

Audit Risks and Countermeasures in Live-Streaming E-Commerce under the New Retail Model

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Abstract: Under the impetus of internet technology and data elements, new retail has propelled the transformation of retail formats from single-channel operation to the in-depth integration of online and offline businesses, among which live-streaming e-commerce, as a crucial implementation form of new retail, has experienced rapid expansion. However, its distinctive characteristics including cross-platform operation, high-frequency transactions and profit-sharing among multiple entities have significantly elevated the audit risks of financial statements. Based on the risk-oriented audit theory, this paper takes Yaowang Technology as a case study and draws on public information such as inquiry letters from the Shenzhen Stock Exchange, regulatory decision documents and the company's annual reports, to identify the material misstatement risks of live-streaming e-commerce enterprises from three dimensions: the financial statement level, the assertion level and the detection risk. In response to the aforementioned risks, this paper puts forward a systematic set of strategies for addressing audit risks, which involve strengthening industry cognition and strategic risk assessment, improving internal control evaluation procedures and enhancing information technology auditing capabilities. This study aims to provide practical and operable ideas for risk identification and audit procedure design in audit practice, while also offering references for live-streaming e-commerce enterprises to optimize their internal control systems and improve the quality of financial information disclosure.

Keywords: New Retail Model; Live-streaming E-commerce; Audit Risk.

1. Introduction

Driven by internet technologies, the rapid proliferation of online e-commerce platforms, which has posed a prominent challenge to traditional offline retailing, has reshaped the competitive landscape of the retail industry. As a growing number of enterprises have ventured into the online sphere, the online market has gradually become saturated, with its growth rate registering a corresponding decline; as a result, enterprises that focus merely on developing a single channel, either online or offline, can no longer recapture the advantageous position they held in the early stage of the market in terms of profit margins and future development potential. In 2016, Jack Ma, the founder of Alibaba, put forward the proposition that the "new retail" model integrating online and offline operations would represent the future trend of commercial development. In the same year, the Opinions on Promoting the Innovation and Transformation of Physical Retail, which was issued by the General Office of the State Council, also advocated that enterprises should accelerate the innovation of business models, conform to consumption trends, and promote the integration process of online and offline retailing. In light of the above-mentioned points, the emergence and evolution of the new retail model have injected robust impetus into the sustainable development of retail enterprises. By integrating online services, offline experiences and modern logistics, new retail has achieved the reconstruction and optimization of the three core elements—people, goods and scenarios—which has broken the inherent boundaries of traditional retailing, greatly enhanced consumer experience and supply chain efficiency, and marked the advent of a new data-driven phase in the retail industry.

Amid this wave of transformation, live-streaming e-commerce, as a highly representative emerging format that has risen rapidly, leverages real-time video interaction

technology to deeply integrate product display, content marketing, social engagement and instant purchasing, thereby generating explosive growth. The new retail model provides a solid conceptual foundation and facility support for live-streaming e-commerce. It emphasizes omni-channel integration, precise user personas, and supply chain digitization, empowering live-streaming e-commerce to achieve more precise customer acquisition, efficient conversion, and smooth fulfillment, driving its evolution towards a healthy ecosystem. Compared to the traditional e-commerce model, which is centered around "goods" and relies on static images and text as well as user search—following a "people-seeking-goods" approach—live-streaming e-commerce under the new retail model has truly shifted to a "goods-seeking-people" approach centered around "people". Through dynamic immersive content and emotional connections with hosts, it has created new scenarios where "goods seek people". Its transaction logic has also evolved from pure commodity trading to experiential consumption featuring social attributes and trust economy, essentially reshaping the business logic and value creation methods of e-commerce.

In the ecosystem of new retail that integrates online and offline channels, the complexity of the live-streaming e-commerce business model also gives rise to multi-dimensional audit risks, such as the authenticity of transactions, the compliance of data assets and revenue sharing, and the penetrability of inventory and supply chain audits. Currently, there is considerable attention to audit risks in retail enterprises under the new retail model, but research on audit risks in live-streaming e-commerce under this model is relatively scarce. This paper selects Yaowang Technology as the case study subject. On the one hand, based on the inquiry letter that the company received from the Shenzhen Stock Exchange, which involved multiple financial and

business compliance issues, it provides a realistic entry point for audit risk analysis. On the other hand, according to the latest “2024-2025 China's Top 30 Live-Streaming E-Commerce Service Providers Comprehensive Competitiveness Rankings” released by iiMedia Research, Yaowang Technology ranks among the top three in comprehensive competitiveness, demonstrating its strong industry representativeness and research value due to its full-chain operation capabilities and platform deepening advantages. Based on the inquiry letter from the Shenzhen Stock Exchange to Yaowang Technology and publicly disclosed annual reports and other materials of Yaowang Technology, this paper analyzes the audit risks existing in such live-streaming e-commerce enterprises and proposes relevant measures and suggestions to address these risks.

2. Relevant Concepts and Theoretical Basis

(1) Overview of new retail and e-commerce models

The core connotation of the new retail model lies in centering on consumer experience, leveraging digital technologies such as big data, the Internet of Things (IoT) and artificial intelligence (AI), and realizing the systematic reconstruction and collaborative optimization of the three core elements “people, goods, scenarios” through supply chain innovation and the in-depth integration of online and offline channels. This model not only focuses on improving the efficiency of commodity circulation, but also emphasizes consumers’ sense of immersion and emotional connection throughout the full-link shopping experience, embodying a fundamental shift from a transaction-oriented space to an experience-oriented domain. The typical characteristics of new retail include: 1. Multi-dimensional scenario construction. It enhances the interaction and emotional bond between consumers and brands by building multi-dimensional consumption scenarios such as social interaction, entertainment and daily life. 2. Data-driven decision-making. Relying on data-driven approaches, it captures and analyzes consumer behaviors in real time to achieve precision marketing, dynamic inventory management and intelligent supply chain scheduling, thereby continuously driving the innovation and iterative upgrading of business models and enhancing the responsiveness to market changes.

