Analysis of the Change of Accounting Firms by Listed Companies- -Take New Asia Manufacturing Process (Zhejiang) Co., Ltd. as an Example

Tiankai Wei*

Department of Finance, Beijing International Studies University, 100024 Beijing, China

*Corresponding author: weitiankai@bisu.edu.cn

Abstract. In the current market economic environment, the phenomenon of frequent replacement of accounting firms in China has attracted wide attention inside and outside the industry. On the one hand, this trend reflects the change of market competition and corporate business needs. On the other hand, it may also affect investors 'decisions and the public's trust in listed companies. Therefore, it is obviously necessary to study the motivation behind the replacement of accounting firms in listed companies. This paper aims to explore the motivation of Chinese listed companies to change accounting firms and their potential influence. Firstly, through large-scale data collection and analysis, this paper described the basic status of changing accounting firms by listed companies in China in recent years.Then, we discussed the various possible reasons for listed companies to replace their accounting firms. After in-depth research and analysis, we find that although the replacement of accounting firms can enhance the credibility of the financial reports. Therefore, this paper put forward a series of regulatory countermeasures. The main significance of this study lies in the in-depth discussion of the phenomenon of listed companies changing accounting firms, which provides more detailed market data and rich empirical analysis framework for future research.

Keywords: Listed company; replacement; accounting firm; motivation analysis; regulatory countermeasures.

1. Introduction

In economic activities, the accuracy and reliability of financial reports are crucial, especially for listed companies, which are related to their credibility and investor confidence. The main institutions that review these financial reports are accounting firms. Compared with the financial management department of the listed company itself, the accounting firm has higher independence and professionalism.

As a professional institution, accounting firms focus on audit work, so that they have great advantages in theoretical knowledge, practical experience and deed tax laws and regulations, which can better guarantee a comprehensive and in-depth understanding of the financial situation of enterprises. Moreover, they are independent of the listed companies in business processing and have an objective and fair position, which can eliminate the conflict of interest and ensure the fairness of the audit results.

The financial report of a listed company must be strictly audited by an accounting firm before it is published. The audit process includes many steps, such as the substantive process inspection of the company's financial reporting items, the verification of the compliance of the financial reporting formula, and the evaluation of the internal control system, and the final issuance of the audit report. The company's financial report can be audited and published only if the report indicates no material misstatement in the financial report [1].

Therefore, when a listed company chooses to change its accounting firms, it may not only affect the quality of the company's financial reports, but also affect the evaluation of investors, stakeholders and the market. Investors closely monitor such changes and may assess the company's credit worthiness. Therefore, listed companies must explain the reasons for changing the decision to the relevant regulatory authorities and the market, so as to ensure the transparency and openness of

information. All of these situations highlight the key role of accounting firms in ensuring the authenticity and reliability of the financial information disclosure of listed companies [2].

2. Case Review

The audit Committee of the Board of Directors of the Company convened the second audit Committee of the sixth Board of Directors in 2023 on March 7, 2023, Deliberating and passing the Bill on the proposed replacement of accounting firms, The audit committee of the board of directors of the Company has reviewed the basic information, qualifications, personnel information, business scale, investor protection ability, independence and integrity records of the Pacific firm, Believe that it has sufficient independence, professional competence, investor protection ability, Experience and ability to audit for listed companies, To meet the needs of the company's annual financial audit and internal control audit work, Agree to appoint the Asia Pacific firm as the company's financial audit institution and internal control audit institution in 2022, The term of employment is one year, And agreed to submit the "motion on the proposed replacement of accounting firms" to the fourth (interim) meeting of the sixth board of directors of the company for deliberation. Through the descriptive statistical analysis of the company included in the case of the replacement accounting firm, Most cases of changing accounting firms include companies that are non-SOEs, manufacturing industry, Eastern China, The Shenzhen Stock Exchange, While Xinya Manufacturing Process (Zhejiang) Co., Ltd. is a non-state-owned enterprise, The SFC industry is the manufacturing / computer, communications and other electronic equipment manufacturing industry, Listed plate is the Shenzhen Stock Exchange, And Zhejiang belongs to the east China region, Therefore, New Asia Process (Zhejiang) Co., Ltd. is in line with the characteristics of the company included in most cases of changing accounting firms, It shows that the company meets the characteristics of most replacement accounting firms [3].

