ISSN: 2688-9323

Internal Audit Supports the High-quality Development of Public Funds: Policy Logic and Practical Pathways

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Abstract

Building a high-quality development pattern for the capital market is an important initiative in achieving the transformation of China's financial system environment. Internal audit plays a crucial role in the high-quality development of the public fund industry. Through "penetrative" auditing, issues in fund flows can be effectively uncovered, ensuring compliant fund operations, promoting collaboration with social capital, and supporting the implementation of national strategies. This auditing approach not only helps safeguard the security and appreciation of state-owned assets but also enhances the management efficiency and transparency of funds. Based on the current development status of the public fund industry, this paper analyzes the significant role of internal audit in synergistically controlling risks and fostering corporate growth, and further proposes practical pathways for internal audit to facilitate the high-quality development of public funds. The article suggests that adopting technology-driven support and entrusted management methods can significantly improve the comprehensive management of public funds, promote high-quality development in the industry, and enhance its competitiveness in the global capital market.

Keywords

Internal Audit; Public Funds; High-quality Development Policy Logic Practical Pathways.

1. Introduction

1.1. The Supporting Role of the Financial System in Economic Development

The financial system is the core pillar of a modern economy. As a key component of the financial system, the capital market drives the efficient functioning of the socio-economy through mechanisms such as resource allocation, risk management, and capital formation. Public funds, as fundamental instruments of the capital market, not only play a vital role in optimizing resource allocation but also provide small and medium investors with convenient access to the capital market. In recent years, with the acceleration of globalization and technological progress, profound changes have taken place in the capital market, and investor demand for financial products has become increasingly diversified. At the same time, China's economy is transitioning from high-speed growth to high-quality development, which places higher demands on the financial system. The capital market must play a greater role in supporting the real economy, improving resource allocation efficiency, and optimizing the investment environment. As a critical link between the capital market and investors, the development quality of public funds directly impacts the overall health of the capital market.

1.2. New Challenges in the Development of the Public Fund Industry

In China, the public fund industry has experienced rapid development over the past two decades, evolving from simple investment products in its early stages to a modern fund system with complex structures and diverse products. However, this process has also exposed certain issues, such as increasing investment risks, inefficiencies in asset allocation, and imperfect

ISSN: 2688-9323

internal management systems. These problems are not only inevitable in the industry's development but also key challenges that urgently need to be addressed.Moreover, changes in the international capital market pose additional challenges to China's public fund industry. For example, the U.S. fund management industry has established a mature internal audit system capable of using big data technology to monitor asset flows and risk conditions in real time, while China's public fund industry is still in its early stages in terms of technology application and risk management methods.

1.3. The Importance of Internal Audit Reform

Internal audit is not only a core element of corporate governance but also a necessary supplement to external regulation. By establishing a comprehensive and efficient internal audit system, issues in risk management and asset allocation can be effectively addressed, thereby enhancing the transparency and trustworthiness of the public fund industry.

As the immune system of an organization, internal audit goes beyond merely identifying and correcting problems; it also embodies service-oriented and predictive functions. Through internal audit, issues in management operations can be promptly detected and corrected, early warnings can be issued, and while fulfilling supervisory responsibilities, a stronger service mindset can be cultivated. By conducting in-depth analysis, scientifically evaluating situations, predicting development trends,and offering decision-making recommendations, internal audit can provide valuable insights.

Furthermore, as an internal functional department, the internal audit body is highly familiar with the company's production and operational activities. Therefore, implementing internal audit can actively contribute to improving management, unlocking potential, reducing production costs, and enhancing economic efficiency. There is a need to adapt to new circumstances and reform traditional audit models to leverage the service functions of internal audit. As a critical supervisory component in corporate operations and management, internal audit must fully utilize its service, evaluation, and attestation functions to promote operational efficiency. This paper will focus on analyzing the important role of internal audit in the high-quality development of public funds and propose practical reform pathways.

2. The Theoretical Logic of High-quality Development of Public Funds

2.1. The Historical Evolution of Corporate Auditing

The internal audit function and practices of public funds have undergone long-term development and transformation. From a global perspective, the development of corporate auditing can be traced back to the early 20th century, when audits initially focused on financial compliance checks to ensure the accuracy and legality of corporate financial data. With the expansion of capital markets, the scope of corporate auditing gradually broadened to include operational management, risk control, and the evaluation of investment decision-making scientificity.