Against this backdrop, as an innovative business model, live-streaming e-commerce has constructed a collaborative ecosystem centered on platform providers, multi-channel network (MCN) institutions, streamers, brand owners and users. For instance, platform providers of live-streaming e-commerce such as Taobao, Douyin and Kuaishou not only provide traffic entrances and transaction infrastructure, but also dominate the business ecosystem through intelligent algorithm distribution and data analysis capabilities; MCN institutions, acting as the industrial hub, undertake key functions such as content creation, streamer incubation, resource docking and data operation, promoting the scaling and commercialization of content creators; streamers continuously strengthen users’ trust stickiness and scenario immersion through persona building in live rooms and emotional interaction with users; brand owners rely on live streaming to achieve efficient response of the disintermediated supply chain and precision marketing, gradually shifting from a sales-oriented model to a dual-dimensional improvement of brand value and user

relationships; users complete the identity transformation from “passive purchasers” to “active participants” in multi-dimensional interaction and scenario infiltration, and their consumption behaviors evolve toward emotionalization, community segmentation and experientialization. In terms of profit models, besides the conventional revenue streams including commission deductions (CPS model), slot fees (slotting/placement fees), advertising promotion and service fees, live-streaming e-commerce has gradually developed diversified income channels based on content payment, membership subscription and cross-border joint marketing. From the perspective of business processes, this model presents a closed-loop mechanism of “product selection and negotiation—content preheating—live streaming execution—data feedback—fulfillment and after-sales service—review and iteration”, emphasizing full-link data-driven capabilities and real-time feedback efficiency. In the underlying support system, the smart supply chain has significantly improved response speed and resource allocation efficiency by cutting redundant links in traditional circulation and deeply integrating logistics, information flow and capital flow based on the consumer-to-manufacturer (C2M) flexible mechanism, thus supporting the operation of the live-streaming e-commerce business model characterized by high concurrency and high timeliness. Studies have shown that live-streaming e-commerce is not merely a sales channel, but also a key carrier for the integration and reconstruction of “people, goods, scenarios” in new retail [1]. It continuously expands business boundaries and reshapes the future retail paradigm through emotional resonance, knowledge transmission and cultural identity.

(2) Theoretical basis of audit risk

The audit risk theory constitutes the core and foundation for certified public accountants (CPAs) to plan and perform financial statement audits, providing a basis for the allocation of audit resources and the design and implementation of audit procedures. This paper’s research and analysis are primarily grounded in two theoretical pillars: the traditional audit risk model and the philosophy of modern risk-oriented auditing.

The traditional audit risk model serves as a classic analytical framework for CPAs to identify, assess and respond to risks. It defines audit risk as the probability that CPAs express an inappropriate audit opinion when material misstatements exist in the financial statements, and quantifies it with the formula: $\text{Audit Risk} = \text{Material Misstatement Risk} \times \text{Detection Risk}$. At the assertion level, material misstatement risk can be further assessed and interpreted from two dimensions: inherent risk and control risk. Material misstatement risk refers to the likelihood of material misstatements existing in the financial statements prior to the audit, which exists independently of the financial statement audit. Detection risk, by contrast, denotes the probability that CPAs fail to detect a material misstatement in a particular assertion through audit procedures. The core responsibility of CPAs lies in reducing detection risk to an acceptably low level by executing audit procedures, thereby controlling the overall audit risk below the predetermined threshold. Nevertheless, the traditional audit risk model embodies a simplistic orientation: it fails to establish a connection between the misstatement risk in financial statements and the entity’s operational risks, and most audit procedures are designed merely to obtain information on whether material misstatements exist in the financial statements. Consequently, it is difficult to determine from a single audit procedure

whether the evidence it yields pertains to inherent risk or control risk.

Against the backdrop of evolving complex business environments, advancing audit objectives, lessons learned from major audit failures and technological innovations, the limitations of the traditional model in addressing macro strategic risks have gradually become apparent. The modern risk-oriented auditing approach, developed on this basis, places greater emphasis on grasping the overall risks faced by audits from a macro perspective. It represents a shift from the traditional “bottom-up” approach driven by substantive tests to a “top-down” approach centered on identifying, assessing and responding to the material misstatement risks of financial statements. This philosophy redefines the requirements for auditors: instead of relying on the traditional transaction-based audit approach, auditors should start with the entity’s strategic objectives, its operating environment, unique business model and core business processes to systematically identify and evaluate internal and external risks that may result in material misstatements in the financial statements.

Within the audit risk model, material misstatement risk can be categorized into two levels: financial statement-level risk and assertion-level risk. Financial statement-level risk is broadly relevant to the financial statements as a whole and potentially affects multiple assertions. Such risks typically stem from macro factors including a weak control environment, lack of management integrity or cyclical industry decline, and exert an overall impact on audit engagements. Assertion-level risk, on the other hand, is closely associated with specific assertions related to classes of transactions, account balances and disclosures. For instance, the existence or occurrence assertion of revenue may be exposed to risks arising from fictitious transactions.

