Exploration of Risk Oriented Fund Performance Audit—Take Rural Endowment Insurance as an Example

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1. INTRODUCTION

The performance of rural endowment insurance fund is the core goal of the establishment of rural endowment insurance, and also the key to its sustainable development. With the increasingly serious aging of China’s population, there are more and more participants in rural endowment insurance. Audit is an important channel to ensure the performance of rural endowment insurance fund. Starting in the 1980s, our government is exploratory created the system of rural endowment insurance, the notice a full audit, audit in 2015 but our country rural endowment insurance fund audit supervision time is very short, covering wide social group, its policies and complicated content, means and methods, combined with the current audit result in relative to the general audit of rural endowment insurance fund and finds that the audit demand degree is not enough. This paper proposes to integrate risk orientation into performance audit and adopt different audit methods and evaluation systems to improve audit efficiency and reduce costs by dividing risk levels and optimizing performance audit.

Dubnick [1] mentioned in his paper that public fiduciary responsibility should be the sum of various methods adopted to manage the expectations of the principal and achieve the organizational goals. The application effect and function of these methods will constantly change due to the position of the principal. Behn Robert [2] proposed that the theoretical framework gradually converges, and it should emphasize the comprehensive evaluation of public expenditure at various stages before, during and after the event. Li [3] proposed to carry out comprehensive audit and innovate audit methods and means. Qiu [4] proposed that the minimum pension benefits may not be able to maintain the minimum living standards of the masses, and the adjustment of benefits performance audit needs to be paid attention to. Lv [5] proposed to pay attention to the value added and maintenance of pension fund and improve the fund performance audit system. Tan [6] proposed that China’s pension fund audit should carry out performance audit, and converge with the world. Wang [7] mentioned the existence of government performance audit risk, and risk-oriented government performance audit has become an irresistible trend. Chinese scholars have begun to actively explore the performance audit of Chinese rural pension fund. In addition, some scholars have proposed to apply wind direction to policy performance audit, but few scholars have studied new audit methods and ideas for rural pension fund performance audit. Actively carrying out rural pension fund performance audit is a necessary measure to ensure reasonable, compliant and efficient use of the fund, an important way to explore and innovate the national audit function, and the only way to ensure the healthy operation of social economy. We should actively explore new ideas of performance audit optimization. Nowadays risk-oriented audit has been widely used in social audit, and its application in national policy should arouse our attention and thinking. Introducing risk orientation into performance audit will be a new idea and breakthrough of fund performance audit in China.

2. STATUS QUO OF PERFORMANCE AUDIT OF RURAL ENDOWMENT INSURANCE FUND

2.1. The Social Demand is Too Low

In the Guidance Opinion on the Audit Operations of Local Audit Institutions in 2015 issued by the Audit Office, it is mentioned that the National Unified Organization will do a good job in the audit of pension funds from August to October 2015 to find out the fund raising, management, use, value-added and preservation.
The public generally do not understand the performance audit of the rural endowment insurance fund. The insufficient publicity of the performance of the endowment insurance fund results in insufficient social demand for the audit of the endowment insurance and low public attention. The overall social performance of rural endowment insurance fund performance ignored. Public fiduciary economic responsibility refers to the obligation to manage fiduciary economic resources and report their operating conditions in accordance with specific requirements or principles. According to the theory of public trust economic responsibility, the neglect of the performance of pension fund by the public will result in the neglect of the performance audit of pension fund by the state to a great extent, which will lead to the stagnation of the performance audit of pension fund in China.

2.2. The Focus of Auditing Deviates from the Target

The author thinks that the audit of rural pension fund should pay attention to the performance audit of pension fund. Endowment insurance fund performance audit is refers to the special audit institutions and auditors accept authorized or entrusted, in accordance with the relevant laws and regulations, using special audit method, for the auditees configuration, management and utilization of resources of economy, efficiency and effect audit, supervision, evaluation and verification activities, its purpose is to improve the rural old-age insurance fund management, increasing the service efficiency of funds.

