results seriously, address identified issues diligently, and report progress back to the internal audit team. This feedback loop enhances internal management, optimizes business processes, improves operational efficiency, and contributes to the overall goal of enterprise value enhancement.

5. CONCLUSION

As competition in China's economic market intensifies, enterprises must address internal challenges to enhance their competitiveness. Internal auditing, as a critical component of corporate management systems, plays an increasingly vital role in business operations and has driven the evolution of auditing concepts. Enterprises must fully understand and adopt the value-added internal auditing model by strengthening organizational structures, improving regulatory frameworks, and optimizing operational mechanisms. This ensures that value-added internal auditing can penetrate all aspects of the corporate value chain, providing effective consulting services in areas such as internal control and risk management. By offering scientific and rational recommendations, it aids in improving corporate governance, optimizing business processes, reducing costs, increasing revenues, and enhancing risk prevention capabilities, thereby fostering value creation.

Value-added internal auditing, as a new auditing model aimed at enhancing enterprise value, represents not only the development and refinement of traditional internal auditing but also a necessary adaptation for enterprises to navigate complex operating environments and achieve strategic objectives. This study demonstrates that value-added internal auditing can effectively integrate with value chain theory, offering a holistic perspective to optimize resource allocation and improve operational efficiency and competitiveness. However, current practices face several challenges, requiring further theoretical and practical advancements.

From a theoretical perspective, research on value-added internal auditing must be expanded in both depth and scope. Value chain theory provides a robust foundation, extending auditing beyond financial and compliance dimensions to the core value-creation activities of enterprises. However, developing tailored value-added auditing frameworks for different types of enterprises, based on their unique value chain characteristics, remains a critical topic for both academia and industry. Furthermore, the pathways for deeply integrating value-added internal auditing with strategic management and risk management require additional exploration to clarify its specific roles and functions within corporate governance.

From an organizational perspective, a well-structured internal auditing framework is crucial for the successful implementation of value-added internal auditing. Many enterprises currently lack adequate independence and authority in their auditing functions, limiting its effectiveness. Therefore, enterprises should establish independent audit committees and a Chief Audit Executive (CAE) system, granting higher status and greater authority to internal auditing departments. Additionally, building a skilled audit team is essential, requiring enhanced training and incentives for professional auditors to develop the comprehensive competencies needed for value-added internal auditing.

From a methodology and technology perspective, leveraging information technology is pivotal to improving the efficiency and effectiveness of value-added internal auditing. Advances in big data and artificial intelligence offer new opportunities for methodological innovation, enabling auditors to quickly analyze large volumes of data, monitor potential risks in real-time, and improve the precision and scientific basis of audit judgments. Moving forward, enterprises should further integrate information technology with value-added internal auditing, develop intelligent auditing tools suited to diverse industries, and enhance auditors' proficiency in applying these technologies.

From a regulatory and mechanism perspective, a robust regulatory framework is the foundation of value-added internal auditing. Enterprises should establish systematic and scientific internal auditing regulations tailored to their operations and aligned with national laws and standards. A strict audit supervision and evaluation mechanism ensures compliance and effectiveness. Additionally, optimizing pre-audit, mid-audit, and post-audit processes is critical. Clear audit objectives, innovative methodologies, and effective utilization of audit results can enhance the overall impact of value-added internal auditing, aligning governance improvements with operational performance.

In summary, value-added internal auditing is an indispensable component of corporate governance systems. Its theoretical foundation, organizational framework, technological innovation, and regulatory framework provide the necessary support for its effective implementation. In the future, driven by global competition and digital transformation, value-added internal auditing will continue to play a vital role in enhancing enterprise value, optimizing resource allocation, and promoting sustainable development. Enterprises must deepen their understanding of value-added internal auditing, regard it as a critical tool for enhancing core competitiveness, and integrate it comprehensively into corporate governance to achieve high-quality development goals.

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