In China, the auditing work in the public fund industry began in the 1990s. Initially, the internal audit function was relatively simple, primarily concerned with financial compliance and basic asset management efficiency. However, as the market scale expanded and the industry structure grew more complex, the content and objectives of internal audits progressively evolved toward comprehensiveness and scientificity. For example, through risk analysis of investment portfolios, compliance supervision of trading behaviors, and transparency reviews of decision-making processes, internal auditing has played a significant role in enhancing the competitiveness of fund management companies.

ISSN: 2688-9323

2.2. Shortcomings in the Internal Auditing of Public Funds

Despite some progress in internal auditing within the public fund industry, the following shortcomings remain:

2.2.1. Inadequate Audit Coverage

Most fund companies' internal audits primarily focus on the authenticity of financial reports and basic compliance checks, paying insufficient attention to the scientificity of investment portfolios and the comprehensiveness of risk management. This limitation may prevent potential issues from being detected early, increasing the cost of remedial measures.

2.2.2. Relatively Lagging Technological Methods

The application of artificial intelligence and big data technologies has yet to become widespread. Most audit work still relies on traditional manual checks, reducing the ability to analyze complex transaction structure and large-scale data. This limits and hinders development to some extent, resulting in ineffective resource utilization and integration.

2.2.3. Systemic Improvement Needed in Audit Systems

Many fund companies' audit systems have yet to establish systematic process management models, leading to a lack of coherence and pertinence in audit work. For instance, audits of investment decisions and risk control are often fragmented, failing to form a complete closed-loop management system.

2.2.4. Insufficient Talent Development

Although the complexity and Professionalism of audit work continue to rise, the current talent pool in the industry remains weak, particularly in terms of international horizon and interdisciplinary capabilities, leaving significant room for improvement.

2.3. The Application of Technology Support and Trusteeship-Style Management

To address the above shortcomings, this paper proposes combining technology-supported and trusteeship-style management approaches for internal auditing. Specifically:

2.3.1. Technology Support

Technology-supported management refers to the use of technological means to support and promote fund investment activities, including leveraging big data analytics, artificial intelligence, and other technologies to optimize investment portfolio selection and management strategies. Big data analytics can enable real-time monitoring of investment portfolio performance, quickly identifying potential risks, while blockchain technology can ensure the immutability of transaction records, enhancing the transparency of information disclosure. Additionally, through deep learning and machine learning technologies, funds can more accurately predict market trends, thereby making more effective investment decisions. Furthermore, technology-supported management may involve the use of blockchain technology to improve the transparency and security of transactions.

2.3.2. Trusteeship-Style Management

Trusteeship-style management is an audit philosophy centered on collaboration and trusteeship, typically involving fund raising, investment direction, profit distribution, and risk control. It introduces external resources and multi-party collaboration, such as inviting independent third-party audit institutions to participate in audit work or establishing information-sharing mechanisms with external regulatory bodies to form a comprehensive oversight system. For example, private equity funds are at typical example of trusteeship-style management, where they raise capital for investments and develop detailed prospectuses outlining the fund's raising, investment direction, profit distribution, and risk control.

ISSN: 2688-9323

3. The Policy Logic of High-Quality Development of Public Funds

3.1. The Positive Role of Policy Guidance

The Chinese government has continuously introduced innovative policies to promote the healthy development of the capital market. For example, the Several Opinions on Accelerating the High-Quality Development of the Public Fund Industry emphasized strengthening risk management and internal controls while enhancing industry transparency and standardization. These policies provide clear direction for the growth of the public fund industry.

3.2. Synergy between Policy and Market Demand

Reforms in internal auditing must align closely with policy and market demands. For instance, as investors increasingly prioritize transparency and information disclosure, audit practices must place greater emphasis on transparent and scientific decision-making processes. At the same time, policy regulations provide clearer standards and frameworks for auditing.