However, in the current pension fund management, the value-added function of rural pension fund is weakened. As a result, the main focus of pension fund audit is to review the empty account of rural pension fund. At present, the clear direction of fund performance audit is only to audit the appreciation and preservation of the remaining funds, and the results of fund management audit are mainly reflected by the rate of return on fund investment. The audit direction is too single; the audit result is also relatively one-sided. The performance audit of rural pension fund requires the economy, efficiency and effectiveness of the fund. It is not enough to audit the fund performance of rural endowment insurance only by auditing the appreciation and preservation of the surplus fund of rural endowment insurance.

2.3. Audit Cost is Too High

At present, our rural old-age insurance audit focuses mainly on the issue of empty accounts of individual accounts. According to statistics, the empty accounts of rural old-age insurance in China in 2016 reached 360 million yuan. The so-called “empty account” refers to the fact that in the actual implementation of the system, because no one bears the transformation cost from the pay-as-you-go system to the part accumulation system, the individual account payment has to be used to protect the current pension payment, thus forming a “empty account” affecting the sustainable development of the pension, reducing the rural pension insurance credibility.

Because of the wide coverage of rural endowment insurance, the problem of personal empty account makes the rural endowment insurance fund which should be used to realize value-added is used to issue rural endowment insurance. In order to carry out a comprehensive audit of the legitimacy, rationality, compliance, economy, efficiency and effectiveness of the endowment insurance fund, the large-scale existence of individual empty accounts raises the audit risk of the performance audit of the rural endowment insurance fund on the one hand, and on the other hand increases the audit cost of the performance audit of the rural endowment insurance fund.

3. ANALYSIS OF CAUSES FOR PERFORMANCE AUDIT OF RURAL ENDOWMENT INSURANCE FUND

Because the performance audit of rural endowment insurance fund in China is still in the process of continuous exploration, there are many problems such as: there is no special method of performance audit of endowment insurance fund; it is difficult to obtain evidence; the focus of performance audit is not comprehensive enough; the problems of internal control of endowment insurance fund; the performance audit of endowment insurance fund. The evaluation system is not perfect enough. But we can not only wait for the maturity of the policy and the institutionalization of the management to promote the development of the rural endowment insurance, nor can we expect the comprehensive audit of the rural endowment insurance with increasing investment. We must start from the performance audit of the endowment insurance fund and look for the audit of the rural endowment insurance itself to be able to do so. In order to promote the development of the performance audit of China’s rural endowment insurance fund, we should change the passive measures to take the initiative.

3.1. Audit Work Less Attention

3.1.1. The government department lack of understanding

The rural endowment insurance fund is a fund specially set up by the government to improve the living conditions of the elderly through the rural endowment insurance and provide them with a stable and reliable source of livelihood. Although the provisional regulations on the collection and payment of social insurance premiums issued by the state council in 1999 stipulates in article 22, “auditing departments shall supervise the income and expenditure of social insurance funds according to law.” However, China’s pension fund performance audit started very late, is still in the exploratory stage. At present, most of the rural pension fund audit in China is still at the traditional financial audit level. Departments of the government ignored the performance audit of endowment insurance fund and endowment insurance fund performance audit of endowment insurance fund profitability important influence, at present our country’s endowment insurance fund performance audit has no legal basis, performance audit of endowment insurance fund is the basis of the theory research and practice is weak, cause the endowment insurance fund performance audit in conducting many blame mistakes and not willing to cooperate with related department. It is difficult to carry out the rural pension fund performance audit.
3.1.2. Public neglect

According to the data survey, in rural areas, the respondents are over 35 years old, mainly between 45 and 64 years old. Nearly half of the respondents have an annual income of less than 1000 yuan, and most of the rest are between 1000 and 2000 yuan. Through the investigation, it is found that 99% of the insured people do not understand the pension fund audit, do not know audit is an important means to supervise the security of pension insurance. However, the public generally do not understand the performance audit of rural pension fund, and the insufficient publicity and popularization of the performance audit of pension fund leads to the insufficient social demand for the audit of pension insurance and the low public attention. The whole society has ignored the performance audit of rural pension fund.