3. Introduction to the Case Company

(1) Overview of Yaowang Technology Company

Guangdong Yaowang Technology Group Co., Ltd. (hereinafter referred to as Yaowang Technology) with the stock code 002291 traces its origins back to Nanhai Saturday Shoes Co., Ltd., which was founded in July 2002 and later renamed Foshan Saturday Footwear Co., Ltd., a company that made its debut on the Shenzhen Stock Exchange in 2009 and thereby became the first women’s footwear enterprise to be listed on China’s A-share market. The listed entity Saturday and its affiliated brands, including ST&SAT and Sofia that were once widely recognized by the Chinese public as renowned women’s footwear labels, centered their early core business on the design, production and sales of mid-to-high-end fashionable leather shoes and gradually established a multi-brand operation framework that underpinned their market position in the footwear sector.

Yet, as the traditional retail industry bore the brunt of the disruptive impact brought by the internet and competition within the footwear and apparel sector intensified significantly, the company’s original footwear-focused business encountered a bottleneck of sluggish growth, a predicament that prompted it to proactively pursue internet-based transformation starting from 2017 by acquiring a number of fashion new media companies such as Beijing Fashion Front Information Technology Co., Ltd. and Beijing Shixin Information Technology Co., Ltd., moves that allowed the company to gain a foothold in the media and social networking domains. The pivotal turning point for the company’s foray into the live-streaming e-commerce industry

came in 2019, when it completed the acquisition of Hangzhou Yaowang Network Technology Co., Ltd., an established internet enterprise that boasted mature MCN operation capabilities and abundant internet traffic resources, with the integration of these advantageous assets enabling the company to rapidly construct a robust and scalable e-commerce business system. To achieve a thorough strategic transformation, the company made the decision to divest its original footwear business as the core operational focus, a process that reached a critical milestone in 2022 when it sold 100% equity interest of its wholly-owned subsidiary Foshan Saturday Footwear Co., Ltd. through a public listing and transfer mechanism, thus finalizing the core step of stripping off its traditional footwear business. In the same year, the company underwent a formal name change to Foshan Yaowang Technology Co., Ltd., and its stock abbreviation on the exchange was correspondingly altered from Saturday to Yaowang Technology, a move that signaled its full commitment to the digital economy and e-commerce sectors. Subsequently, in August 2025, to further strengthen the company’s overall competitiveness, better mirror the current status of its business development and cross-regional expansion initiatives, and accurately reflect the reality of its group-oriented development strategy, Yaowang Technology was renamed Guangdong Yaowang Technology Group Co., Ltd.

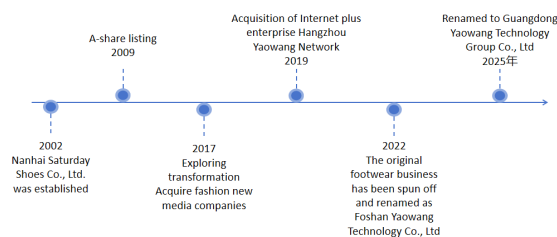


Fig 1. Development History of Yaowang Technology
Data source: Compiled based on the Annual Reports of Yaowang Technology

As can be seen from the annual reports disclosed by Yaowang Technology, its core business is closely aligned with the company’s strategic layout, and after it acquired Hangzhou Yaowang Network Technology Co., Ltd., the company added the mobile internet segment to its core business portfolio, a new business pillar that has enabled the enterprise to aggregate traffic resources by establishing cooperative partnerships with various internet traffic channels, and further realize traffic monetization through diversified advertising formats by virtue of its outstanding traffic resource integration capabilities, rich accumulated experience in internet marketing as well as robust expertise in marketing scheme formulation.

An analysis of the composition of operating revenue, as illustrated in Fig 2 Composition of Yaowang Technology’s Operating Revenue from 2018 to 2024, reveals that in 2018 (prior to the acquisition), the company’s internet advertising business generated revenue of RMB 169 million, which accounted for a mere 11.02% of its total operating revenue in that year. Following the completion of the acquisition in 2019, the revenue of this business surged markedly to RMB 854 million, and by 2020, the revenue from internet advertising had surpassed that of the company’s traditional core business, marking a pivotal shift in the company’s revenue structure. Since then, this business has maintained a sustained high-

growth trajectory, with its revenue climbing to RMB 4.528 billion by 2024, a figure that correspondingly accounted for a substantial 95.06% of the company’s total operating revenue. These statistics demonstrate that Yaowang Technology has successfully accomplished a fundamental transformation in its core business structure, evolving from an enterprise dominated by traditional apparel and footwear operations into one centered on live-streaming e-commerce, while its internet advertising business has achieved remarkable scale expansion that has reshaped the company’s overall revenue profile.

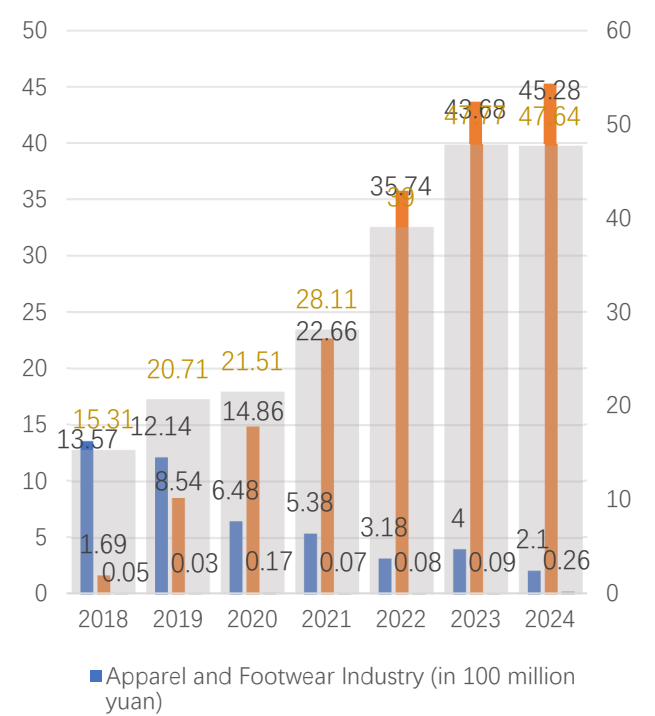


Fig 2. Composition of Yaowang Technology’s Operating Revenue from 2018 to 2024
Data source: Yaowang Technology Annual Reports 2018-2024

Currently, Yaowang Technology's business in the Internet sector mainly includes three digital marketing-related businesses: Internet advertising deployment, Internet advertising agency, and social e-commerce services. Among them, live-streaming e-commerce, utilizing the KOL marketing model, has incubated numerous live streaming talents and attracted many celebrities such as Wang Zulan and Huang Zitao to sign up, becoming a benchmark in the industry.

