Research on Internal Audit Externalization Based on SWOT Analysis in Colleges and Universities

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Abstract. Nowadays, the system of university is increasingly reformed. The mode of management is in the process of escalating and the economic activity is increasing. Internal audit plays an increasingly important role, but there are some shortcomings and hidden danger in current internal audit of colleges and universities. This needs us to make research on the internal audit externalization to improve the quality of internal audit. This paper focuses on the SWOT analysis of internal audit externalization in colleges and universities. It will simply illustrate the strengths, weaknesses, opportunities and threats of the internal audit externalization and analyze every aspect. Finally, the author will provide some strategies in the internal audit externalization on weaknesses and threats, hoping it will have a certain guiding role in practice and better develop internal audit externalization.

Introduction

For a long time, the internal audit of China’s colleges and universities has focused on traditional audits such as financial audits and post-audits, but not too much on construction project audits and risk audits. But nowadays, with the continuous reform of the system of university, the increasing economic activities and the expansion of investment, the internal audit in universities achieves much more attention which plays a prominent role. The obsolete traditional audit can no longer keep pace with the trend of the times. Internal audit will gradually develop into the aspects of internal control, performance improvement, risk management and service. However, there are still many deficiencies in the internal audit of colleges and universities, such as insufficient auditors, lack of independence, weak professional knowledge, incomplete audit skills, imperfect professional equipment, etc. Therefore, it is very meaningful to externalize the internal audit in the development of universities.

The Present Situation and Problems of Internal Audit in Colleges and Universities

Few Professionals and Unreasonable Allocation

The internal audit department in colleges and universities is especially streamlined, with a serious shortage of staff. Many people simply have a knowledge of financial audit and may be unable to audit other complicated tasks. Moreover, there are scarce talents who have CPA and CIA certificates. In addition, due to the lack of attention to internal audit, internal auditors may not be eager to improve their professional skills, and the subsequent education will not keep pace with the update of professional knowledge.

Narrow Audit Scope and Backward Audit Methods

At present, colleges and universities focus on post-audits and regular audits, not involving much in pre-audits, mid-audits and special audits. However, with the expansion of college business and a large amount of investment, post-audits and regular audits cannot meet the needs of audit development. It is worth noting that many internal audit departments in colleges and universities do not purchase special audit software to help complete the audit work, and most of them employ manual audit which requires much time and effort with little effect.
Less Initiative and Independence of Internal Auditors

Many colleges and universities have not set up special internal audit departments. It is difficult for internal auditors to complete more and more audit tasks which are almost deployed by superiors. Internal auditors seldom take the initiative to audit to finish relevant works.

SWOT Analysis of Internal Audit Externalization in Colleges and Universities

SWOT Analysis and Application

SWOT Analysis is a self-assessment methodology based on the internal and external environment. It lists out major internal strengths, weaknesses, external opportunities and threats closely related to the research object through investigation and arranges them in matrix form, and then systematically analyzes various factors to draw a series of corresponding conclusions, which are usually decisive. Next, I will conduct SWOT analysis on the research of the externalization of internal audit in colleges and universities, and make specific statements after a simple table analysis.[1]

Table 1. SWOT Analysis of Internal Audit Externalization in Colleges and Universities.