The public neglect of pension fund performance can not produce the demand to promote the development of pension fund performance audit in China. For the public, the days when managers of government-owned pension funds merely maintained their value are over. The performance of people’s livelihood fund has become the focus of all guarantee objects in the 21st century. If the government can pay attention to and consider the fund performance, we can reasonably adopt different audit methods and develop effective system and evaluation system for the pension fund performance. And the comprehensive coverage of audit has put forward new requirements for fund performance audit. If the fund performance management cannot be fundamentally valued, the comprehensive audit of people’s livelihood security and other aspects cannot fundamentally achieve its audit objectives.

3.2. The Elements of Performance Audit are not Mature

3.2.1. Auditing methods are relatively backward

Because each process design link of rural endowment insurance fund is very complex, the transmission and summary of information needs to be done through the digital equipment, to a great extent, restricts the traditional auditing technique method, method of obtaining audit evidence is still in the original manual audit method, raises the fund audit evidence collection difficulty, at the same time in the process of performance audit, many problems can only qualitative analysis, a variety of reasons, led to the current our country performance audit can not meet the requirements of deeper, these problems will increase the audit of the audit risk of rural endowment insurance, weaken the depth and effectiveness of performance audit, It cannot reach the expected audit target of rural endowment insurance.

3.2.2. Poor personnel ability

The neglect of the rural pension fund performance audit by the audit department largely limits the professional ability of the auditors. At present, most of the auditors in our country are accounting personnel and the awareness of audit professional ability is not enough. China’s current pension fund performance audit is very immature. In the absence of policy enforcement, the state lacks awareness cultivation and ability improvement of fund performance audit in the training of auditors. When carrying out the performance audit of rural pension fund, auditors are reluctant but unable to achieve the purpose of the performance audit of pension fund.

3.2.3. The fund performance audit evaluation system is not mature

Our country does not have the present rural endowment insurance fund performance audit evaluation system the fund performance audit development lacks the guidance document. The scientific and standard pension fund performance audit evaluation system is an important basis for the orderly development of pension fund performance audit in China. The lack of audit evaluation system seriously weakens the authority and credibility of China’s fund performance audit, leading to a large discount of fund performance audit results.

So far, China’s official only issued three sets of the performance evaluation index system, in 1995 “the ministry of finance issued the economic benefit evaluation index system for enterprises”, 1999 joint state economic and trade committee issued “enterprise performance evaluation system”, issued by the state council in 2004 the local government performance evaluation index system of the first two of endowment insurance fund performance audit basic does not have the reference value; The index system of local government performance evaluation mainly evaluates the work performance of local governments and has very limited guiding significance for the performance audit of rural pension fund. Therefore, it is urgent to establish an evaluation system of rural pension fund performance audit in China.

Analyzing the three aspects from another aspect, we can all attribute them to the neglect of risk. If risks are not taken seriously and considered, we can reasonably adopt different audit methods and have a more appropriate evaluation index system for the changes of risks. Risk is a problem that pension fund performance audit must pay attention to and think about.

4. BASED ON FUND PERFORMANCE AUDIT OF PUBLIC ENTRUSTED ECONOMIC RESPONSIBILITY APPRAISAL

Public entrusted economic responsibility mainly aimed at the public resources, and the government accepts the commission of the people, to exercise various functions and powers, in entrusted with the responsibility of public relations, as the government has the absolute advantage of the trustee, and as the principal of the social public in a disadvantage position, this kind of information asymmetry can lead to moral hazard and adverse selection. Auditing, as a professional and independent third-party organization, can externally supervise the performance of the government’s public fiduciary responsibility, minimize agency risks and guarantee the fund performance of citizens.

