Research on the Quality Control System of China Audit Asia Pacific Certified Public Accountants LLP.

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Abstract: Accounting firms serve as the primary watchdogs and guardians of the market economy, bearing significant importance in facilitating the stable progress of the capital market. Many companies pursue higher profits while neglecting their social responsibilities, leading to an increasingly prevalent occurrence of financial fraud. Certified public accountants (CPAs) should strengthen their risk awareness during the auditing process, strictly adhere to auditing standards and relevant laws and regulations, and ensure the quality of accounting information from the planning stage of the audit. It is essential to enhance the quality control system to fundamentally reduce audit risks.

Keywords: Financial Fraud; Quality Control System; China Audit Asia Pacific Certified Public Accountants LLP.

1. Introduction

Since the outbreak of the pandemic in 2019, the economy in various sectors has been significantly impacted, fundamentally shaking the interests of many businesses. In order to survive or seek greater benefits, some companies have resorted to concealing their true financial information and engaging in audacious acts of falsification.

In the complex and ever-changing economic landscape, it is crucial to better control the multitude of economic matters in enterprises. To prevent financial fraud, it is necessary to strengthen and improve the weak links in the quality control systems of accounting firms. The establishment of a robust quality control system aims to promote a healthier, sustainable, and stable market development. It also facilitates the fulfillment of responsibilities and missions of accounting firms, enabling them to effectively fulfill their role.

Lee G, Xiao X. (2018), through their research on the relationship between whistleblowing and inappropriate accounting-related behaviors, analyzed the impact of corporate financial fraud from the whistleblower's perspective and its effects on individuals implicated in the reports. They proposed recommendations for effectively mitigating corporate financial fraud [1]. Hail L, Tahoun A, Wang C (2018) argued that executives serving in lenient control environments are more likely to engage in fraudulent activities during their tenure compared to companies with stricter control environments. In lenient control environments, executives face less behavioral constraints, resulting in a lower likelihood of fraud detection. The power held by executives can significantly influence a company's operations, making it easier for fraudulent activities to occur [2]. Kong D, Xiang J, Zhang J, Lu Y (2019) examined the role of internal governance environment in corporate governance and its impact on misconduct. An unreasonable internal governance structure provides opportunities for corporate fraud. Independent directors with local political backgrounds can reduce the likelihood of fraudulent behavior within a company [3].

Extensive research has been conducted by domestic and international scholars regarding the issue of financial fraud in accounting firms. The research findings obtained by most foreign scholars are relatively mature. However, compared to foreign countries, there is still a significant gap in the development of our domestic capital market. In recent years, attention has been increasingly directed towards the study of financial fraud, and many research approaches have been inspired by the works of outstanding foreign scholars. Both domestic and foreign scholars, in their research endeavors, explore and specialize in understanding the reasons behind engaging in financial fraud, the methods employed for committing financial fraud, as well as the exploration of measures for addressing and preventing such malicious behavior.

2. Overview of Accounting Firm's Quality Control System

Financial fraud can be categorized into two types: misstatement of financial matters and misrepresentation of financial statements. The importance of audit quality cannot be overstated. Auditing is a meticulous and detail-oriented task, and any failure to meet the required level of quality would render the efforts futile.

2.1. Current Status of Accounting Firm's Quality Control System Construction

The internal control of accounting firms in our country lacks proper guidance. The previously issued "Chinese Certified Public Accountants Quality Control Standards" required enterprises to establish sound and reasonable internal control systems, but the execution results have not been as ideal as anticipated. It is widely believed that the current situation is characterized by insufficient efficiency in the quality control system of accounting firms, inadequate professional capabilities, and a lack of a professional supervision system.

2.2. Analysis of the Main Issues in China Audit Asia Pacific Certified Public Accountants LLP's Quality Control System

China Audit Asia Pacific Certified Public Accountants LLP was formed in 2008 through a strong collaboration between Zhongshen Certified Public Accountants Co., Ltd. and certain...
branches, as well as Asia-Pacific Zhonghui Certified Public Accountants Co., Ltd., resulting in a name change to China Audit Asia Pacific Certified Public Accountants LLP. In early 2013, it was restructured and renamed as China Audit Asia Pacific Certified Public Accountants LLP Accounting Firm. With nearly four decades of establishment in the local market, the firm has always upheld a dedicated and focused professional spirit, consistently providing clients with high-quality services, making it one of the leading domestic accounting firm brands. However, the audit quality of China Audit Asia Pacific Certified Public Accountants LLP has been declining over the years, and the firm's quality control system has encountered numerous issues.

2.2.1. Insufficient Customer Risk Assessment

China Audit Asia Pacific Certified Public Accountants LLP's lack of understanding regarding the clients' environment, coupled with inadequate background investigations conducted by its audit personnel, has hindered the detection of potential financial misrepresentation within the audited entities. China Audit Asia Pacific Certified Public Accountants LLP had undertaken the annual audit projects for Gongzhun Meat Products Co., Ltd. in both 2014 and 2015. However, due to deficiencies in executing audit procedures to comprehend the audited entity and its environment, subsequent investigations revealed false representations in the audit reports for Gongzhun Meat Products Co., Ltd.'s annual financial statements in those years. Moreover, China Audit Asia Pacific Certified Public Accountants LLP exhibited numerous errors and oversights throughout this process. These audit failures can be attributed to the insufficient customer risk assessment and inadequate background understanding by China Audit Asia Pacific Certified Public Accountants LLP.

