

Research on Performance Auditing of Internal Controls in Higher Education Institutions Based on the Fundamental Task of Cultivating Virtue and Nurturing Talent

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Abstract: The imperatives of "high-quality development" and "delivering education that satisfies the people" necessitate the modernisation of educational governance systems and capabilities, with university internal controls and their performance constituting a critical component. Guided by the directive to "evaluate all institutional work against the fundamental standard of fostering virtue and nurturing talent" and grounded in education's intrinsic nature, this study analyses the interactive mechanisms between internal control and moral education. It elucidates the long-term, external, and comprehensive characteristics of higher education internal control performance while clarifying the scope and implications of its associated costs and benefits. Drawing upon this essential understanding and adopting a problem-oriented approach, the paper proposes feasible recommendations for integrating moral education into higher education internal control practices.

Keywords: Moral Education; Higher Education Internal Control; Performance Audit; Process Evaluation

1. Introduction

China has now entered a phase of high-quality development focused on enhancing quality and efficiency. Such development necessitates modern governance capabilities and high-level budget performance. "The Outline of the Plan for Building China into an Education Powerhouse (2024–2035)" proposes "clarifying the responsibilities of governance entities and enhancing the overall effectiveness of educational governance" [1]. While significant progress has been made in the performance of China's fiscal funds in recent years, the current public budget management system, exemplified by higher education institutions, still suffers from prominent issues such as weak

performance awareness, insufficient constraints and incentives, and a disconnect between performance and rewards/penalties. The performance level of fiscal budget funds in higher education institutions falls considerably short of the goals and requirements of high-quality development. The problems in fiscal budget fund performance present a pressing challenge for higher education practitioners, particularly educational auditors. Amidst the pressures of multiple risks compounding within a century of unprecedented global transformation, China faces the arduous tasks of stabilising growth, safeguarding people's livelihoods, and preventing risks. Against this backdrop, the imperative to further strengthen fiscal expenditure control, prepare for austerity, and enhance public budget performance has become more pressing than ever. The "Guiding Opinions on Further Strengthening Internal Control Construction in Higher Education Institutions" provides clear direction and policy guidance for the high-quality development of universities.

High-quality development and the comprehensive implementation of budget performance management require us to continuously advance internal control auditing in higher education institutions and enhance the performance of their internal controls. Internal control development constitutes a fundamental and critical aspect of university management, serving as an effective means to prevent economic and integrity risks. It represents both a vital lever and an inevitable choice for achieving the modernisation of higher education governance systems and capabilities.

2. Literature Review

Current academic research on internal control within the education system primarily focuses on technical perspectives such as risk management, financial management, procurement management, and information system

management.

Qiao[2,3] posits that auditing serves as the primary driver transforming the efficacy of higher education institutions' financial systems into governance effectiveness. Internal control evaluations and performance assessments within universities should be conducted by the Audit Office, with strengthened process evaluation being essential to guarantee the quality of institutional performance evaluations. Liu and Tang [4] analysed the developmental logic and content of internal control systems in higher education institutions, recommending an emphasis on institutional characteristics, the refinement of checks and balances mechanisms, the establishment of management information systems, and the integration of controllable institutional resources. Jiang [5] et al., adopting a system dynamics perspective, proposed constructing a system dynamics model integrating control activities, information exchange and feedback, and internal oversight to facilitate university internal control operations. Wang [6] et al., from a risk management viewpoint, examined internal controls within the education system, aiming to provide optimisation strategies, establish long-term audit mechanisms, and mitigate quality risks arising from universities' rapid expansion.

Sofyani, H. [7] et al., Findings that internal control and internal quality assurance implementations are positively associated with HEI quality. He [8] uses the COSO framework to propose optimization strategies for government procurement internal control management in universities. Ni. [9] et al., indicates that the connections among accounting, internal controls and internal audit are crucial for providing effective internal controls at universities about regulatory compliance. Shen [10] analyzes various business risks in the internal control and management of research funds. Cui [11] discusses the construction strategy of internal control mechanism of university infrastructure project management from the perspective of whole process engineering consulting. Wu [12] puts forward optimization suggestions for the current problems in internal control construction in colleges.

While these studies offer in-depth analyses of existing internal controls within education systems and propose numerous feasible operational solutions to enhance internal control

performance, research on university internal controls and their performance auditing remains lacking from the fundamental educational perspective of fostering virtue through education. This paper endeavours to explore and analyse internal control performance and its auditing from this crucial viewpoint, seeking viable pathways and recommendations to enhance university internal control performance and elevate governance capabilities.

