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Identification and Prevention Strategy Optimization of Audit Risks in Accounting Firms

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Abstract: With the increasing improvement of China's comprehensive national strength, the domestic economic environment has become increasingly complex, and the difficulty of enterprise operation and management has also increased. Malicious incidents such as financial fraud and embezzlement occur frequently, directly increasing the difficulty of audit work in accounting firms. At the present stage, accounting firms are involved in more and more cases, and the reliability of the audit reports they issue has been questioned, leading to a trust crisis in the entire audit industry. Some firms have even fallen into difficulties as a result. In such an environment, if accounting firms want to develop sustainably, they should base on the actual development situation and provide more objective, fair and accurate audit reports and opinions. This paper aims to deeply explore the identification and prevention strategies of audit risks in accounting firms. By systematically analyzing the characteristics, causes, and existing identification and prevention measures of audit risks, it puts forward targeted optimization suggestions to improve the audit quality of accounting firms and provides new ideas for the audit risk management work of accounting firms.

Keywords: Accounting Firms; Audit; Risk Prevention.

1. Necessity of Identifying Audit Risks in Accounting Firms

1.1. Meeting National Development Requirements

In recent years, with the increasingly prominent problem of enterprise financial fraud, the audit risks faced by accounting firms have also increased significantly. This tests the professional qualities and professional ethics of auditors, and also makes the issues of audit quality control and risk prevention the focus of widespread attention and hot topics in all sectors of society. In order to regulate the behaviors of audit institutions and auditors, control the occurrence of audit risks, and curb enterprise financial fraud, the National Audit Office has issued the "National Audit Standards", among which No. 25 "Materiality and Audit Risk" clearly states that audit institutions need to prevent audit risks. It is necessary for accounting firms to strengthen the prevention and control of audit risks in accordance with relevant policy requirements.

1.2. Maintaining Economic Order

Enterprises effectively promote the continuous development of the economy and the progress and innovation of society by efficiently organizing the production and sales of various goods and services, accurately connecting with and meeting the growing consumption demands of the broad masses of the people. As the micro - foundation and core driving force of the market economy, enterprises play an irreplaceable and crucial role. Therefore, ensuring the healthy operation of enterprises is of great importance. Accounting firms are the executors of external supervision and evaluation of enterprise economic activities[1-3]. If inaccurate audit reports are issued, it may mislead enterprise operations and decisions, and even cause enterprises to be eliminated by the market, which will seriously disrupt the economic order. It can be said that doing a good job in preventing audit risks is conducive to the development of accounting firms themselves and plays a certain role in maintaining China's economic order.

2. Characteristics of Audit Risks

2.1. Objectivity

Audit risk is an objectively existing economic phenomenon, which is rooted in the characteristics of audit activities themselves and the complexity of the market environment. It will not shift or disappear due to the will of auditors. As an inherent risk in the audit process, its existence is independent of human will. In audit practice, the sampling audit method is often adopted, where samples are randomly selected, and then the overall situation is inferred based on the sampling results to analyze the overall financial situation of the enterprise. Although the selected samples are somewhat representative, errors are inevitable, and such errors are usually difficult to eliminate or control. These errors may lead to audit failures and thus trigger audit risks. During the audit process, auditors need to maintain a rigorous attitude, adopt scientific and effective methods and measures, and conduct refined management of the audit process to minimize the error rate.

2.2. Contingency

The occurrence of audit risks is accidental and sudden. The time, place, specific results and impact degree of its occurrence are often difficult to accurately predict in advance, with great uncertainty, making audit risk a typical random phenomenon that is difficult to completely avoid. In this case, in order to effectively prevent risks, it is necessary to observe, statistically analyze a large number of risk event materials, find out the causes and laws of risk occurrence from them, calculate the probability and characteristics of risk occurrence, so as to formulate risk response plans in advance and control the negative impact of risks within an acceptable range. Only in this way can emergency response plans be quickly activated and effective measures be taken when risks actually occur, minimizing the losses and adverse impacts brought by audit risks.