|                  | Strengths(S)                                                                 | Weaknesses(W)                                                                 |
|------------------|-------------------------------------------------------------------------------|------------------------------------------------------------------------------|
| Internal analysis| 1. The independence and quality of internal audit have been improved.        | 1. There are possible risks of professional ethics.                          |
| External analysis| 2. It reduces some audit costs.                                                | 2. Asymmetric information reduces the efficiency of audit work.              |
|                  | 3. It optimizes the allocation of resources and pays more attention to core work. | 3. It leads to management dependence and passive internal audit institutions. |
|                  |                                                                                | 4. It is not conducive to personnel training and reduces economies of scale.  |
| Opportunities(O)| SO strategy                                                                    | WO strategy                                                                  |
|                  | 1. The development trend of internal audit professionalism                    | Grasp the external opportunities, highlight the advantages of internal audit externalization, and actively carry out the relevant service |
|                  | 2. The attention of the education department and university manager            | Make use of external opportunities, make up for internal disadvantages, and take into account the actual situation of colleges and universities to externalize internal audit |
|                  | 3. The requirements of colleges and universities                              |                                                                              |
| Threats(T)       | ST strategy                                                                    | WT strategy                                                                  |
|                  | 1. Market chaos                                                                | Take advantage of strengths to avoid, prevent or reduce the impacts of threats and carry out the service of internal audit externalization |
|                  | 2. Lack of formal laws and regulations                                          | Reduce internal weaknesses and avoid external threats and to strengthen the internal audit departments |

SWOT Analysis of Externalization of Internal Audit in Colleges and Universities

Strengths of Internal Audit Externalization

The Independence and Quality of Internal Audit Have Been Improved. Supervision is the
main purpose of setting up internal audit institutions in colleges and universities. However, due to
the intervention of managers, these institutions often cannot correctly evaluate their management
and operation level and development. They are also vulnerable to the influence of other
departments. Because of the subordinate relationship, there are sometimes conflicts of interests,
which weaken their independence. To a large extent, it can be avoided after internal audit
outsourcing, because there is no conflict of interest between the external audit institutions and
universities, and they will not be affected. It is only arranged by the clients and will not be easily
interfered by the managers. It is fairer and the audit results provided by external audit institutions
are more trustworthy.[2]

It Reduces Some Auditing Costs. The cost of internal audit generally consists of two parts,
including the salaries and benefits of internal auditors and the public funds for business activities.
Colleges and universities need to pay salaries, management fees, training fees and necessary
welfare fees for internal auditors. If the internal audit work is handed over to external auditors, on
the one hand, the cost of setting up internal audit institutions will be saved. In addition, when
internal audit is not required, salaries, wages and benefits can be exempted. On the other hand,
universities generally lack comprehensive auditing talents and professional auditing facilities. It is
necessary to externalize internal auditing, which can reduce part of the auditing cost.

It Optimizes the Allocation of Resources and Pays More Attention to Core Work. Certified
public accountants, as a social resource, can be used because they have a better knowledge structure,
richer experience and better professional skills. Meanwhile, school administrators can get some
advanced experiences and methods from external institutions to develop themselves by employing
other public resources. In addition, the externalization of internal audit relieves the pressure of
auditors to a certain extent, which enables them to put more energies into other core works.[3]

Weaknesses of Internal Audit Externalization

There are Possible Risks of Professional Ethics. There is no direct connection between the
final economic benefits of the clients and the outsourced auditors. So the external auditors may not
do their best in their work, and they may be inferior to internal auditors in the aspect of moral
qualities such as loyalty and sense of responsibility. To complete the contract may be the only one
goal for external auditors. They will not pay too much attention to the long-term progress and put
forward constructive suggestions to realize sustainable development of colleges and universities. If
audit risks outweigh profits, colleges and universities should prevent external audit institutions from
engaging in rent-seeking and collusion. When social audit institutions cannot be honest, if not found
in time, it will affect the audit results and even cause irreparable damage to the audit departments.
Therefore, it is necessary for the internal audit department to strictly supervise and manage social
audit institutions, so as to improve the audit quality and achieve the ultimate goal.