3. Mouses for Listed Companies to Replace Accounting Firms

3.1. Audit Risk

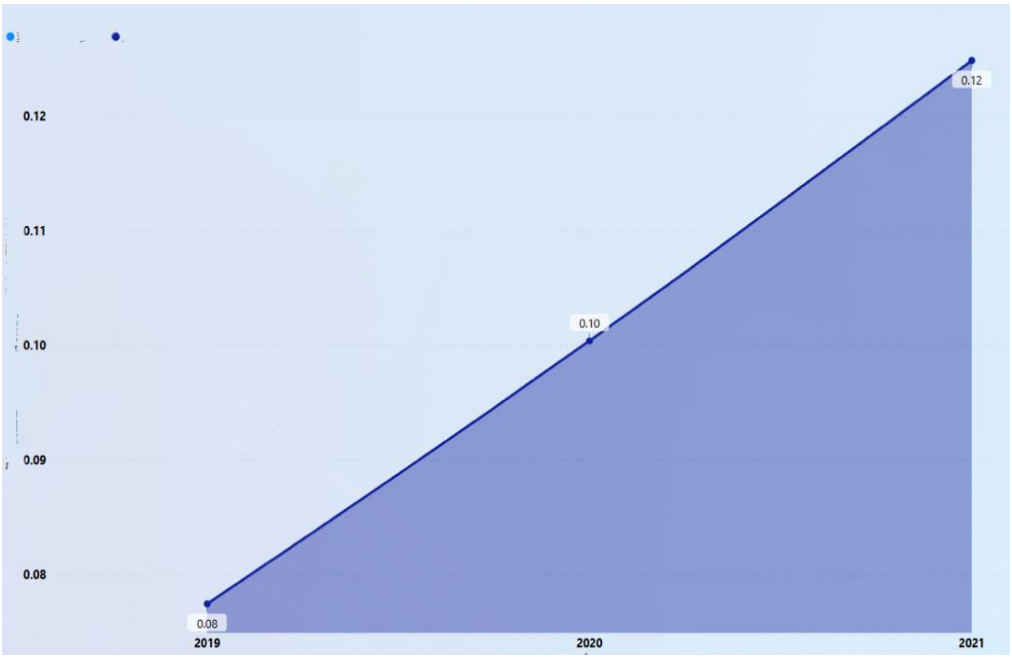


Fig. 1 The average incidence of loss of the former CPA firm before and after the replacement of the company

Seeing Figure 1, From 2019 to 2022, the average incidence of case losses increased year by year, indicating. When the former accounting firm was responsible for the company in 2019, the average

incidence of losses of the company increased year by year, which may be related to the dereliction of duty of the former accounting firm. If a company's financial health declines or faces a financial crisis, accounting firms may think the risk of providing audit services is increased. This may be because financial difficulties may lead to more estimates and judgments in financial statements, or because companies may be sured to adopt certain accounting strategies to beautify their financial statements [4].