2.3. Universality

In the audit process, any negligence or mistake in any link may become the cause of audit risks, triggering a series of chain reactions, resulting in a significant deviation between the final audit result and the expected goal, affecting the accuracy and credibility of the audit report. The factors causing audit deviations are diverse, which may come from either inside or outside the enterprise. It can be said that risks are everywhere in the audit process. If the existence of audit risks is not allowed, auditors need to bear huge responsibilities, and perhaps no one will be willing to engage in the audit profession. In a sense, allowing a certain degree of audit risk is a prerequisite for the existence and development of the audit profession. Because audit activities themselves are full of uncertainties, the existence of audit risks has a certain degree of universality and inevitability, which is an inherent characteristic of audit work.

3. Causes of Audit Risks in Accounting Firms

3.1. Limited Personnel Competence

Audit work is complex and professional. It requires auditors to be proficient not only in financial and economic knowledge, but also in relevant laws and regulations, have an in - depth understanding of the operating conditions of the audited enterprise, possess certain practical experience, and be able to correctly judge potential risks at work. However, some accounting firms do not attach importance to talent reserve, have a low recruitment threshold for staff, and hire some people without professional experience, who do not have a good understanding of the "Economic Law" and the "Accounting Law", and may not even have obtained a CPA certificate. This makes it impossible to guarantee the quality of audit work. For example, during the annual audit stage, some small and medium - sized accounting firms will recruit a large number of interns to cope with the increase in workload. The incompetence of interns increases the uncertainty and risks in the audit process[4-5].

3.2. Inadequate Industry Supervision

Some accounting firms, in order to compete for client resources and pursue maximum profits, do not hesitate to violate the relevant provisions of the audit standards, collude with the audited enterprises, and carry out improper interest transfer and embezzlement behaviors (Figure1). To effectively contain such phenomena, regulate the behaviors of audit institutions and auditors, and promote the play of audit functions, it is necessary to formulate relevant laws and regulations, stipulate audit violations at the legislative level, and further increase the cost of illegal audits. At present, China's relevant laws and regulations are not perfect, the current regulations are not highly operable, there are no detailed provisions for illegal audit operations, there is a lack of a supporting compensation system, the cost of violations is low, increasing the probability of the occurrence of audit risks.