Based on the analysis of public entrusted economic responsibility, rural endowment insurance fund is the public special fund that the insurance management department raises from individuals and
their units according to law. Its owner is all the insured personnel, and its management is the government’s relevant social insurance agency. In the management of rural endowment insurance, the ownership and management rights of rural endowment insurance have been separated, resulting in agency risk. At the same time, in the management and investment process of fund, rural endowment insurance has generated secondary agency risk, and its own risk is greater. According to the audit risk = material misstatement risk * inspection risk the audit risk of the pension fund will continue to expand with the increase of the risk of the pension fund itself. With the increasing development of rural endowment insurance, the public’s attention on the performance of rural endowment insurance is gradually increasing. Once problems arise in the performance audit of pension fund, serious social effects will be caused, affecting the government’s credibility and the sustainable development of pension policy.

From the perspective of public fiduciary responsibility, we can conclude that the problems in pension fund audit can be attributed to the neglect of pension fund performance. At the 19th national congress of the Communist Party of China (CPC), it was proposed to “establish a comprehensive, standardized and transparent budget system with scientific standards and strong constraints, and fully implement performance management”. For the public, the days when managers of government-owned pension funds merely maintained their value are over. The performance of people’s livelihood fund has become the focus of all guarantee objects in the 21st century. If the government can pay attention to and consider the fund performance, we can reasonably adopt different audit methods and develop effective system and evaluation system for the pension fund performance. And the comprehensive coverage of audit has put forward new requirements for fund performance audit. If the fund performance management cannot be fundamentally valued, the comprehensive audit of people’s livelihood security and other aspects cannot fundamentally achieve its audit objectives.

5. PERFORMANCE AUDIT OF RURAL ENDOOMENT INSURANCE FUND BASED ON RISK ORIENTATION

5.1. Risk Oriented Audit Approach

Risk oriented auditing refers to the audit conducted by Certified Practising Accountant (CPA) based on the audit risk model. We should guide the risk assessment of major misstatements and the whole audit process with the concept of strategy and system. It is a kind of audit mode based on the risk assessment of the auditees, comprehensively analyzing the factors that affect the economic activities of the auditees, and determining the scope and focus of implementation according to the quantified risk level, so as to conduct substantive review (Professor Chunyuan Hu, “Risk-Oriented Auditing”).

The author believes that risk-oriented audit will control risks and inherent risks after considering the major misstatement risk, through the analysis of the environment, strategy, management and other factors, the formulation of the audit plan is more suitable for different circumstances of the audit business. Compared with other audit models, wind-guided audit only needs to perform limited substantive testing according to audit plan to reduce audit risk. At the same time, it is emphasized that no matter the size of audit risk, we must conduct substantive tests on important trading activities. When it is found that there is a misreporting risk in a transaction, it can also timely adjust the audit direction, improve the audit efficiency and save the audit cost; risk-oriented audit has a strong applicability, it can be matched with other audit modes, as the risk-oriented rural pension fund performance audit proposed in this paper, on it is the combination of risk-oriented audit and performance audit to audit and supervise the rural endowment insurance fund.

5.2. Risk Oriented Fund Performance Audit

In the performance audit of rural endowment insurance fund, the audit risk mainly comes from the major misrepresentation risk in the use of rural endowment insurance fund. The core idea of risk-oriented audit is to reduce the risk of rural endowment insurance fund in economic, effective and effective audit [8]. Through risk-oriented auditing, we can control the risk of major misstatement in the performance audit of pension fund. We should make a detailed investigation and careful examination of some economic activities that have been assessed to be more risky, so as to reduce the risks that may arise in the performance audit of rural endowment insurance funds.

5.2.1. Risk assessment

Public entrusted economic responsibility mainly aims at public resources. The government accepts the people’s entrustment and exercises various functions and powers. In the relationship of public entrusted responsibility, the government as the trustee has absolute advantages, while the public as the trustee is in a disadvantaged position. This information asymmetry may lead to moral hazard and reverse choice. As a professional and independent third party organization, auditing can supervise information from outside and reduce agency risk as much as possible.