3.2. Need to Improve the Internal Control Mechanism

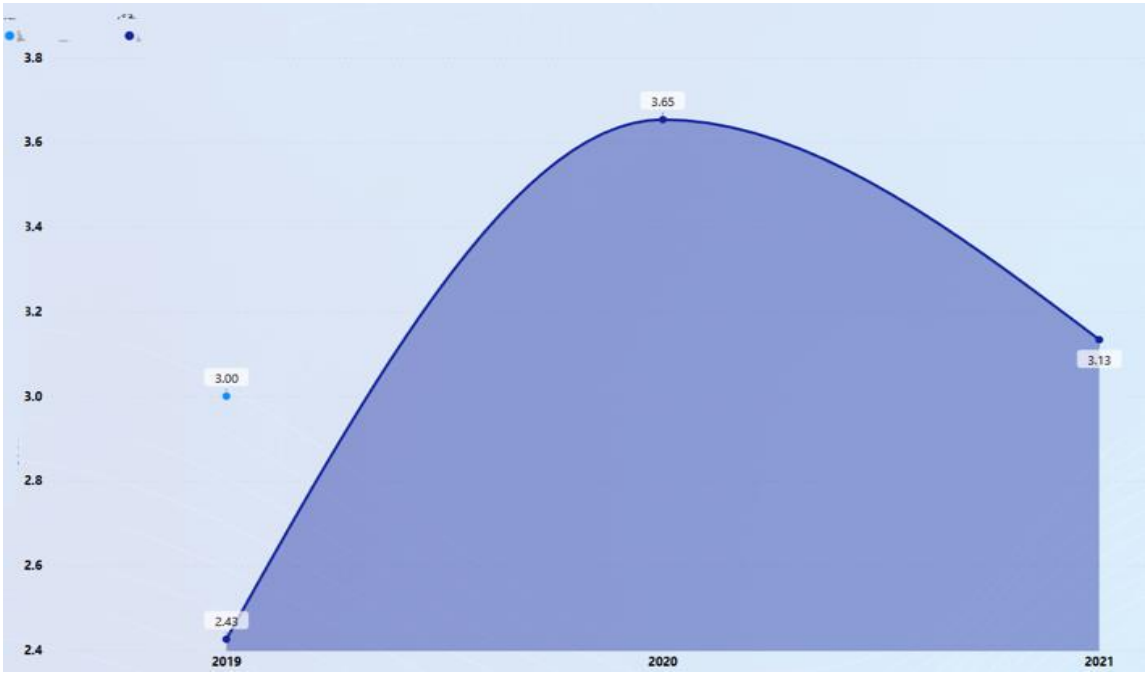


Fig. 2 The average size of the company's supervisory board before and after the replacement of the former CPA firm

Seeing Figure 2, Cases during 2019-2022 company regular report repeat board of supervisors to rise after the first decline, 2019 company case mean the average of the board of supervisors than the size of the board of supervisors, 2019 former accounting firm in responsible for the company to help company regular report to expand the board of supervisors, but in 2021 for some reasons case company regular report to reduce the board of supervisors, this phenomenon can lead to former public accounting firms and executives collusion, then let the company doubt the independence of former accounting firms, may be associated with the former accounting firm dereliction of duty. The improvement of the internal control mechanism means that the listed company adjusts its internal control, internal audit and external audit methods to establish a sound control system. As the company grows, they will gradually establish a sound internal audit system. However, if there are differences between internal control and external audit or not meeting the high standards of external audit, the company may consider changing accounting firms. In the process of improving the internal control, the audit method of the selected accounting firm may affect the internal control and internal audit of the company. Therefore, in recent years, many listed companies choose to change their accounting firms, in order to better improve their internal control system [5].