Asymmetric Information Reduces the Efficiency of Audit Work. Information asymmetry is
reflected in the following aspects. First of all, the staff of the external audit institution may not have
a deep understanding of the school management, operation and business because they do not stay
long in school. Secondly, the large turnover and the rapid development of colleges and universities
may make it difficult for them to grasp the trend from beginning to end. Finally, most of the
experienced external auditors have left school for a long time and are unfamiliar with the campus
culture. They will not have a strong sense of identity with it. Therefore, these problems may lead to
their inability to come up with constructive suggestions in line with the development of colleges
and universities. If the audit work is treated as routine work, the efficiency will be seriously
reduced.[4]

It Leads to Management Dependence and Passive Internal Audit Institutions. If there is a
wide range of audit outsourcing, internal audit departments of colleges and universities may rely
more on external audit institutions, which will result in their neglect of internal audit work. Internal
auditors should avoid this problem because it will weaken the functions of the internal audit
department, which is not conducive to the long-term development of colleges and universities, and
also make auditors more and more passive.
It is not Conducive to Personnel Training and Reduces Economies of Scale. After the externalization of internal audit, the pressure of internal auditors will be greatly reduced, but there are less opportunities for training and promotion. Internal auditors can contact other departments and have an overall understanding of colleges and universities. However, outsourcing the internal audit will reduce the auditors’ ability to grasp the overall situation, which is not conducive to the improvement of their professional skills. Moreover, with the continuous development of the external activities of internal audit, the cost will correspondingly increase. The cost of external audit institutions will exceed that of internal audit, even if the internal audit institutions are equipped with relevant equipment and professionals. Therefore, colleges and universities should improve their internal audit departments, train their own professionals, and strive to improve scale benefits.

Opportunities of Internal Audit Externalization

Development Trend of Internal Audit Professionalism

After the amendment of the International Standards for the Professional Practice of Internal Auditing (ISPPIA) in 2001, Institute of Internal Auditors (IIA) has amended and issued some other announcements. In January 2009, a new edition of the International Professional Practices Framework (IPPF) was issued, with subsequent improvements. It provides a legal basis for judging the activities and results of internal audit. Besides, IIA implies that the audit subject could be an “external person”, which indicates that the internal audit can be externalized. IIA also puts forward requirements for external audit institutions in internal audit in terms of independence and competence.

Attention of Education Department and University Manager

In recent years, our country has attached more importance to the construction of a clean and honest administration in colleges and universities. The managers have also realized the audit function and emphasized on the externalization of internal audit. On the one hand, it can improve the independence of internal audit, the quality of audit work, optimize the allocation of social resources, and strengthen the management of colleges and universities. On the other hand, the education department is more inclined to the reports from external audit institutions. All these have promoted the development of externalization of internal audit.

Requirements of Colleges and Universities

With the development of the times, colleges and universities are committed to expanding their scale and increasing funds to achieve advancement. In this process, the activities and businesses have become more complicated, which puts forward higher requirements for internal audit. The traditional internal audit can no longer meet the needs of the development of schools. The externalization of internal audit has come into being in order to improve the efficiency of audit and enhance risk management. It is not only in line with the trend of diversification of investment and school-running forms, but also gives practical suggestions for the sustainable development of colleges and universities.[5]

There are much periodic needs that the internal audit department cannot fully meet. For example, when schools start to carry out infrastructure construction, it needs a number of audits, including the audit of project budget and final accounts, the audit of bidding, the audit of facility procurement, the audit of scale benefits, etc. However, these audits are periodic and the related demand decreases after a project is completed. If more auditors are recruited and trained and professional facilities are provided, the cost will be greatly increased. So external audit institutions can be introduced to solve this problem to meet these periodic audit needs.
Threats of Internal Audit Externalization

Market Chaos

In China, the externalization of internal audit has not got further development. Most audit work are done by accounting firms and consulting companies, which sometimes conduct malicious low-price competition for business volume. However, the decrease in price will inevitably affect the quality of audit services. Some external institutions only pursue interests and do not devote themselves to improving their auditing skills and methods. It has caused chaos in the market of externalization of internal audit.

Lack of Formal Laws and Regulations

In order to standardize the externalization of internal audit, IIA revised ISPPIA in 2001, issued a new edition of IPPF in 2009 and revised it in 2012. In addition, there are no formal laws and regulations on the personnel of internal audit externalization, which has a certain impact on the quality and supervision of internal audit externalization services.