Rural endowment insurance fund based on public trusted economic responsibility is a special public fund raised by insurance management departments from individuals and their units according to law. The owner of the fund is all the insured persons, and the managers are government-related social insurance agencies. In the management of rural endowment insurance, the ownership and management rights of rural endowment insurance have been separated, which has resulted in agency risk. At the same time, in the process of fund management and investment, rural endowment insurance has produced secondary agency risk, and its own risk is even greater. According to audit risk = major misstatement risk * risk checking.

The audit risk of endowment insurance fund will continue to expand with the increasing risk of pension fund itself. With the development of rural endowment insurance, the public’s attention to the performance of rural endowment insurance has gradually increased. Once the performance audit of endowment insurance fund has problems, it will cause serious social effects and affect the credibility of the government and the sustainable development of endowment policy.

The author believes that risk-oriented audit should be introduced, and the performance audit should be carried out after the risk
assessment of the whole by the relevant auditors before the performance audit of rural endowment insurance. Risk levels are classified according to the degree of risk: Level 1 risk (slightly risky), Level 2 risk (general risk), and Level 3 risk (serious risk).

5.2.2. Update audit method

Cost-benefit theory refers to that under the condition of unbalanced supply and demand, a project is feasible only if the benefit is greater than the cost, and through comparative analysis can find the best way to obtain the maximum benefit with the minimum cost. It is not difficult to find that the performance audit of rural endowment insurance funds in China is blindness after the comprehensive audit, because it involves a wide range of economic activities in the audit process, generally high audit costs, not in line with the principle of cost-effectiveness. Risk-oriented audit is introduced into performance audit, and different audit methods are adopted for different risks through risk assessment, so as to reduce the cost of performance audit of pension funds, rationally allocate audit resources, and optimize audit methods to maximize audit benefits.

Level 1 risks: mainly using sampling method, rural pension fund audited more units, and the data is more complex, auditors can not be checked one by one, should be less risk fund activities reasonable use of sampling audit. Its main purpose is to audit the efficiency of funds.

Level 2 risks: mainly financial audit, supplemented by performance audit. In order to ensure the authenticity, legality and compliance of the fund sources, the economic, efficient and effective use of the fund can be guaranteed by the forward or backward investigation method.

Level 3 risks: financial audit, performance audit at the same time. Two-way audit, on the one hand, from the collection of funds, accounts of the fund details to the specific use of the fund for positive inspection, review of the current account details, should adopt the method of field investigation, and actively look for external evidence. On the other hand, tracking method can be actively used to ensure the authenticity and reliability of the audit from the audit process of the inversion of fund accounts. In the process of audit, we actively adopt advanced audit methods such as computer audit, cloud audit and other new ideas. At the same time, we use factor analysis method to conduct a comprehensive and detailed audit of the three-level risk assessment results of the project. To ensure the rationality, legitimacy, economy, efficiency and effectiveness of the rural endowment insurance fund audit.

5.2.3. Improved evaluation system

The new public management theory advocates that the government should adopt the advanced management methods and competition mechanism which absorb the private sector. The government departments should establish the “effect-oriented government” and pay close attention to the efficiency of public management activities. At the same time, the establishment of “measurable performance indicators” public management theory to a large extent supports the performance audit of rural endowment insurance funds, but also puts forward requirements for the performance audit of rural endowment insurance, its audit system to be assessable, which is the current performance audit of rural endowment insurance funds has not yet achieved the goal [9].

The introduction of risk-oriented thinking can improve the performance audit evaluation system of pension funds to a certain extent. In the measurement system, it is more effective to use different evaluation index system to evaluate the audit risk according to the classification of risk and different audit risk [10]. The evaluation system of the performance audit of the pension fund should be considered comprehensively by combining qualitative analysis with quantitative analysis.