3.3. Learning from International Experience

Building on policy-driven initiatives, China's public fund industry can draw lessons from international practices. For example,foreign fund companies legally mandate comprehensive audit coverage across all business processes and actively promote technology-enabled auditing. These approaches offer valuable insights for China's industry. The experiences of mature global markets can provide multiple inspirations for reforming internal auditing in China's public fund sector. Below is a detailed analysis of key international practices:

3.3.1. Legally Mandated Full-Process Auditing

Legislation ensures that audits cover the entire process, from investment decision-making to execution management. For instance, the Investment Company Act requires fund companies not only to disclose financial data but also to conduct thorough audits on asset allocation, risk management, and compliance in strategy implementation. Such legal safeguards enhance the enforceability and standardization of audits.

3.3.2. Technology-Driven Audit Innovation

Deep integration of technology into internal audit processes. Artificial intelligence and machine learning algorithms enable real-time monitoring of investment portfolios, identifying abnormal transactions or potential risks. This tech-enabled approach significantly improves audit efficiency while reducing operational risks. China's public fund industry can adopt similar technologies and optimize their application based on domestic market characteristics.

3.3.3. Involvement of Independent Third-Party Auditors

Strong emphasis on independent third-party audits. Many fund companies engage external audit firms to conduct periodic reviews of their internal audit functions. This external perspective not only enhances audit independence but also provides greater assurance to investors. China's public fund industry can adopt this practice by strengthening collaboration between external auditors and internal audit departments.

3.3.4. Focus on Investor Education and Information Disclosure

Prioritizing investor education and building market trust through transparent disclosures. Internal audit departments regularly publish detailed audit reports and disseminate relevant information to investors through multiple channels. This constructive interaction between auditing and investor communication helps improve industry transparency and attractiveness.

ISSN: 2688-9323

4. Practical Pathways

Internal auditing can support the high-quality development of public funds through the following practical pathways. These approaches encompass the construction of a comprehensive auditing system, technology-enabled audit optimization, enhancement of audit professional capabilities, and the establishment of internal-external collaboration mechanisms.

4.1. Building a Comprehensive Audit System

The primary task is to establish a comprehensive and well-functioning audit system.

4.1.1. End-to-End Audit Management

End-to-end audit management emphasizes that internal audit departments should fully participate in and supervise every stage, from investment planning to execution and feedback. For example:During the investment planning phase, the audit department must rigorously review the scientificity of market analysis and asset allocation strategies.During the execution phase, technological tools should be used to monitor the performance of investment portfolios. In the feedback phase, a thorough evaluation of investment returns and the effectiveness of risk control measures should be conducted.

4.1.2. Establishing a Dynamic Risk Assessment System

Given the diverse and dynamic market risks faced by the public fund industry, the audit system must incorporate dynamic risk assessment capabilities. For instance:- Implementing a real-time risk monitoring and early warning system to swiftly identify potential risks through continuous market data analysis. - This not only improves risk management efficiency but also enhances the stability of fund management.

4.1.3. Implementing Closed-Loop Management

Closed-loop management requires audit findings to form a complete feedback mechanism. For example: - Fund companies should promptly address issues identified during audits and incorporate corrective measures back into the audit scope. This creates a continuous improvement cycle, ensuring the effectiveness and sustainability of audit work.

4.2. Technology Support and Synergistic Optimization of Asset Allocation

4.2.1. Leveraging Big Data Analytics

Big data technology can significantly enhance the efficiency and precision of internal audits. For example: - Analyzing historical transaction data can reveal patterns and potential risks in asset allocation. - Big data can also help predict market trends more accurately, providing a scientific basis for investment decisions.

4.2.2. Applying AI and Blockchain Technology

AI can help auditors quickly process vast amounts of data to detect abnormal or non-compliant transactions. For instance, machine learning algorithms enable real-time transaction monitoring and risk assessment. Blockchain ensures transparency and immutability of transaction records, enhancing the credibility and reliability of audits.

4.2.3. Optimizing Asset Allocation Strategies

Using quantitative and historical data analysis to improve the risk-return profile of investment portfolios. Incorporating cutting-edge technologies like machine learning and deep learning to enhance the predictive accuracy of asset allocation strategies. Simulating different portfolio scenarios with intelligent algorithms to help fund companies optimize asset allocation, improving both investment efficiency and risk control.

ISSN: 2688-9323

4.3. Enhancing Audit Professional Capabilities

4.3.1. Strengthening Audit Team Development

The expertise of auditors directly impacts audit quality. Therefore, fund companies should Enhance training programs, particularly in international perspectives,technological proficiency, and interdisciplinary knowledge. Invite overseas audit experts or collaborate with globally renowned audit firms to provide broader learning opportunities. Cultivate IT audit professionals with strong technical skills to effectively address cybersecurity and information system risks.