3.3. Driven by Financial Fraud Behavior

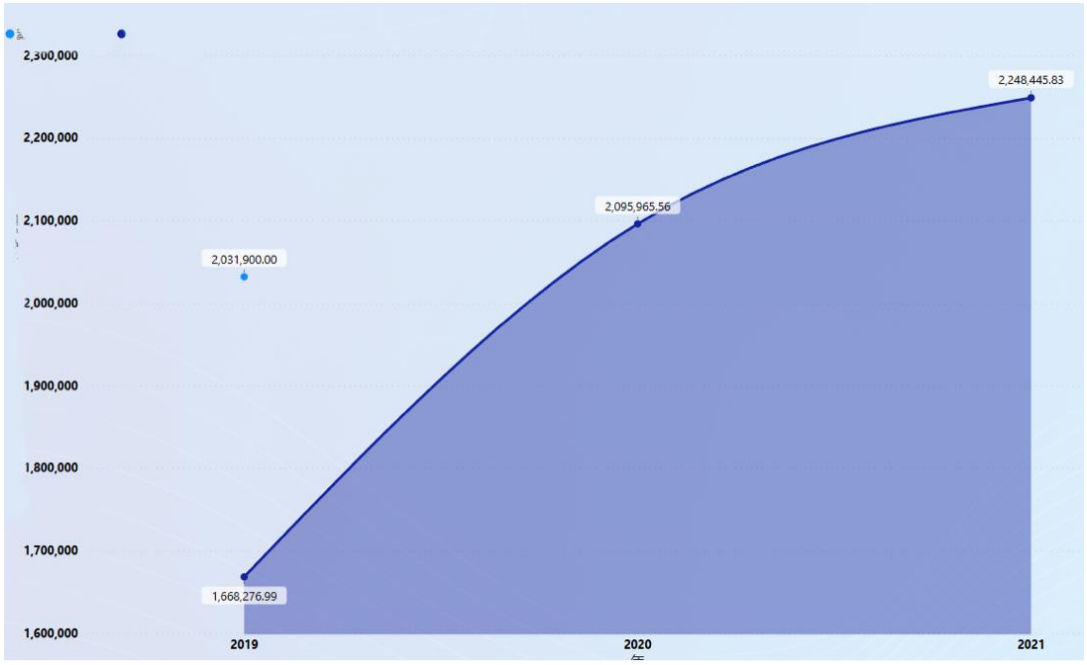


Fig. 3 The total remuneration of the top three directors of the company before and after the replacement of the former accounting firm

See Figure 3, During the period of 2019-2021, the total remuneration of the top three directors of the restatement of the regular report of the case company increased year by year, but the average incidence of the loss of the case company during this period increased year by year, which made the company doubt the independence of the former accounting firm, which may be related to the dereliction of duty of the former accounting firm. In the work of an accounting firm, if the qualification of the firm changes, especially if it loses the qualification to undertake the financial report audit of the listed company, or its qualification is revoked due to other reasons, the listed company will usually terminate the cooperation with it. In recent years, this kind of situation is not rare in Chinese listed companies. Sometimes, some listed companies will try to bribe accounting firms to buy audit opinions in order to conduct financial fraud or whitewash financial results. If firms do not accept bribes, these companies often change accounting firms to achieve bad goals. This behavior is harmful to both investors and the stock markets [6].

It is particularly worth noting that some listed companies in order to avoid delisting, will take various means to whitewash the financial results. This makes it much harder to regulate the practice of changing accounting firms. Therefore, investors should also fully consider this factor when analyzing the investment value of listed companies. Such behavior not only has caused a huge negative impact on investors, but also is not conducive to the healthy development of China's securities market.

3.4. Driven by Financial Fraud Behavior

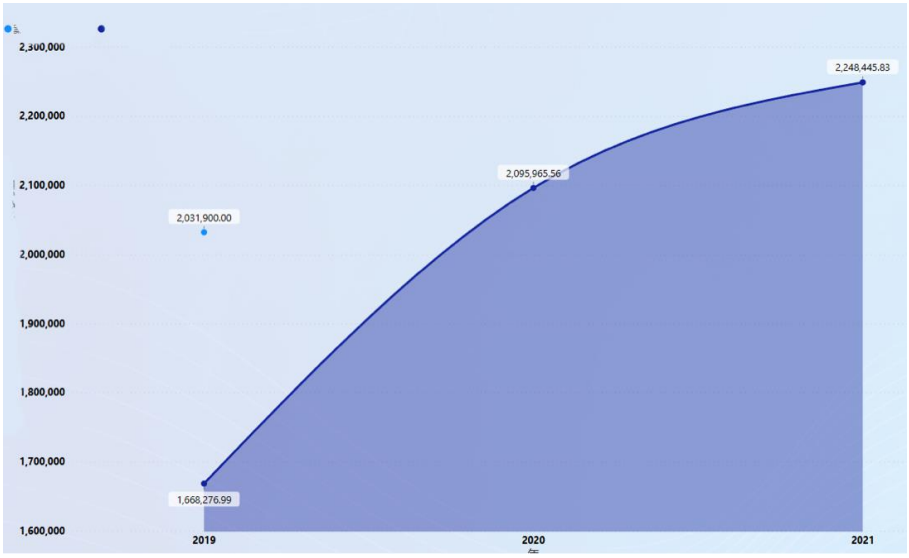


Fig. 4 The company's solvency before and after the replacement of the former accounting firm