(2) Overview of accounting firm

In 2019, Yaowang Technology witnessed frequent changes of its accounting firms. Initially, for the purpose of enhancing audit coordination and efficiency in the major asset restructuring project, the company replaced Tianjian Accounting Firm, its auditor for the fiscal year 2018, with Lixin Zhonglian Certified Public Accountants, which had been deeply involved in the restructuring audit. Nevertheless, merely a few months later, in October 2019, the company announced another switch, designating Dahua Certified Public Accountants as its auditor for the fiscal year 2019 in place of Lixin Zhonglian Certified Public Accountants. For this second change, the company stated in its announcement that the reason was to adapt to the new requirements of business development and improve audit efficiency and quality.

It was not until 2022 that, due to the integration of the entire engagement team of its former auditor Dahua Certified Public

Accountants into Beijing Dahua International Certified Public Accountants, the company appointed Beijing Dahua International Certified Public Accountants as its auditor for the fiscal year 2023, marking the end of the cooperation period with Dahua Certified Public Accountants from 2019 to 2022. From 2023 to 2024, the company’s audit reports continued to be issued by Beijing Dahua International Certified Public Accountants.

Table 1. Changes in Firms

Release Date of the Change Announcement	Previously Appointed Accounting Firm	Newly Appointed Accounting Firm
2019/2/1	Tianjian Certified Public Accountants (Special General Partnership)	Lixin Zhonglian Certified Public Accountants (Special General Partnership)
2019/10/28	Lixin Zhonglian Certified Public Accountants (Special General Partnership)	Dahua Certified Public Accountants (Special General Partnership)
2023/12/9	Dahua Certified Public Accountants (Special General Partnership)	Beijing Dahua International Certified Public Accountants (Special General Partnership)

Data Source: Compiled based on Relevant Announcements

(3) Business model analysis

As a representative enterprise in China's live-streaming e-commerce industry, Yaowang Technology's business model demonstrates diversified integration features centered on digital marketing. Its business structure mainly encompasses three major segments, namely social e-commerce, new media advertising, and proprietary brand operation as well as brand distribution, forming a relatively complete closed-loop digital marketing ecosystem.

In the field of social e-commerce, based on the people, goods and scenarios business logic, Yaowang Technology has constructed a live-streaming e-commerce service system dominated by celebrities and influencers. By connecting a vast pool of celebrity and internet influencer resources, the company conducts short-video and live-streaming commerce businesses on multiple mainstream platforms including Douyin, Kuaishou, Taobao, and WeChat Channels, achieving a high degree of integration between content dissemination and commodity sales. In addition, through the IP authorization mechanism for celebrities and influencers, the company carries out secondary creation and multi-platform distribution of content, further expanding marketing channels and enhancing brand exposure, which reflects its strong capabilities in resource integration and content operation.

In terms of the new media advertising business, Yaowang Technology undertakes dual functions of internet advertising delivery and agency services. As an official service provider for platforms such as Douyin and Kuaishou, the company offers information flow delivery services to brand owners and streamers, and holds a number of platform qualification certifications. Meanwhile, with KOLs as the core driving force, the company implements an integrated operation model of “advertising + e-commerce + live-streaming/short videos”, achieving full-link marketing coverage from user seeding to purchase across mainstream social platforms including Douyin and Bilibili, which demonstrates its capabilities in cross-platform integration and data-driven marketing strategies.

In the segment of proprietary brand operation and brand

distribution, Yaowang Technology has gradually established a business system centered on brand operation by developing proprietary brands or obtaining brand authorization, and building official brand live-streaming studios for live commerce. Relying on its profound supply chain resources and marketing planning capabilities, the company carries out brand marketing activities and product development to promote the market transformation of brand value. This segment reflects the company's strategic intent to extend from marketing services to brand operation, enhancing its control power and profit potential in the industrial chain.

The live-streaming business process of Yaowang Technology operates on the self-built Yaowang Cloud platform. This platform upgrades traditional quality management to digital-intelligent platform management, constructing a complete standardized, data-driven and intelligent quality control closed loop. This closed loop runs through the entire process, including merchant onboarding, qualification verification, product inspection, sample management, live-streaming product selection, logistics fulfillment and after-sales tracking. Meanwhile, the company has built a multi-platform streamers matrix covering celebrities and influencers, and realized the digitalization and standardization of streamers scheduling and live-streaming planning through the same system. After the business enters the live-streaming sales and fulfillment phase, orders are generated through traffic acquisition via multi-platform live-streaming, and all transaction data is fed back to Yaowang Cloud for unified management. Based on the established quality control closed loop, the platform conducts full-process tracking and supervision of subsequent logistics fulfillment and after-sales services. Eventually, the process proceeds to the complex and critical link of fund settlement. As a hub connecting brand owners, streamers and e-commerce platforms, the company is required to complete multi-party and multi-model profit sharing as well as fund settlement and clearing at this stage. This end-to-end closed-loop management from quality control, signing and planning to order processing, logistics and settlement embodies the high efficiency of its asset-light platform-based operation.