Strategy of Internal Audit Externalization Based on SWOT Analysis

Reasonable Use of Internal Audit Externalization

In order to meet the practical requirements and promote the long-term development of colleges and universities, it is necessary to seize the opportunity to give full play to the advantages of the externalization of internal audit, and reasonably use the externalization of internal audit.

Use of High-quality External Resources

In terms of the cost-benefit principle, it is more cost-effective for colleges and universities to introduce external audit institutions than to equip themselves with professional equipment and talents. Internal auditors face more difficulties and their professional skills may not be able to meet the needs of auditing in areas where the audit is seldom carried out, areas where auditing advantages are not obvious, and areas with special expertise. However, it can provide more professional and high-quality services through the internal audit externalization, because the external auditors are highly experienced with a relatively perfect knowledge system. Therefore, it is more conducive to the school management to choose the externalization of internal audit and the audit quality can also be ensured.

Win-Win Cooperation

When externalizing internal audit, internal and external auditors can achieve win-win cooperation. On the one hand, internal auditors can learn from the external auditors for the practical experience to improve themselves. On the other hand, external auditors relieve stress and ease their workload. Besides, the participation of internal auditors reduces the dependence on external audit institutions, and at the same time, they are more familiar with the school, which can lay a solid foundation for the audit department. Their cooperation can improve the efficiency and effect of auditing, meet the requirements of strengthening management and improving the efficiency of capital use, and thus realize better development of colleges and universities.

Weaknesses Compensation, Threats Avoidance and Rational Choice

Simply externalizing internal audit cannot solve all the existing problems or maximize the function of internal audit, which requires us to rationally choose the externalization of internal audit.

Formulation of Relevant Laws and Regulations and Improvement of Legal System

China has not yet formulated formal laws and regulations for the service personnel of internal audit externalization, so the legal system is not perfect. The government is expected to formulate relevant laws and regulations as soon as possible. Universities are also supposed to supervise and manage the externalization of internal audit to ensure the quality of internal audit results.
Prevention in Advance, Control in Process and Supervision Afterwards

The following aspects should be considered when colleges and universities carry out the externalization of internal audit. First of all, it is necessary to determine whether the introduction of external audit is feasible and whether the goal of improving audit quality can be achieved. Secondly, it ought to decide in which areas to carry out the externalization of internal audit and make a good budget in line with the cost-benefit principle. Thirdly, colleges and universities should arrange people to communicate with external audit institutions, clarify audit requirements and objectives, and supervise and manage the entire audit process. They should sign a contract with external audit institutions and make an agreement in advance to clarify the division of responsibilities and the expected audit effect. Finally, they are supposed to evaluate the results of the audit work, accumulate enough experience for the establishment of their own internal audit institutions, and also examine the audit results of external audit institutions to see whether the goal of sustainable development of colleges and universities is achieved.[8]

Dependence Rejection and Selective Externalization

To avoid excessive dependence on external audit institutions, colleges and universities should take cost-benefits into consideration and select different audit methods to achieve the goals. On the one hand, we need to pay attention to training our own internal auditors and improve their professional skills. On the other hand, we must make full use of external high-quality resources and public resources to save costs. It is not necessary for all projects to carry out internal audit externalization, and sometimes it can take periodic externalization.

To sum up, colleges and universities should selectively externalize internal audit according to their actual needs. First of all, it is necessary to optimize the allocation of audit resources and take advantage of the knowledge and experience of external auditors. Secondly, internal and external auditors should work together to learn from each other in the audit process and put forward constructive suggestions to realize the sustainable development of schools. Finally, colleges and universities should manage and supervise the services provided by external audit institutions and examine the quality of audit results. In the process of development, they should timely discover and solve problems, improve the system of internal audit institutions, and eventually realize the minimization of costs and the maximization of benefits.

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