Seeing Figure 4, The solvency index of the company decreased sharply from 2021 to 2022, which is greater than the company average of your case in 2019, indicating that the former accounting firm helped the company increase its solvency in 2019, but the solvency of the case company decreased sharply in 2021 due to some reasons, which may be related to the dereliction of duty of the former accounting firm. The level of accounting robustness mainly reflects the accounting standards and accounting basis that the accounting firms follow in the audit process, as well as the professional and moral level of their employees. When listed companies choose accounting firms, they usually pay great attention to this level of stability. If the firm's accounting robustness level changes due to various reasons, it will affect the audit opinions of listed companies. In general, regardless of what are the drivers of accounting stability for listed companies, the change in the accounting robustness level of accounting firms may affect whether listed companies want to change their accounting firms. This factor is reflected in the decision of many listed companies to change their accounting firms [7].

Table 1. Debt ability indicator

Debt ability indicator (Company index / Industry index)			
Asset-liability ratio (%)	42.34/36.26	Cash ratio (%)	63.27/169.10
Current ratio (secondary)	1.99/3.20	Quick-speed ratio (second)	1.76/2.62
Development ability index (Company index / Industry index)			
Growth rate of Shareholders' equity (%)	1.85/28.22	Operating Cash Cash growth growth rate (%)	110.38/201.83
Net profit growth rate (%)	-51.89/-19.29	Revenue growth rate of (%)	-21.44/3.51
Profitability indicator (Company indicator / Industry indicator)			
Return on equity (%)	1.70/4.36	Return on total assets (%)	3.17/4.63
Net interest rate on sales (%)	1.32/4.43	Gross profit margin of operating revenue (%)	13.29/26.11

Seeing Table 1，the asset-liability ratio in the solvency index is 42.34, higher than the industry index 36.26; the cash ratio is 63.27, lower than the industry index 169.10; the current ratio is 1.99 lower than the industry index 3.20; the quick ratio is 1.76, lower than the industry index 2.62; in

summary, the case solvency index is lower than the industry index, reflecting the company's ability to deal with short-term and long-term debts. Generally speaking, this includes current ratio, quick ratio or asset-liability ratio. If a company's ratios are below the industry average, this may indicate that the company is under pressure to repay its debt, and that its financial stability and solvency may be low on development capacity indicators.

The growth rate of shareholders' equity in the development ability index of the case company is 1.85, far lower than the industry index 28.22; the growth rate of operating net cash flow is 110.38, lower than the industry index 201.83; the net profit growth rate is -51.89, far lower than the industry index -19.29; the revenue growth rate is -21.44, lower than the industry index 3.51; in summary, the development ability index of the case company is lower than the industry index, while the development ability index mainly measures the future growth prospect of the company. Usually, include operating income growth rate, net profit growth rate, etc. If these indicators are below the industry average, this could mean that the company is growing lagging behind the industry, or that it is not effectively using its own resources and opportunities to boost its business and market share [8]. In the profitability index of the case company is 1.70, lower than the industry index 4.36; the return rate of the company index is 3.17, lower than the industry index 4.63; the net interest rate of sales is 1.32,4.43 lower than the industry index 4.43; the gross profit margin of operating income is 13.29, lower than the industry index 26.11. In summary, the profitability index mainly reflects the company's profit generating ability, including the common return rate, gross profit rate, and net profit rate, etc. If these rates are lower than the industry average, this may indicate that the company's profitability is weaker and its operating efficiency and economic benefits may be lower.

Therefore, in this case, the company needs to conduct a comprehensive review of its financial situation, business model and business strategy, and seek measures to improve its solvency, development ability and profitability. At the same time, the company also needs to adjust its strategy to adapt to the changes in the market environment and the development trend of the industry [9].

4. Influencing Factor

4.1. Audit Revenue

The audit revenue of the newly replaced accounting firm (Asia Pacific firm) is good, with 49 audit clients, major industries including computer, communications and other electronic equipment manufacturing, meeting the company's CSRC requirements for manufacturing / computer, communications and other electronic equipment manufacturing.