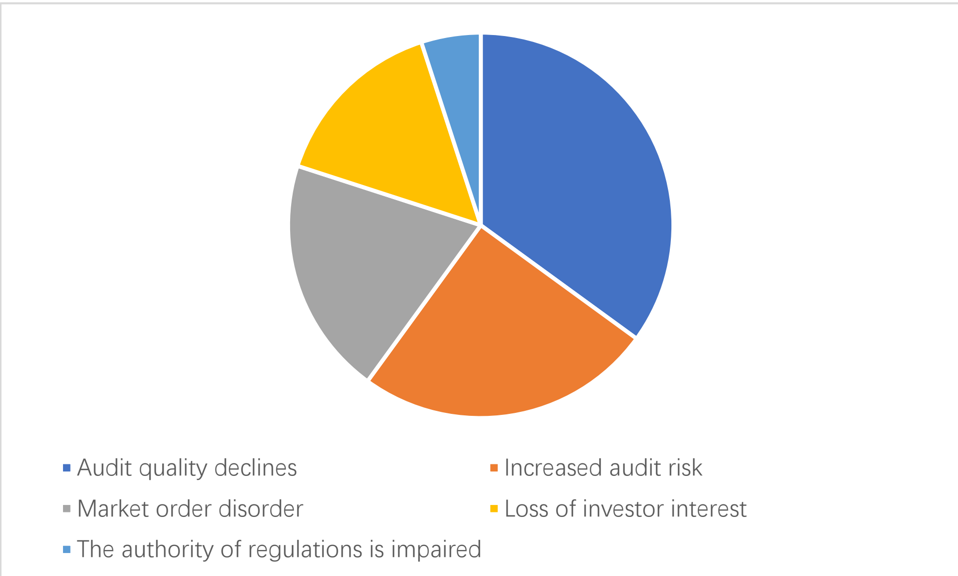

Figure 1. Disadvantages caused by insufficient regulation of the industry

3.3. Lack of Risk Awareness

Through in - depth investigation and research, it is found that although many accounting firms verbally advocate the risk - oriented audit concept, in actual audit work, they generally show the problem of weak risk awareness, which is more prominent in the complex and changeable market environment. The application of risk audit is not in place, and a comprehensive risk assessment of the audited enterprise has not been carried out. In addition, some accounting firms, in order to improve work performance, increase revenue and profits, ignore the existence of audit risks, blindly simplify audit procedures, lower client selection standards, and still accept commissions even when they know that the audited enterprise has relatively high risks. This undoubtedly reduces the controllability of audit risks.

4. Identification and Prevention Measures of Audit Risks in Accounting Firms

4.1. Innovating Audit Forms

At present, many accounting firms in China are still using traditional audit methods, but these methods have been difficult to meet the changing audit work requirements with the rapid development of the social economy. The deficiencies of traditional audit means in terms of efficiency, accuracy and comprehensiveness are becoming increasingly prominent and need to be innovated and upgraded. For example, in the audit mode based on account books, auditors conduct random sampling tests on the accounts of the audited enterprise. The subjective consciousness of auditors plays an important role in this process, which greatly affects the objectivity and scientific nature of the audit conclusion, and there may also be some omissions, thus causing audit risks[6-7]. Therefore, accounting firms need to innovate the audit mode, change the concept of carrying out audit work. During the audit process, auditors should maintain a high level of professional ethics, establish modern audit awareness, improve their professional capabilities, adopt different audit modes and methods according to the different characteristics of each audit task, uphold a realistic and serious attitude, and strive to minimize audit risks with high - level professional capabilities and professional ethics (Figure 2).