3. Internal Control in Higher Education Institutions and Performance Auditing of Internal Control

3.1 The Conceptual Framework of Internal Control in Higher Education Institutions

Internal control in higher education institutions refers to the prevention and management of risks associated with economic activities through the formulation of systems, implementation of measures, and execution of procedures, all aimed at achieving institutional objectives. Its primary objectives are to effectively prevent fraud and corruption and enhance resource allocation efficiency through ensuring lawful and compliant economic activities, safeguarding asset security and ensuring effective utilisation, and maintaining the authenticity and integrity of financial information. It encompasses a series of fundamental management activities including control environment, budgeting and final accounts, assets, revenue and expenditure, debt, contracts, engineering projects, research projects, special fiscal funds, and information technology.

3.2 Defining Performance Audits of Higher Education Institution Internal Controls

Performance audits of higher education institutions' internal controls must first evaluate and oversee compliance with institutional educational objectives. This assessment centres on whether activities advance the fundamental goal of fostering virtue and cultivating talent, using public satisfaction as the benchmark. Stakeholders encompass students, parents, employers, and educators.

Secondly, it involves the prevention and control of risks. Risks in economic activities extend beyond financial hazards to encompass political, social, cultural, and ecological risks stemming from such activities. The latter four are frequently overlooked, while financial risks are often confined to short-term financial concerns,

neglecting broader long-term risks. Consequently, the remit of internal control auditing becomes restricted to financial accountability auditing, limiting the costs and benefits of internal controls to short-term financial aspects. This undermines the fundamental principles of comprehensiveness and materiality in internal control performance, rendering it ineffective.

Internal control performance auditing in higher education institutions involves evaluating and supervising the soundness and effectiveness of internal controls through the audit function. This encompasses assessing the economy, efficiency, effectiveness, and fairness of internal controls. Economy refers to the ratio of input costs; efficiency to the ratio of outputs to inputs; effectiveness to the ratio of objectives to outputs; and fairness to the allocation of funds among different units. Soundness serves effectiveness, while inputs serve outputs, outcomes, and equilibrium.

3.3 Characteristics of Higher Education Institution Internal Control Performance

The performance of higher education institution internal controls exhibits the comprehensive and external characteristics common to public projects. Its costs and benefits span economic, political, social, cultural, and ecological dimensions. For clarity, costs may be categorised as prevention costs, inspection costs, and failure costs. The former two constitute consistent costs, while the latter represents inconsistent costs; all three possess externalities. Failure costs encompass not only funds disbursed by the institution but also the waiting costs and opportunity costs borne by teaching staff, students, and parents. Underestimating these internal control costs may lead to erroneous decision-making and inefficient operations. The benefits of higher education internal controls prove difficult to quantify accurately due to their multi-objective nature and externalities.

The performance of higher education institutions' internal controls also exhibits the long-term nature characteristic of education. As the saying goes, 'It takes ten years to grow a tree, but a hundred to cultivate a person'. Education is a quintessentially long-term and foundational endeavour. As an integral component of educational work, the effects of institutional internal controls similarly possess long-term

characteristics, making precise short-term measurement challenging. Educational outcomes must align with the developmental patterns of talent cultivation, requiring internal controls to focus on laying foundations for long-term benefits through latent, foundational work.

The comprehensive, external, and long-term nature of higher education internal control performance poses significant challenges to the objectivity and accuracy of performance auditing, creating numerous blind spots and misconceptions. While some recognise these issues, they struggle to find feasible solutions, confining evaluations and oversight to the scope of legality and effectiveness. This deviates from the fundamental purpose of internal control: comprehensive risk management and enhancing resource allocation efficiency.

To resolve this, we must begin with education's fundamental mission. The first principle involves identifying the optimal path to achieve objectives by tracing back to the source of the matter. Every organisational system possesses an inviolable foundational principle. For the organisational system of higher education institutions, this foundational principle is "cultivating virtue and nurturing talent." No management system or measure may contravene this fundamental mission and strategic objective.

4. Moral Education and University Internal Control Performance

4.1 The Relationship between Cultivating Virtue and Nurturing Talent and Internal Control Performance

Cultivating virtue and nurturing talent constitutes the fundamental mission of education. As a vital function and operational lever within higher education, university internal control must likewise subordinate itself to serving this core mission. Internal control performance serves the fundamental task of cultivating virtue and nurturing talent, with the ultimate outcomes of this mission serving as the benchmark for evaluating the efficacy of internal control systems.