4.2. Integrity Records

In the past three years, the Asia Pacific firm has been punished for 0 criminal actions, 5 administrative penalties, 32 times for supervision and management measures, 3 times for self-regulatory measures and 2 times for disciplinary actions.

It involved 47 employees. The new accounting firm (Asia Pacific firm) has a good record of integrity [10].

4.3. Independence

The Asia Pacific firm, the proposed signing partner, the proposed signature accountant and the quality control review of the proposed project have no situation that may affect the independence. The new accounting firm (Asia Pacific firm) has good independence.

4.4. Audit Charge

The audit fees will be determined through consultation in accordance with the principle of fair and reasonable market pricing, the nature of the audit services, the degree of complexity and simplicity,

and the audit workload. The audit charges of the newly replaced accounting firm (Asia Pacific firm) meet the company requirements [11].

4.5. Trust and Relationships

The audit Committee of the Board of Directors of the Company convened the second audit Committee of the sixth Board of Directors in 2023 on March 7,2023, Deliberating and passing the Bill on the proposed replacement of accounting firms, The audit committee of the board of directors of the Company has reviewed the basic information, qualifications, personnel information, business scale, investor protection ability, independence and integrity records of the Pacific firm, Believe that it has sufficient independence, professional competence, investor protection ability, Experience and ability to audit for listed companies, To meet the needs of the company's annual financial audit and internal control audit work, Agree to appoint the Asia Pacific firm as the company's financial audit institution and internal control audit institution in 2022, The term of employment is one year, And agreed to submit the "motion on the proposed replacement of accounting firms" to the fourth (interim) meeting of the sixth board of directors of the company for deliberation.

4.6. Satisfaction and Communication

The company has communicated with Lixin Firm in advance about the change of audit institutions, and Lixin Firm has no objection to this. The Asia-Pacific firm to be appointed by the company has communicated with the original appointed Lixin Firm. The former and post accounting firms will do a good job in relevant communication and cooperation in accordance with the requirements of the Auditing Standards of Chinese Certified Public Accountants No.1153-Communication between Former Certified Public Accountants and future Certified Public Accountants.

5. Evaluation of Benefits and Drawbacks

5.1. Benefits

5.1.1 Improve the service quality and professional knowledge

Asia Pacific (group) accounting firm (special general partnership) in 2021 listed companies audit clients number 49, the main industry including computer, communications and other electronic equipment manufacturing eight, software and information technology services seven, wholesale four, electrical machinery and equipment manufacturing three, non-metal mineral products 3, Internet and related services, coal mining and washing industry, 2, business services, culture and education, beauty, sports and entertainment manufacturing 2, the rest of the industry 15, financial statements audit charges total 61.03 million yuan. Number of audit customers of listed companies in the same industry: 2. And new Asia process (Zhejiang) co., LTD., belongs to the state-owned enterprises, the CSRC industry for manufacturing / computer, communications and other electronic equipment manufacturing industry, and the new accounting firm is good at handling the computer manufacturing field, because the new accounting firm for specific computer production industry or field have more understanding and professional knowledge, to provide case company higher quality service.

5.1.2 Reduce risks and uncertainty

In view of the company controlling shareholders and actual controllers change, considering the lixin firm has provided audit services for many years, in order to ensure the independence and objectivity of the audit work, considering the company control change, business development needs, audit requirements, etc., the original accounting firm responsible for the case company during the company regularly report the top three directors total remuneration increased year by year, but during the case company loss rate average rising year by year, and let the company doubt the independence of former accounting firm, may be related with the dereliction of duty. Because if the original accounting firm underperforms or makes mistakes, changing the accounting firm can reduce these risks and uncertainties [12].