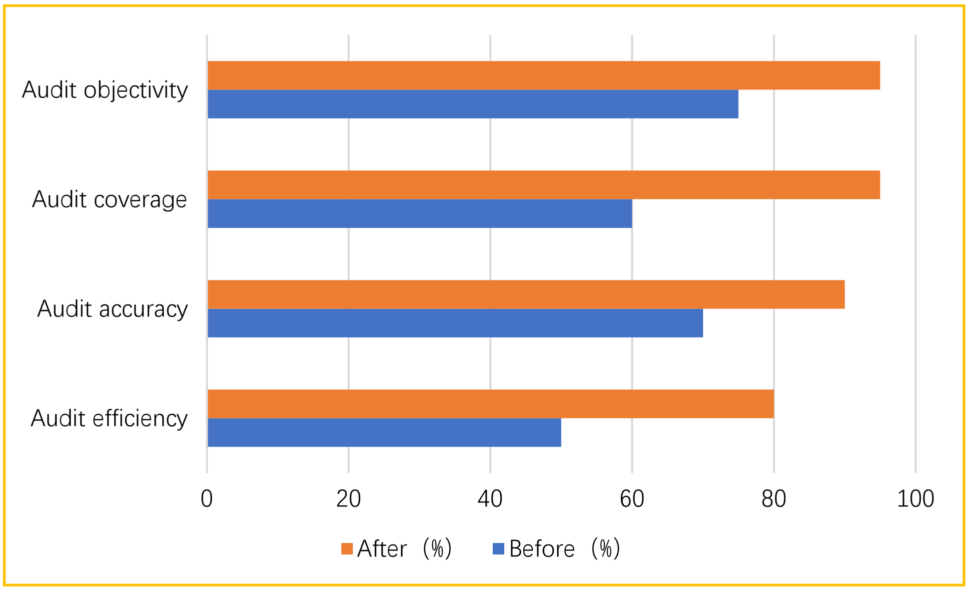

Figure 2. Changes in the form of innovation audit

4.2. Strengthening Quality Control

Quality control is the core of improving audit quality in accounting firms and a key measure to effectively avoid audit risks (Table1). Accounting firms should strengthen the audit work system oriented by quality, require accounting firms to carry out audit work in strict accordance with current laws and regulations, effectively ensure the fairness and rationality of audit results, and also effectively reduce illegal acts caused by improper operations of the firm. At the same time, accounting firms incorporate various elements such as the objective relationships to be assumed, business monitoring, human resources, and professional ethics into the category of quality control construction, thus forming a good quality control system and avoiding the occurrence of audit risks. In the process of strengthening quality control, accounting firms should also actively promote the construction of a review system, enabling accounting firms of different scales to compete effectively and develop well. Small and medium - sized accounting firms implement a review system mainly with three - level or above reviews, enabling project managers, department managers, and chief accountants to undertake certain review work. Strengthening the quality control system ensures audit quality, reduces audit risks, and promotes the healthy and orderly development of accounting firms.

4.3. Improving Personnel Competence

Given that the clients served by accounting firms are from various industries, it is crucial to provide regular training for relevant personnel. Senior certified public accountants with rich experience in multiple industries can be invited to teach practical experience to the accountants of this firm, so as to improve their professional capabilities and audit quality. They can explain to the certified public accountants of this accounting firm what issues should be paid attention to and which aspects of the audit should be strengthened in the audit work of different industries, so as to continuously broaden the knowledge and professional capabilities of certified public accountants. In addition, accounting firms should also strengthen the education of the professional ethics of certified public accountants, so that each accountant can always maintain a high level of professional ethics at work. This can be achieved through an incentive mechanism for moral compliance to continuously improve the professional ethics level of accountants. Accountants should improve their comprehensive qualities, actively learn and communicate, always adhere to the audit principles of fairness, impartiality and objectivity in audit work, enable their professional capabilities to adapt to diverse audit work, and actively learn advanced audit work knowledge and experience in society to ensure that their professional capabilities are sufficient to be competent for audit work. This is the key to effectively controlling and preventing the audit risks faced by accounting firms.

4.4. Improving External Supervision

Accounting firms have long relied mainly on self - management and restraint, lacking an independent and effective external supervision institution to conduct comprehensive supervision and evaluation. The lack of this supervision mechanism is likely to breed negligence and illegal behaviors, thus increasing the audit risks faced by accounting firms to a certain extent. Therefore, China currently needs a supervision institution independent of accounting firms. The supervision institution needs to represent the interests of the public and not be related to the interests of accounting firms. The external supervision institution of accounting firms should have the authority to investigate and manage the business of accounting firms. Certified public accountants need to accept the investigation and understanding of the external supervision institution to effectively restrict the audit behaviors of accounting firms and certified public accountants[8-10]. The external supervision institution is an effective auxiliary measure and cannot fundamentally solve the audit risk problem, but it can standardize various audit behaviors of accounting firms, minimize audit risks caused by subjective human factors, and leave no chance for law - breakers, so as to comprehensively control and prevent the audit risks of accounting firms.

Table 1. Ways to improve the level of personnel

Way	Specific content
Regular professional training	Invite senior certified public accountants to teach practical experience and explain the key points of different industries
Broadening knowledge	Enhance CPA's understanding of industry characteristics and audit skills through training
Professional ethics education	Strengthen the education of professional ethics, and use the incentive mechanism of moral compliance to improve the moral level
Encourage learning and communication	Encourage accountants to actively learn new knowledge, participate in industry exchanges, and improve their comprehensive quality
Emphasis on Audit Principles	Adhere to the principles of fairness, impartiality and objectivity to ensure the fairness and accuracy of the audit work

5. Conclusion

In conclusion, the identification and prevention strategy optimization of audit risks in accounting firms is a complex and important task. The main reasons for triggering audit risks in accounting firms include the weak professional capabilities of auditors, the weak independence of firms, and the lack of a risk - oriented audit awareness. To some extent, audit risk prevention is not only related to the development of accounting firms and audited enterprises, but also to the normal operation of the market economic order. Strengthening audit risk prevention and control is imperative. Therefore, by improving the capabilities and comprehensive qualities of certified public accountants and the supervision and control system of accounting firms, the actual quality of audit results can be improved, a safer and more efficient audit environment can be constructed, and the healthy development of the audit industry can be promoted.

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