Internal control directly determines the costs and effectiveness of fostering virtue and nurturing talent. It encompasses foundational and critical management activities including control environment, budgeting and final accounts, assets, revenue and expenditure, debt, contracts, engineering projects, research projects,

specialised financial programmes, and information technology. These activities constitute essential functional operations and fundamental support for universities fulfilling their core mission, while also representing the primary drivers of expenditure. The control environment—encompassing development planning, governance structures, and operational mechanisms—directly determines the direction and efficacy of a university's development. Meanwhile, the level of internal control over project management, budgeting and final accounts, and research project management directly influences the sense of fulfilment and satisfaction among faculty and students.

Internal controls exert an indirect influence on the costs and outcomes of fostering virtue and nurturing talent. As the comprehensive vehicle for institutional mechanisms and operational measures within universities, their impact is often long-term and subtle. As microcosms for student development, universities' operational norms profoundly shape students' worldviews and values, ultimately influencing society. Inefficient fund allocation, idle assets, embezzlement, fraudulent claims, and failure to reward exemplary staff and students create environments where graduates struggle to become competent builders of the socialist cause. The costs of internal control failures are untenable.

4.2 Cultivating Virtue and Nurturing Talent: The Guiding Principle and Banner of University Internal Control

Within an organisation, strategic objectives and fundamental missions serve to unify stakeholders with differing interests and functional divisions under shared goals, thereby generating synergy to advance these objectives. Cultivating virtue and nurturing talent constitutes the very foundation of the higher education institution as an organisation, and equally underpins the internal control systems, functional departments, and all faculty and staff. Fundamental tasks and strategic objectives constitute the purpose of internal control and performance management, as well as the rationale for all resource allocation. Organisations must guide management activities according to strategic objectives, ensuring sub-objectives remain aligned with these overarching goals. Failure to do so increases the likelihood of internal friction and waste,

particularly in larger organisations. As a large-scale institution, higher education institutions require rigorous oversight of sub-objectives across various internal control mechanisms to ensure efficient operation under the banner of the fundamental task of fostering virtue and nurturing talent.

4.3 Fostering Virtue and Cultivating Talent Requires Support and Safeguards from Higher Education Internal Controls

The fundamental mission of fostering virtue and nurturing talent cannot be realised without the support and safeguarding provided by internal controls within higher education institutions. The establishment of a control environment constitutes the objective setting for this mission and exerts a decisive influence upon it. Internal controls encompassing budgetary management, project management, research project oversight, and specialised financial management not only determine the quantity of outputs generated within budgetary constraints but also shape the structure and quality of these outputs. The provision of public goods underpinned by internal controls constitutes both the material foundation for universities' character-building and moral education and the soft environment and extended classroom for such endeavours. These controls serve as vivid case studies for ideological and political education, playing an irreplaceable role in character-building education.

Higher education institutions must centre their operations around this fundamental mission to unite efforts and achieve tangible results. Education extends beyond classrooms and textbooks; it must permeate all domains and processes within universities to provide a higher-level environment for talent cultivation. Only then can the fundamental mission of fostering virtue and nurturing talent be realised, thereby supplying qualified builders and successors for the socialist cause.

5. Recommendations for Implementing Moral Education in Internal Control Performance Audits

Having examined relevant concepts and characteristics, and based on existing prominent issues and blind spots in understanding, the following three recommendations are proposed to enhance the performance of internal controls in higher education institutions and improve the

auditing of such performance, grounded in the fundamental task of fostering virtue and nurturing talent.

5.1 Establishing Moral Cultivation and Talent Development as the Fundamental Criterion for Evaluating Internal Control Performance in Higher Education Institutions

In the context of higher education governance, the achievement of moral cultivation and talent development (hereinafter referred to as "moral-educational outcomes") must serve as the overarching benchmark for assessing the efficacy of internal control systems. This principle necessitates the alignment of all institutional activities with the core mission of nurturing individuals with socialist values and professional competence. The ultimate test of effectiveness lies in tangible outcomes—whether institutions successfully cultivate qualified socialist builders and skilled professionals who contribute to national rejuvenation and societal progress.

The application of Occam's Razor principle in standard-setting further reinforces this prioritization. While supplementary metrics (e.g., financial compliance rates, procedural adherence) remain necessary, they should function as derivative indicators rather than competing criteria. For instance, metrics such as budget execution efficiency or procurement transparency are valuable only insofar as they collectively advance the primary objective of moral-educational development. This hierarchical framework ensures that resource allocation and performance evaluation remain laser-focused on institutional missions rather than fragmented administrative targets.