However, its multi-platform data convergence, complex multi-party settlement system and high dependence on system integration have also posed significant challenges to key audit assertions such as the completeness of revenue recognition, the authenticity of fund transactions and the accuracy of costs and expenses.

4. Audit Risk Identification

(1) Identification of material misstatement risks at the financial statement level

Intensified industry competition, corporate strategic adjustments, and inherent flaws in internal control as well as governance structures constitute the primary factors that give rise to the audit risk of material misstatement at the financial statement level.

From the perspective of industry competition, the rapid development of the internet has broken the inherent boundaries of traditional consumption, while the continuous advancement of new retail models has spawned a greater diversity of emerging consumption formats, two intertwined driving forces that have jointly injected robust impetus into the live-streaming e-commerce market and further unlocked its latent development potential. To seize a larger slice of the market share, various platforms have expanded live-

commerce functionalities in content layout and deepened the scenario-based application of live-streaming, a market-oriented strategy that has not only attracted the influx of professional entities such as supply chain institutions and marketing teams but also empowered a growing number of ordinary users to participate in live-streaming consumption or embark on entrepreneurship in this field, thereby propelling the constant escalation of the competitive landscape within the live-streaming e-commerce industry[2].

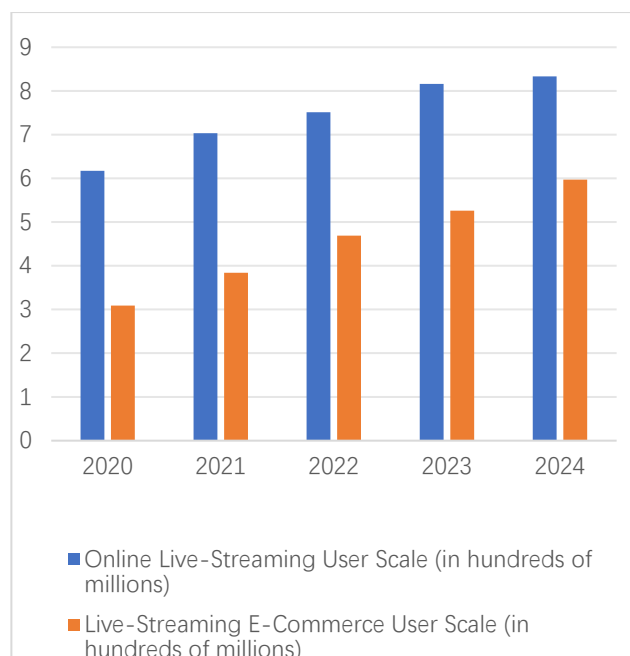


Fig 3. Online Live-Streaming User Scale and Live-Streaming E-Commerce User Scale from 2020 to 2024

Data Source: Academy of China International Electronic Commerce Center, 2024 Report on the High-Quality Development of Live-Streaming E-Commerce

This fiercely competitive market environment has significantly amplified the inherent risk of material misstatements at the overall level of enterprises' financial statements through multiple transmission mechanisms, a risk that is further exacerbated by the cut-throat competition prevalent among industry players who are vying for limited market share and user traffic and have thus become entrenched in a vicious cycle of competition centered on price wars and subsidy contests. Platform operators, in their pursuit of securing resources related to top-tier streamers and MCN institutions, have been compelled to commit to lucrative commission sharing schemes and traffic support packages, while merchants and streamers alike have continuously rolled out aggressive promotional strategies such as offering the lowest prices across all platforms, all of which have collectively fueled the intensity of market rivalry. The substantial marketing expenditures and fierce price competition have exerted sustained pressure on the overall profitability of the industry, in the context of which enterprises facing mounting performance pressure are likely to be exposed to the risk of improper revenue recognition, giving rise to issues such as the inappropriate allocation of transaction prices in complex promotional packages.

Competitive pressure has also profoundly reshaped business models and profit structures, spawning highly complex and dynamically evolving transaction forms that have added unprecedented intricacies to the application of

accounting standards. The multi-channel marketing model integrating live-streaming + short video + community + offline has given rise to interwoven revenue streams including advertising revenue, commission income, proprietary sales revenue and service fees, while innovative transaction structures such as pre-sales, group buying and cross-platform distribution, together with the multi-tiered profit-sharing mechanisms involving platforms, MCNs, streamers and brand owners, have rendered the determination of revenue recognition timing (i.e., the judgment of control transfer), the measurement of revenue amounts (i.e., the accounting treatment of variable consideration and significant financing components) and the application of the matching principle for costs exceptionally complex. This complexity not only increases the difficulty and subjectivity in the implementation of accounting standards, but also creates operational space for management to engage in improper earnings management.

What is more severe is that against the backdrop of the GMV-oriented industry ecosystem and the pressure from capital markets to meet growth targets, it has become increasingly common for some institutions or streamers to resort to reckless practices such as organizing fake transactions, inflating order volumes or conducting non-substantive sales through related parties to fabricate inflated turnover data, behaviors that not only directly lead to severe distortions in revenue, costs, accounts receivable and related cash flows, thereby creating systemic financial bubbles, but also significantly increase the difficulty for auditors to identify fraudulent material misstatements due to their inherent concealment and premeditation[3].