5.1.3 Promote economic benefits

The board of directors of the company audit committee has the basic situation of the Asia Pacific firm, qualifications, personnel information, business scale, investor protection ability, independence and integrity records, think it has enough independence, professional competence, investor protection ability, audit experience and ability, can meet the company's annual financial audit and internal control audit work needs. The audit fees will be determined through consultation in accordance with the principle of fair and reasonable market pricing, the nature of the audit services, the degree of complexity and simplicity, and the audit workload. New accounting firms may offer reasonable prices, and their high efficiency and quality services save management time, thus enhancing the economic benefits.

5.1.4 Get a new perspective

Company independent directors independent opinion, think the asia-pacific firm with securities and futures business related qualifications, provide audit service experience and ability, to provide real fair audit services, have enough independence, professional competence, investor protection ability, meet the company 2022 annual audit related work. Because the new accountant affairs has the experience and ability to provide audit-related services to the company, it may provide different insights or suggestions related to audit to the company, so that the company can analyze and solve problems from a new perspective.

5.1.5 Improve the company's reputation

In the past three years, the Asia Pacific firm has been punished with 0 criminal penalties, 5 administrative penalties, 32 supervision and management measures, 3 regulatory measures and 2 disciplinary actions, involving 47 employees. Explain that the new accounting firm has a good credit record. If a new accounting firm has a good reputation in the industry, working with it may improve the company's image in the eyes of external stakeholders.

5.2. Drawbacks

5.2.1 Time and resource costs

The Company held the fourth (interim) meeting of the sixth Board of Directors on March 8,2023, deliberated and passed the "Proposal on the proposed Replacement of Accounting Firms", and agreed to appoint Asia Pacific Firm as the audit institution of the Company in 2022. In order to improve the efficiency of decision-making, the Central Committee of Prudential, the controlling shareholder of the Company, submitted to the Company the Letter on Adding the interim Proposal for the Second Extraordinary General Meeting of Shareholders in 2023, and requested the board of directors of the Company to submit the above proposal to the second extraordinary general meeting of shareholders in 2023 for deliberation in the form of an interim proposal. In conclusion, the replacement process may require a lot of time and resources, such as completing the screening, introduction, and training of new accountants. Moreover, it takes time and effort to move the former accountant to a new firm.

5.2.2 Potential cooperation risks

During the period when the original CPA firm was in charge of the case company, it could not meet the specific needs of the case company, leading to its replacement. Therefore, the new accounting firm may not be able to provide services as expected, or meet your specific needs, there is a certain cooperation risk.

5.2.3 Difficulty of internal adaptation within the organization

Employees within a company may need time to adapt to the new accountants and their work practices, which can lead to a decline in productivity over time.

5.2.4 Technical compatibility issues

New accounting firms may use different tools or technology platforms and may require reconfiguration or integrating of the system, which may impose additional burden or expense.

5.2.5 Privacy and security issues

The placement of accounting firms may involve a large number of sensitive data migration that, if improperly managed, may cause privacy leaks or data security issues. In general, despite the benefits of changing accounting firms, the potential drawbacks and risks need to be considered when deciding to change.

6. Countermeasures to Improve the Supervision of Replacing Accounting Firms of Listed Companies

6.1. Standardize the Procedures of Listed Companies to Change Their Accounting Firms

In view of the company controlling shareholders and actual controllers change, considering the lixin firm has provided audit services for many years, in order to ensure the independence and objectivity of the audit work, considering the company control change, business development needs, audit requirements, etc., the original accounting firm responsible for the case company during the company regularly report the top three directors total remuneration increased year by year, but during the case company loss rate average rising year by year, and let the company doubt the independence of former accounting firm, may be related with the dereliction of duty. In order to avoid the above situation from happening again, the relevant regulatory authorities should set up a clear and perfect process to standardize the operation of listed companies to replace accounting firms. If the listed company needs to replace it, it needs to submit an application to the regulatory agency and explain the reasons for the replacement in detail. Considering the decision-making power, independent directors and minority shareholders should have more say in the replacement decision to prevent the major shareholder from being dominant. At the same time, the review of the qualifications and background of new accounting firms should be strengthened to prevent replacement driven by financial misconduct. Within the listed company, there should also be a complete decision-making process to ensure that the reasons for the replacement of accounting firms are sufficient and rigorous investigated.