4.3.2. Promoting Interdisciplinary Integration

Internal auditing requires knowledge from finance, statistics, computer science, and other fields. For example: Combining financial modeling and data analytics to assess portfolio risks. Using blockchain to verify the authenticity of transaction records.- Effective interdisciplinary communication can improve audit efficiency and reduce misunderstandings.

4.3.3. Establishing Career Development Incentives

Fund companies should provide clear career paths and motivational mechanisms for auditors, such as: Creating audit performance awards or offering promotion opportunities to encourage continuous professional growth.

4.4. Strengthening Internal-External Collaboration

In the public fund industry, collaboration between internal audits and external oversight is crucial for ensuring transparency and standardized development. Effective synergy can enhance risk management while bolstering operational efficiency and credibility.

4.4.1. Collaborative Mechanism between Internal Audits and External Supervision

Internal audit departments operate within fund companies, while external regulators represent national and societal oversight. Though their roles differ, their objectives align. - Under a collaborative framework, internal audits can share information with regulators to form a multi-dimensional risk control system. - For example, audit departments can submit reports and key risk alerts to regulators while incorporating regulatory feedback to refine internal controls.

4.4.2. Information Sharing and Transparency

Digital platforms can facilitate real-time data exchange between internal audits and regulators.Transparent information flows improve regulatory efficiency and help fund companies adapt to policy changes. - Public disclosure of audit findings can also enhance industry trust.

4.4.3. Establishing Regular Communication Channels

Internal audit teams and regulators should hold quarterly meetings to discuss policy updates, industry risks, and audit outcomes. Such mechanisms improve coordination and ensure alignment between regulatory policies and audit practices. Independent third-party participation can provide neutral insights.

4.4.4. Leveraging External Expertise

External professional institutions can support internal audits in complex compliance reviews or international expansions. This structured approach ensures that internal auditing becomes a robust pillar for the high-quality growth of public funds.External institutions can provide technical support and professional advice to assist internal audit departments in completing tasks more efficiently. This collaborative approach can effectively compensate for the deficiencies in internal audit resources and capabilities.

ISSN: 2688-9323

4.4.5. Engaging Industry Self-Regulatory Organizations

In strengthening internal-external collaboration, industry self-regulatory organizations can also play a significant role. For example, the Asset Management Association of China (AMAC) can serve as a bridge to facilitate communication and coordination among internal audit departments, fund companies, and external regulators. Additionally, self-regulatory organizations can enhance the overall standard of internal auditing by publishing industry guidelines and providing training programs.

5. Conclusion

5.1. The Central Role of Internal Auditing

The development of the public fund industry is inseparable from the core function of internal auditing. In today's complex and volatile market environment, internal auditing serves not only as a critical risk management tool but also as a key safeguard for enhancing corporate governance and investor confidence. By establishing comprehensive audit systems, adopting technological solutions, and optimizing collaborative mechanisms, internal auditing can significantly improve the standardization and transparency of the public fund industry.

5.2. Aligning Policy with Practice

The practical pathways proposed in this paper represent not only solutions to current challenges in the public fund industry but also a proactive response to national objectives for high-quality capital market development. With policy support, fund companies should leverage internal auditing as a strategic tool to optimize asset allocation strategies and strengthen risk control capabilities.

5.3. Positive Implications for Industry Development

By reinforcing the role of internal auditing, the public fund industry can effectively address existing risks and challenges while laying a solid foundation for high-quality capital market development. This transformation will enhance overall operational efficiency, boost investor confidence, and further advance the modernization and internationalization of the financial system.

5.4. Future Development Directions

Moving forward, internal auditing must continue to adapt to technological advancements and evolving policy landscapes. In the context of internationalization, audit departments should pay greater attention to cross-border compliance issues. Furthermore,industry stakeholders should strengthen collaboration to improve fund governance and transparency, collectively creating long-term value for investors.

Through the implementation of these audit methodologies and strategies, the public fund industry can elevate its management standards and transparency, ensuring compliant operations and sustainable development. By combining compliance, efficiency, and soundness audits with effective communication, professional IT audit expertise, and robust audit management information systems, the industry can effectively drive high-quality growth.

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