Economic evaluation indicators: (a) fund management costs: fund management costs, operating supervision costs can also be measured by their ratio to the total social insurance funds; (b) the total weight of pension expenditure in GDP = current pension insurance fiscal expenditure/current GDP 3 pension insurance expenditure in the proportion of fiscal expenditure = current pension insurance Risk expenditure/current fiscal expenditure [11].

Efficiency evaluation indicators: (a) pension fund investment rate of return = current pension fund investment income/current pension fund total; (b) pension fund investment loss rate = current pension fund investment loss/current pension fund total; (c) pension insurance expenditure benefit = pension insurance.

Effective evaluation indicators: (a) actual levy rate = actual levy rate of endowment insurance fund/plan levy of endowment insurance fund * 100%, if the levy rate is greater than 100%, it shows that the fund over levy; (b) actual payment rate of endowment insurance expense = actual payment of endowment insurance expense/plan payment of endowment insurance expense; (c) rural endowment insurance base. The rate of gold collection = the actual receipts of the current rural endowment insurance fund/the current age pension fund receivables [11].

Level 1 risks is mainly the effectiveness audit. The final results of the rural endowment insurance fund performance audit, the use of quantitative analysis of the fund in the process of investment financial efficiency indicators are calculated and combined with qualitative analysis of the social and economic effects of its evaluation, in order to determine the rural endowment insurance fund management investment objectives to achieve the pros and cons.

Level 2 risks is on the basis of the authenticity and legality of the endowment insurance fund itself, the economic and efficient audit of the fund activities with level 2 risk is emphasized. This paper investigates the rationality and economy of the anticipated investment of the second-level venture project fund and the efficiency audit of each link in the fund turnover process. Using quantitative analysis to compare the expected investment and expected income, actual investment and actual income of pension fund, the paper focuses on the value-added and preservation of the fund. Combined with qualitative analysis, this paper analyzes whether the relevant management and internal control system of the audit of rural endowment insurance fund is effective in operation. Through the above analysis to determine whether the pre-management and operation of the rural endowment insurance fund meets the requirements of the national rural endowment insurance fund management, in order to promote the management efficiency of the endowment insurance fund.
Level 3 risks is for the major risk fund events resulting from the risk assessment results, financial audit and performance audit should be combined with the economic nature of the fund, efficiency and effectiveness. Qualitative analysis and quantitative analysis are flexibly used to conduct comprehensive audit of the pension fund from the collection of the pension fund to the management of the fund and then to the value-added and preservation of the fund.

6. SUMMARY

China’s rural endowment insurance fund is the ginseng and guarantee the material conditions of self-interest, rural endowment insurance fund itself span length, the amount of funds is differ, but the sum is very large, the range is wide, whether the rural endowment insurance fund management, affects the social stability and economic development of our country, to our country’s modernization construction, comprehensive sustainable development has important significance. Rural pension insurance audit is the most important goal. We must pay attention to the pension fund performance audit and actively explore the new vision and new methods of pension fund performance audit. On the one hand, introducing risk-oriented audit into fund performance audit will improve the efficiency and audit quality of current fund performance audit; on the other hand, audit cost can be reduced through more reasonable allocation of audit resources relying on risk-oriented audit. Meanwhile, the most important role of risk-oriented audit is to reduce the risk of rural pension fund performance audit. This will become a new idea of fund performance audit optimization in China.

Since the risk-oriented audit focuses on the audit of major risk projects, it pays little attention to the rural endowment insurance fund projects with little risk and ignores the problems and potential risks it may cause. Pension insurance fund performance audit may not meet the expected requirements; Meanwhile, China’s pension fund performance audit is in the exploration stage, and risk-oriented rural pension fund performance audit is a new idea about performance audit; its specific application needs to be further verified and practiced by other scholars.

CONFLICTS OF INTEREST

The authors declare they have no conflicts of interest.

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