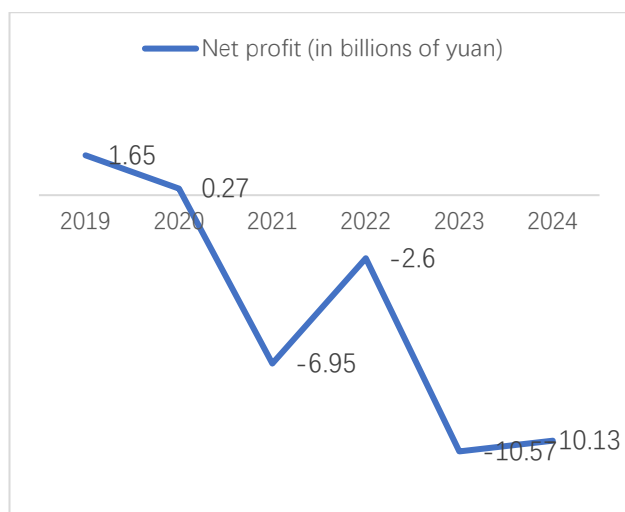


Fig 4. Net profit of Yaowang Technology from 2019 to 2024
Data source: Compiled from the annual report of Yaowang Technology

Although Yaowang Technology's operating income has been increasing year by year, its net profit has declined for three consecutive years. Taking 2023 as an example, Yaowang Technology's operating income reached RMB 4,777.3932 million, an increase of 22.5% year-on-year, while its net profit attributable to shareholders was a loss of approximately RMB 1.05 billion, a decrease of 299% year-on-year. In 2024, its net profit remained at a loss of approximately RMB 1.013 billion.

As a result, the company received an inquiry letter issued by the Shenzhen Stock Exchange, which required it to elaborate on the specific reasons and rationality behind the substantial growth in operating revenue in 2023 coupled with

significant net profit losses and massive cash outflows from operating activities. As can be seen from the reply letter, having transformed from its original identity as a women's footwear brand, Yaowang Technology has accelerated the liquidation of its legacy footwear inventory in recent years, and by the end of 2023, a substantial volume of footwear inventory, accounting for 47.8% of its original value, remained unsold. Its distribution channels intensified efforts to clear inventory by disposing of long-stockpiled products at discounted prices, a practice that resulted in losses incurred from this segment of the business. In addition, the company has been advancing projects such as X27 PARK, which are still in the investment phase and have not yet generated positive cash flows, thereby exerting a significant impact on the company's gross profit margin and expense structure. As can be concluded from the above analysis, the divergence between Yaowang Technology's revenue growth and substantial profit losses is essentially the outcome of the dual pressures exerted by legacy burdens from business transformation and the implementation of new projects.

(2) Identification of material misstatement risks at the assertion level

At the assertion level, Yaowang Technology's business operations exhibit several material misstatement risks with industry-specific characteristics, which are rooted in its distinctive business model and operational processes. Revenue recognition constitutes the area with the most concentrated risks, and its complexity is mainly reflected in the following aspects. First and foremost, the company's business scope covers two major segments, namely footwear product sales and internet advertising coupled with we-media e-commerce, among which the latter is further subdivided into subcategories such as new media advertising (featuring five pricing models including CPS, CPA, CPC, CPT and CPM), proprietary brand distribution and social e-commerce (including short-video and live-streaming commerce). Taking Yaowang Technology as a case in point, the company has focused its core layout on multi-platform live-streaming commerce business, which not only covers the aforementioned mainstream platforms but also builds a professional celebrity-influencer streamers matrix, resulting in a relatively high level of business scale and channel complexity. Such multi-dimensional and differentiated revenue recognition policies require auditors to gain an in-depth understanding of the revenue drivers, timing judgment criteria and data source reliability of different business segments, which to a certain extent elevates the complexity of revenue auditing.

For all internet-related businesses, their multi-platform operation feature is particularly prominent, with business coverage extending to mainstream channels including Douyin, Kuaishou, Taobao and WeChat Channels. The fragmentation of transaction data and divergence in statistical calibers across different platforms may result in incomplete capture of revenue from certain channels. In particular, transactions generated from private domain traffic such as targeted conversions via communities and Moments are exposed to the potential risk of falling outside the scope of the financial monitoring system, due to the absence of unified platform statistical portals and standardized recording procedures. Notably, variances exist in settlement rules and data feedback cycles across different platforms, and some live-streaming events are conducted over cross-accounting periods. This creates technical hurdles in determining the attribution of slot

fees and commission revenue to adjacent reporting periods, thereby imposing higher requirements on the accuracy of revenue accounting.

Table 2. Primary Business Revenue Recognition Methods of Yaowang Technology

Major Business Segments	Sub-business Segments	Revenue Recognition Principles	Cost Recognition Principles
Footwear Product Sales	Distributor Sales	At the time of self-pickup sign-off / delivery sign-off / settlement for actual in-store sales (in accordance with the contract)	-
	Department Store Shop-in-Shop	At the time when the product is delivered to and accepted by the customer	-
	E-Commerce Platforms	At the time when the product is delivered to the end customer and confirmed and accepted by them	-
Internet Advertising and We-Media E-Commerce	New Media Advertising (CPS, Cost Per Sale)	Calculated as (transaction volume generated from advertising services) multiplied by the revenue sharing ratio	Calculated as the same transaction volume multiplied by the supplier revenue sharing ratio
	New Media Advertising (CPA, Cost Per Action)	Calculated as advertising effectiveness (downloads/registrations) multiplied by the agreed unit price	Calculated as the same effectiveness volume multiplied by the cost unit price
	New Media Advertising (CPC, Cost Per Click)	Calculated as click volume multiplied by the agreed unit price	Calculated as click volume multiplied by the cost unit price
	New Media Advertising (CPT, Cost Per Time)	Calculated as advertising display duration multiplied by the unit price	Settle with suppliers at the agreed price
	New Media Advertising (CPM, Cost Per Mille)	Calculated as per mille display volume multiplied by the agreed unit price	Calculated as display volume multiplied by the cost unit price
	Proprietary Brand and Brand Distribution	Trading Model: At the time when the product is delivered to the customer and accepted upon inspection	-
	Social E-Commerce (Short-Video)	Revenue is recognized after the release of the short-video	-
	Social E-Commerce (Live-Streaming Commerce)	Trading Model: Revenue is recognized at the time of delivery and acceptance Revenue Sharing Model: Net order amount after returns multiplied by the commission sharing ratio	-