6.2. Strengthen the Inspection of the Listed Companies Proposed to Change the Accounting Firms

Considering that Lixin Firm has provided audit services for the company for many years, in order to ensure the independence and objectivity of the audit work, the change of control of the company, business development needs and audit needs are comprehensively considered. In the notice of the change of the case company, the specific connection between Lixin Firm and the independence of the audit work was not announced in detail. Therefore, for the listed companies proposed to replace the accounting firm, the regulatory agency should strengthen its financial review. When the listed company applies for the replacement of the accounting firm, the regulatory authority shall contact the original accounting firm to verify the reason for the replacement. If the review finds that the listed company may be replaced due to a financial improper motive or intention to purchase the audit opinion, the regulatory agency should intervene immediately. The focus of the investigation should be the audit opinion of the original accounting firm. If the listed company is found to have improper behavior, such as trying to obtain more favorable audit opinions by changing the accounting firm, it shall be punished accordingly and prohibited from changing the accounting firm.

6.3. Establish a Connection Mechanism between the Two Accounting Firms before and after

The new replacement accounting firm provided detailed institutional information to the case firm. Including basic information, investor protection ability, integrity records and project information, etc.

Therefore, the establishment of the contact mechanism between the two accounting firms before and after mainly involves ensuring that there is an effective communication path when the listed company changes its accounting firms. Specifically, the former accounting firm should provide relevant historical audit information and comprehensive audit opinions to the new accounting firm. This is done because old accounting firms are often more familiar with the financial and business conditions of public companies, so their information would be helpful for a more accurate and efficient audit. If the former accounting firm has made negative comments on the financial situation of the listed company, the new accounting firm should pay enough attention to these comments.

7. Summary

In recent years, China's listed companies have changed the behavior of accounting firms frequently, and showed a growing trend, and the frequent change of accounting firms is not conducive to improving the audit quality of listed companies. From the change of the motivation of listed companies, the main factors of listed companies and the two aspects, the reason, the relevant regulatory authorities shall change for the motivation of accounting firms of listed companies, actively take corresponding measures to establish a perfect regulatory mechanism, prevent the use of replacement of accounting firms in financial fraud, or for other earnings. And for listed companies, should also refrain to change the preference of accounting firms, set up before and after the evening accountants change, the communication mechanism, can better between accounting firms, communication and cooperation, it has great significance to improve the quality of the audit of listed companies.

References

[1] Zhao Jun. China's listed companies' financial report fraud and preventive measures. Market Research, 2019, 3.

[2] Zhang Wei. Identification and prevention skills of financial fraud in listed companies. Accounting study, 2020, 10.

[3] Wang Shuguang, Dong Jie. Analysis of financial fraud of Kangmei Pharmaceutical --- Based on the perspective of audit failure. Accounting and Communications, 2020, 12.

[4] Zhu Jia, Yu Jia. Research on financial fraud and governance countermeasures of listed companies. Shopping Mall Modernization, 2018, 12.

[5] Zhao Yi. Based on GONE fraud theory. Accounting Research, 2018, 4.

[6] Jiang Jialing. Research on the financial fraud problem of listed pharmaceutical companies. Fujian Agriculture and Forestry University, 2022.

[7] Zhao Xueyang. Research on financial fraud motivation and prevention of automobile manufacturing enterprises. Zhongnan University of Economics and Law, 2021.

[8] Xia Shenghe. Analysis of the causes of financial fraud in K Company. Zhongnan University of Economics and Law, 2021.

[9] Wang Zhiying. Research on the motivation and governance of financial fraud based on the risk factor theory. Dongbei University of Finance and Economics, 2021.

[10] Peng Yi. Research on fine budget management in enterprise financial management. Business Theory of China, 2021, 3: 134-135.

[11] Yuan Yilin. Research on corporate financial risk prevention and control - Take tobacco commercial enterprises as an example. Business Theory of China, 2021, 3: 138-139.

[12] Wang Wenjiang. Research on the application of financial fraud identification based on the fraud triangle theory. Contemporary Accounting, 2019, 14: 6-8.