

The Impact of Auditor Liability System on Audit Quality

-- ShineWing China Accounting Firm as An Example

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Abstract: The complexity of business operations and the likelihood that accounting information may be distorted are both rising along with the market economy's quick expansion, which raises the stakes for auditing work. In the process of independent auditing, the purpose of the auditor responsibility system is to control the auditor's numerous audit relationships. To a certain extent, this system can prevent audit risk and lower the likelihood of audit failure, improving audit quality. This paper examines the issues and causes of certified public accountants' audit failure in the auditing process, examines the current issues with the auditor responsibility system, and makes recommendations for enhancing audit quality in light of the administrative penalty decision made by the China Securities Regulatory Commission (CSRC) on ShineWing China Accounting Firm and the two signatory certified public accountants in 2022. suggestions for raising the quality of the audit.

Keywords: Auditor responsibility system, Audit procedures, Audit quality, ShineWing, Letv.

1. Introduction

The commercial level of accounting firms and certified public accountants should also be raised in light of the ongoing expansion and enhancement of China's capital market. As one of the most significant participants in social auditing activities, CPAs should enhance their professional quality to enhance the quality of the audit. The audit report that CPAs issue is a crucial channel for the stakeholders outside the enterprise to understand the financial information and operation of the enterprise. However, the occurrence of some astounding audit failures by certified public accountants in recent years has gradually decreased trust in certified public accountants themselves and the audit reports they issue, limiting the beneficial role played by the certified public accountant profession in the process of guiding economic development to a certain extent[1].

The China Securities Regulatory Commission (CSRC) decided to impose administrative penalties against ShineWing China Accounting Firm (hereinafter referred to as "ShineWing") on April 19, 2022. These penalties were in response to ShineWing's carelessness in the auditing of Letv's annual reports for the years 2015 and 2016. Therefore, by examining the issues that were discovered throughout ShineWing's auditing of Letv and the causes of the audit failure, this article attempts to shed light on the mechanism of the auditor responsibility system on audit quality.

2. Case Presentation

2.1. Introduction to accounting firm

The China, ShineWing Accounting Firm, the country's first and oldest professional service organization, was founded in the early 1980s. It has seven years of experience cooperating with significant global accounting companies. Additionally, it was the first accounting company to join the global market and provide forensic and other similar services in several different countries and areas. The ShineWing Group has 80 locations, more than 8,000 employees, and 400 partners spread throughout important cities in 13 different countries,

including China. Audit and assurance, tax and accounting services, management consulting, and engineering management consulting make up its four primary business segments.

2.2. Case Review

(Hence referred to as "Letv") Successfully went public on the China Growth Enterprise Market ("GEM") on August 12, 2010, making it the first firm in its field to do so globally and the first Chinese video company to do so on the A-share market. Letv Video's stock was halted on 14 May 2020, and the Beijing Securities Regulatory Bureau reported on 12 April 2021 that the firm had been penalized 240 million yuan as a result of the company's 10 years of financial wrongdoing between 2007 and 2016, among other things. They generated inflated earnings totaling 382,951,800 and 432,763,300 yuan in 2015 and 2016, respectively. Additionally, ShineWing produced audit reports with unqualified opinions and unqualified opinions with a focus on matters for Letv's 2015 and 2016 annual reports, respectively. Chang and Bai served as the signing CPAs. Due to this, the CSRC issued an administrative penalty decision letter to ShineWing CPA Firm on April 19, 2022, ordering it to make corrections, confiscate its business income of 1.51 million yuan, and impose a fine of 3.02 million yuan. Additionally, the CSRC issued warnings to the two principal CPAs and fined them each 50,000 yuan [2].

See Table 1 below for relevant financial data for Lexus.

3. Problems in the Audit Process of ShineWing

3.1. Inadequate and deficient audit procedures

Letv generated RMB263,367,800,000 in advertising income in 2015, which was 20.23% of the company's overall revenue and increased by 67.53% from 2014. However, the CPA did not conduct walk-through testing of the "reconciliation and reconciliation" part of the internal control process of Letv's advertising business in the audit of internal control over the advertising business and did not determine

that the management, shareholders, and key management personnel of Letv's clients had committed fraud in their risk assessment or that there was a risk of fraud in its sales revenues. The "reconciliation and reconciliation" portion of the internal control process for Letv's advertising business, however, was not subjected to a walk-through test, and the audit's conclusion that "internal control is effective" was reached without using any samples in the internal control test's "sales and collection cycle" section. The same is true for the audit of Letv's advertising business system: the CPA gained an understanding of Letv's advertising business through interviews and concluded that it was typically managed manually, so the audited entity was asked to provide system data on the placement and scheduling of advertising