Data source: Compiled from the annual report of Yaowang Technology

Secondly, although Yaowang Technology has pivoted its core business to live-streaming e-commerce, it still retains a certain scale of footwear sales operations. Based on the facts disclosed in the Administrative Supervision Measures Decision issued by the Guangdong Securities Regulatory Bureau, Yaowang Technology has manifested material misstatement risks at the assertion level in footwear inventory management. During the period from 2021 to 2022, the company entrusted third-party institutions with the consigned storage and consignment sales of part of its footwear inventory. However, weaknesses in the management and control of consigned inventory, coupled with the failure to establish effective supervision and regular reconciliation mechanisms, led to a scenario where the company's financial system continued to maintain complete book records for the portion of inventory that had already been sold by the consignees but not yet settled with the company. This situation ultimately resulted in overstated inventories of RMB 49.6849 million in the 2021 financial report and RMB 75.7280 million in the 2022 interim report. It reflects systematic deficiencies in the company's accrual of inventory impairment provisions, accounting records of inventory turnover, and internal control over outsourced warehousing and logistics processes, which in turn pose notable audit risks to the accuracy and authenticity of the inventory item in the financial statements.

(3) Detection Risk

Among live-streaming e-commerce enterprises under the new retail model, auditees represented by Yaowang Technology have witnessed a marked surge in detection risk during audits, attributable to their heavy reliance on information technology (IT) systems and sophisticated revenue recognition mechanisms. Characterized by the in-depth integration of people, goods and scenarios, such enterprises feature fully digitalized business processes. Their core operation platforms, such as Yaowang Cloud, support end-to-end data flow spanning product selection, transaction execution and settlement. Meanwhile, their revenue streams take on a diversified structure covering slot fees, sales commissions and proprietary merchandise sales, coupled with complex allocation rules across multiple platforms and entities. This renders traditional sampling-based audit methods largely ineffective when confronted with massive volumes of real-time transactions.

If auditors fail to gain an in-depth understanding of the architecture and data processing logic of these IT systems, and merely conduct superficial checks on system-generated outputs without implementing substantive procedures that penetrate the system layer, they may be unable to identify systematic misstatements arising from system logic errors or human intervention. Simultaneously, the unique business characteristics of live-streaming e-commerce have further

amplified detection risk. Illustrative examples include the risk of fake transactions via brushing triggered by the direct correlation between performance and traffic volume, the incentive for inter-period revenue adjustment caused by high return rates after promotional campaigns, and the risks of inventory overstock and impairment stemming from supply chain extension and sales uncertainty.

Furthermore, the frequent and large-value fund transactions between the company and streamers, MCN agencies as well as suppliers, together with the dispersed funds held in settlement accounts across various platforms, have increased the difficulty of verifying the compliance and security of fund flows. In addition, impairment tests for goodwill and streamers IP-related intangible assets are highly dependent on the subjective assumptions of management, which further enhances the complexity of obtaining and evaluating audit evidence.

To reduce detection risk to an acceptably low level, audit teams must transcend the traditional audit paradigm and develop customized audit programs that integrate in-depth business insights with technical tools. This includes enhancing IT audit capabilities to conduct internal control testing and data integrity verification for core business systems; leveraging data analysis tools to perform full-scope scanning of high-frequency and complex transactions for identifying abnormal patterns; implementing audit procedures that penetrate to counterparties for processes highly reliant on third parties, such as consigned inventory and traffic procurement; and maintaining a high degree of professional skepticism to prudently evaluate management representations and conduct independent verification. Only through such a systematic, technology-enabled and penetration-oriented audit strategy can auditors effectively address the unique risks inherent in the live-streaming e-commerce business model, thereby providing reasonable assurance for issuing appropriate audit opinions.

5. Audit Risk Response

Based on the systematic identification and analysis of the audit risks of Yaowang Technology elaborated above, this section will propose targeted audit response strategies from three dimensions—the financial statement level, the assertion level, and detection risk—in conjunction with the business characteristics of live-streaming e-commerce enterprises under the new retail model.

(1) Response strategies to material misstatement risks at the financial statement level

Auditors shall deepen their industry cognition and strategic risk assessment to address the systematic risks arising from intensified competition in the live-streaming e-commerce sector. Specifically, audit teams are required to continuously track changes in policies and regulations, the evolution of market competition landscape, and trends in technological iteration within the live-streaming e-commerce industry. They should make full use of industry research reports, normative documents issued by regulatory authorities, and public information of comparable peer companies to establish a comprehensive understanding of the overall risk profile of the industry. On this basis, auditors shall conduct an in-depth analysis of the auditee's strategic positioning and business model, with a particular focus on its strategic adjustment trends amid the fierce competitive environment. Taking Yaowang Technology as a case in point, during its transformation from the traditional footwear industry to live-

streaming e-commerce, the salient feature of coexisting legacy business burdens and new business investments is particularly notable. Auditors need to prudently assess the potential overall impacts of such strategic transformation on the financial statements, including but not limited to asset impairment risks, changes in revenue structure, and going concern capacity.