5.2 Enhancing Cost Analysis and Supervisory Evaluation with Emphasis on Hidden and External Costs

A critical shortcoming in current internal control frameworks is the neglect of hidden costs and external costs, which significantly undermine the sustainability of governance mechanisms. Hidden costs manifest as intangible burdens such as faculty and student dissatisfaction due to redundant bureaucratic procedures, delays in administrative approvals, or inefficient resource distribution. For example, excessive compliance checks in procurement processes may increase institutional operational costs while eroding trust in governance systems. External costs,

meanwhile, encompass broader societal impacts, such as missed opportunities for innovation due to overly rigid risk-averse policies or reputational damage from perceived inequities in resource allocation.

Within the realm of internal control audits, these costs warrant systematic quantification and inclusion in performance evaluations. For instance, the opportunity cost of mismanaged research funding—stemming from fragmented oversight or delayed approvals—should be evaluated against the potential contributions of unimplemented projects to national strategic priorities. Similarly, the psychological costs of faculty burnout due to excessive administrative burdens must inform discussions on workload distribution and institutional support mechanisms. By integrating these multidimensional cost factors into audit frameworks, universities can develop more holistic strategies for risk mitigation and resource optimization.

5.3 Optimizing Process-Oriented Evaluation to Address the Long-Term and Holistic Nature of Moral-Educational Outcomes

The evaluation of internal control performance cannot be confined to static, outcome-based metrics alone. Moral cultivation and talent development inherently possess temporal depth and systemic complexity, rendering conventional result-oriented assessments insufficient. Process-oriented evaluation addresses this limitation by dissecting the mechanisms through which internal controls facilitate or hinder institutional missions. This approach involves:

Comparative Analysis: Benchmarking institutional practices against legal frameworks (e.g., China's Administrative Institutions Internal Control Standards) and peer institutions to identify systemic gaps.

Temporal Tracking: Monitoring longitudinal data on student development trajectories, such as career placement rates, research productivity, and civic engagement, to assess the sustained impact of educational interventions.

Stakeholder Feedback Integration: Incorporating qualitative inputs from faculty, students, and industry partners to evaluate the relevance and adaptability of control systems.

For example, a university might implement a value-added consulting service to optimize budget allocation for interdisciplinary research

projects. By analyzing historical spending patterns and correlating them with publication outputs or patent filings, administrators can dynamically adjust funding priorities to align with emerging societal needs. Concurrently, process audits could reveal inefficiencies in cross-departmental collaboration—such as redundant approval layers in curriculum development—that disproportionately drain administrative resources without enhancing educational quality.

5.4 Synthesis and Strategic Implications

The integration of these three dimensions—mission-centric evaluation, cost-sensitive auditing, and process-centric improvement—creates a robust framework for advancing governance excellence in higher education. Institutions adopting this model would prioritize:

Alignment with National Strategies: Embedding moral-educational objectives into all governance layers, from procurement protocols to faculty evaluation criteria.

Data-Driven Transparency: Leveraging big data analytics to visualize cost-benefit trade-offs and stakeholder perceptions, thereby fostering accountability.

Adaptive Governance: Establishing feedback loops between audit findings and policy adjustments to ensure continuous alignment with evolving educational landscapes.

By transcending conventional compliance-focused models, this paradigm positions internal control systems not merely as risk mitigation tools but as catalysts for holistic institutional transformation. Such a shift aligns with global trends in higher education governance, where ethical stewardship and systemic adaptability are increasingly recognized as prerequisites for long-term success.

6. Conclusion

University audit functions serve as custodians of public assets, and economic physicians. Only by grounding internal control and performance auditing in the fundamental mission of fostering virtue through education, ensuring all efforts serve this purpose, and prioritising public satisfaction as the ultimate benchmark, can universities guarantee their internal controls remain on the correct path without detours. Only by clarifying the long-term, comprehensive, and

external nature of university internal controls can their cost-benefit be accurately measured, thereby ensuring the scientific rigour of performance auditing.

The importance of outcome evaluation is indisputable. However, due to the long-term, external, and comprehensive nature of university internal controls, annual outcome evaluations struggle to provide a comprehensive and objective assessment. Process evaluations, grounded in benchmarking and process analysis, can compensate for the shortcomings of outcome evaluations and should play a significant role in university internal control performance audits.

Adhering to source governance and a problem-oriented approach, while remaining firmly centred on the core mission of fostering virtue through education, will transform university internal controls and performance audits into governance efficacy. This will advance the modernisation of educational governance capabilities, enabling the delivery of education that satisfies the people. Through strengthening the nation with talent and revitalising it through science and education, we shall realise the great rejuvenation of the Chinese nation.

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