2.2.2. Lack of Experienced Professional Audit Personnel

China Audit Asia Pacific Certified Public Accountants LLP suffers from a severe shortage of highly skilled and experienced audit professionals. Online data indicates that the firm has an overwhelming majority of staff who are nearing retirement, accounting for over 80% of its workforce. This lack of fresh and excellent talent hinders the future development of the accounting firm. The employee incentive and constraint mechanisms are inadequate. There exists a significant disparity in income levels among employees, with experienced senior staff receiving higher salaries while the treatment of newcomers is less satisfactory. This phenomenon not only perpetuates an aging workforce but also undermines the motivation of new employees.

2.2.3. Insufficient Rigor in Review Mechanism

Due to work pressure and the complexity of various stage processes, many employees fail to conduct the required three-level reviews according to the established standards. Additionally, the management team has not fulfilled its corresponding supervisory responsibilities. Furthermore, the communication during the audit process has gradually shifted from offline to online, which hinders a comprehensive understanding of the basic conditions of the audited entities. This creates opportunities for audited entities with fraudulent intentions to exploit the situation.

2.2.4. Deficiencies in Internal Control System

China Audit Asia Pacific Certified Public Accountants LLP's internal control system exhibits certain vulnerabilities, as well as some clear examples of pre-determined internally. Many talented individuals are constrained by internal relationships, forcing them to seek employment opportunities elsewhere. Consequently, several employees who pass the interview process lack the requisite knowledge and corresponding operational competence for their assigned positions. Furthermore, there is a significant dearth of pre-employment training for newly hired employees, as the content and scope of such training fail to adequately support their qualification for the assigned roles. Additionally, certain high-value clients are often directed away by management and colleagues with connections, which can lead to a demotivating environment for employees lacking influencing networks. These deficiencies in the internal control system significantly diminish China Audit Asia Pacific Certified Public Accountants LLP's ability to effectively mitigate financial fraud.

3. Recommendations

3.1. Strengthening Client Investigation

When China Audit Asia Pacific Certified Public Accountants LLP undertakes an audit project and engages with clients, whether they are new or existing clients, it is essential to strictly follow standardized procedures and conduct thorough background investigations on clients. This is to avoid inadequate risk assessment that may hinder the implementation of appropriate measures to mitigate risks. China Audit Asia Pacific Certified Public Accountants LLP should allocate staff members to engage in regular interactions and communication with clients, ensuring the timely update of clients’ latest business status and preventing information asymmetry.

3.2. Enhancing the Recruitment Standards of Staff and Emphasizing Ongoing Training

To improve the business competency of China Audit Asia Pacific Certified Public Accountants LLP, the most crucial aspect is to raise the recruitment standards for certified public accountants (CPAs). Accounting firms require highly qualified individuals, and it is only through raising the recruitment standards that the quality of audit results can be ensured. As a service-oriented organization, the key determinants of audit result quality are the ethical mindset and professional competence of practitioners. Additionally, thorough background checks should be conducted for each newly hired staff member to avoid recruiting individuals solely based on personal connections, without considering their abilities.

Furthermore, China Audit Asia Pacific Certified Public Accountants LLP must prioritize ongoing professional ethics training for auditors. This involves strengthening the professional ethics education of practitioners, conducting regular assessments of their professional competence, and emphasizing continuous professional ethics education. These efforts are necessary to ensure that CPAs possess the essential professional qualities and ethical standards throughout the entire audit process.

3.3. Standardizing Audit Procedures

Firstly, China Audit Asia Pacific Certified Public Accountants LLP needs to emphasize the format standards of audit working papers when auditors create them. While ensuring the content is standardized and organized, attention should also be paid to the authenticity of data, accuracy in
writing, and clarity and precision in presenting the results. In the process of reviewing audit working papers, a three-tier review system should be implemented. It is crucial not to overlook minor details that may lead to significant consequences, and every stage of work must be completed with high quality and quantity assurance.

3.4. Strengthening Internal Control of Management and Emphasizing Audit Quality

Employees at China Audit Asia Pacific Certified Public Accountants LLP not only need to develop external investigations in the audit process but also internal investigations. Given the various issues that have occurred in the company, it is evident that there are deficiencies in the management. It is crucial to address and fill these gaps. The leadership should lead by example, strictly adhere to ethical standards, and guide other audit staff with normative behavior and good professional ethics. They should not be swayed by monetary influences or personal interests. Only in this way can the audit quality be improved in the work.

Furthermore, China Audit Asia Pacific Certified Public Accountants LLP should conduct more training programs on audit laws and regulations to enhance the overall competence of employees and actively cultivate high-quality talent. By fostering a cohesive team and mobilizing the enthusiasm of employees in various departments, the possibility of audit risks can be reduced. Continuous learning and improvement, along with enhancing the overall audit capabilities, are essential for achieving a stable improvement in audit quality.

4. Conclusion

The healthy and sustainable development of the market not only requires companies to refrain from engaging in financial fraud but also necessitates the enhancement of quality control systems in accounting firms to prevent such fraudulent activities. Only by establishing robust quality control systems in accounting firms can the market thrive in a healthy, continuous, and stable manner. This approach is also conducive to upholding the responsibilities and mission of accounting firms and enabling them to fulfill their roles more effectively. In China, it is crucial to strengthen audit publicity efforts, while accounting firms should focus on cultivating the professional competence of auditors, improving internal controls to enhance audit quality, and refining information system construction. These measures will help build a more comprehensive quality control system aimed at better mitigating financial fraud.

References