Given that risks at the financial statement level are often closely associated with weaknesses in the control environment, auditors shall prioritize the evaluation of internal control as a core component of audit work. For live-streaming e-commerce enterprises, the following control areas warrant focused attention. First, the integrity and ethical values of those charged with governance and management. Through interviews, background checks, and public information searches, auditors shall assess whether the management has the motivation or historical records of overriding internal controls. Second, the rationality of organizational structure and authority allocation. Auditors need to examine whether effective segregation of duties has been achieved among business decision-making, financial accounting, and fund management processes. Third, the effectiveness of general IT controls and application controls. In view of the fact that live-streaming e-commerce operations are highly dependent on core business platforms such as Yaowang Cloud, auditors shall evaluate the design and operating effectiveness of key controls including system access control, data integrity assurance, and change management. If material weaknesses in internal control are identified, auditors shall expand the scope and depth of substantive procedures accordingly, consider the potential implications for the type of audit opinion, and maintain a high degree of professional skepticism throughout the process[4].

(2) Response strategies to material misstatement risks at the assertion level

In view of the complexity of revenue recognition for live-streaming e-commerce enterprises, auditors shall design and implement multi-tiered audit procedures. First, at the stage of understanding business processes, auditors should systematically sort out the recognition policies for various revenue streams of the auditee—including slot fees, sales commissions, advertising revenue, and proprietary merchandise sales—and assess their compliance with Accounting Standards for Business Enterprises. Special attention shall be paid to the rationality of the basis for determining the timing of control transfer and the appropriateness of the estimation methods for variable consideration.

Second, given the characteristic of multi-platform operation, auditors shall perform cross-platform data verification procedures, reconciling the revenue data recorded in the auditee's financial system with the transaction details exported from the backends of platforms such as Douyin, Kuaishou and Taobao on an item-by-item basis to identify potential omissions or discrepancies. For transactions generated from private domain traffic, auditors shall require the management to provide complete transaction records and verify their authenticity by selecting samples of order details, payment vouchers and logistics information for inspection.

Third, high priority shall be attached to revenue cut-off testing. Auditors shall select transaction samples within a certain period before and after the balance sheet date, and verify whether the revenue has been recorded in the appropriate accounting period by examining original

documents such as delivery notes, receipt records and platform settlement documents. For slot fees and commission revenue generated from live-streaming events spanning multiple accounting periods, auditors shall conduct itemized verification based on the service completion milestones specified in the contracts.

Live-streaming e-commerce enterprises have frequent and large-value fund transactions with brand owners, MCN agencies, streamers and e-commerce platforms. Thus, the authenticity and recoverability of accounts receivable and other receivables constitute a key audit area. Auditors shall expand the scope of confirmation procedures and increase the coverage rate of confirmation samples; full-scope confirmation shall be performed for major customers and counterparties with abnormal transaction indications. In cases where there are discrepancies in returned confirmations or no confirmations are received, auditors shall implement alternative audit procedures, including examining subsequent collection records, verifying original transaction documents and evaluating the implementation of credit policies.

In addition, auditors shall pay attention to the existence of irregular fund transactions with related parties or interested parties. By analyzing the substance of transactions, tracking fund flows and assessing commercial rationality, auditors shall identify potential risks of benefit transfer or fund misappropriation.

(3) Response strategies to detection risk

Given the highly digitalized nature of business processes in live-streaming e-commerce enterprises, audit teams should assign auditors with professional backgrounds in information technology or engage external IT audit specialists to conduct specialized audits on the auditee's core business systems. Specific procedures include: evaluating the effectiveness of IT general controls, covering areas such as program development and change management, system access security controls, computer operation management, and data backup and recovery; testing the design and operating effectiveness of key business application controls, such as the system control logic embedded in order processing, revenue calculation, commission allocation, and automated reconciliation; verifying the completeness and accuracy of system interfaces to ensure that data transmission between various external platforms and internal systems is free from omission or tampering. For identified IT control deficiencies, auditors shall assess their impacts on the reliability of financial data and adjust the nature, timing and extent of substantive procedures accordingly.

6. Conclusion

Against the backdrop of the New Retail model driving the online-offline integration and digital transformation of the retail industry, the business activities of live-streaming e-commerce enterprises are characterized by the coexistence of multi-platform operation, high-frequency transactions, intensive promotions and profit-sharing among multiple entities, which has significantly elevated the complexity and uncertainty of financial statement audits. As indicated by the case analysis of Yaowang Technology, intensified industry competition and performance pressure may amplify the

incentives for revenue fraud and earnings management, thereby exacerbating material misstatement risks at the financial statement level. At the assertion level, the diversity of revenue recognition policies, discrepancies in platform statistical calibers, constraints imposed by product returns and variable consideration, as well as supply chain outsourcing arrangements such as third-party consigned storage and sales, are prone to triggering key assertion risks including revenue completeness and cut-off, as well as inventory existence and valuation. In terms of detection risk, enterprises' heavy reliance on core information systems and data interface feedback has challenged the effectiveness of traditional sampling-based audit methods in the context of massive transaction volumes, leading to a marked increase in the difficulty of obtaining and verifying audit evidence.

To address the aforementioned risks, audit practices should optimize audit strategies within the framework of risk-based auditing. First, strengthen industry and strategic risk assessment by incorporating competitive dynamics, business model evolution and key performance indicators into the identification of material misstatement risks. Second, establish an audit evidence chain for revenue based on the logic of "contract terms—platform settlement—capital flows—logistics/after-sales data", and enhance inter-period cut-off testing and the identification of abnormal transactions. Third, improve IT audit capabilities by conducting tests on general system controls, key application controls and data interface completeness, and implement audit procedures with higher coverage for high-frequency transactions by integrating data analytics technologies. Overall, the audit of live-streaming e-commerce should shift from the traditional approach of account reconciliation to a comprehensive path featuring business penetration + data governance + system control evaluation, so as to enhance the capacity to identify and respond to material misstatement risks in the New Retail context.

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