for five different businesses. Letv, however, "did not provide the system data of the five companies' advertising volume and scheduling, and no samples were available," according to a note in the audit working papers. The CPA reached the audit conclusion that "no abnormality was found" without performing penetration testing and control testing. Regarding the potential for material misstatement and the unique risks of the advertising business revenue, the CPA only created two audit procedures: first, comparing the current period's revenue with the previous period's revenue and concentrating on the unstable products; second, determining whether the contract's scheduling is following the time of the advertisement company's business system and whether the amount is the same, and did not carry out targeted an audit.

Table 1. Relevant financial data of Lexus for 2015-2016

	2015	2016
Currency funds (RMB million)	272,977.81	366,914.63
Percentage of total assets	16.07 %	11.38 %
Accounts receivable (RMB million)	335,968.30	868,585.51
Percentage of total assets	19.78 %	26.95 %
Operating income (RMB million)	1,301,672.51	2,195,095.14
Advertising revenue (RMB million)	263,367.78	397,989.36
year-on-year increase	67.53%	51.12%
Percentage of total revenue	20.23 %	18.13 %
Total profit (RMB million)	69,511.03	115,590.17
Inflated profits (RMB million)	38,295.18	43,276.33

The CPA sent letters to 92 clients of Lexus' accounts receivable in 2015, but only 36 of them responded, accounting for a total of 17.87% of the ending balance of accounts receivable. The remaining 56 clients did not reply to the letters. Only 36 of the customers who did not reply to the letters were chosen by the CPA to undergo replacement testing, not all of the customers who did not reply to the letters.

The accounting firm's implementation of the audit process had weaknesses and gaps as a result of its one-sided pursuit of speed at the expense of audit quality.

3.2. Failure to obtain sufficient and appropriate audit evidence

The CPA advised utilizing IT auditors to audit the Ark system of Lexus' advertising business in the fiscal year 2016 audit to discover any data fabrication connected to its advertisement distribution process. This was part of the CPA's focused audit area plan. The CPA carried out internal control testing and substantial operating income testing using the pertinent exposure data offered by the Ark system. However, the CPA was unable to compile sufficient and pertinent audit evidence to demonstrate the correctness, completeness, and dependability of the exposure data provided by the Ark System. According to the working papers, two of the companies never had advertising transactions with Letv, but their exposure data existed, and these two companies were false customers of Letv's advertising business in 2016, with a combined inflated profit of up to about 100 million yuan, accounting for 29.93% of the total disclosed profit of that year. The certified public accountant extracted from the Ark system the number of exposures of 40 advertisers summarized by order for the entire year of 2016, but did not retrieve the relevant information of the two clients in the Ark system, namely a certain culture media company limited and a certain network technology joint-stock company limited, during the audit. The audit determined that these two companies

replaced the advertising business of two other companies and that there was no update of the relevant information in the Ark system, but the CPA did not obtain the two companies' advertising service contracts, advertising orders, or other audit evidence to confirm the authenticity of the above description.

3.3. Errors in the judgment of internal control deficiencies of Lexus

The CPA undertook internal control testing of the "sales and collection cycle" for Letv's advertising division during the audit of the 2016 annual report. The control goal was to recognize sales revenue after transferring key risks and rewards, and the key control preventing revenue recognition from unpublished advertisements was to determine whether the statements and amounts given to customers were correct and to investigate if they did not agree. However, during the walk-through testing, the CPA discovered that Letv had not implemented this control and had not received any reconciliation statements from customers, and the CPA still reached the audit conclusion that "no missing link in the sales collection cycle was identified" despite not selecting a sample for control testing.

Furthermore, the CPA discovered two internal control deficiencies at the business level: first, Letv would reconcile with its customers based on the advertisements every month, but did not leave any written reconciliation; second, it was agreed in the advertisement business contract that Letv would provide third party testing reports, but in practice, most of the data were internal, and these data were not recorded by the financial staff and did not attach importance. Given the nature of Letv's advertising business, industry norms, and the CPA's assessment of this control measure, the aforementioned deficiencies are all significant in internal control, whereas the CPA assessed them all as general deficiencies. As a result, it can be said that the CPA lacked judgment in making this

assessment. Additionally, the CPA did not discover throughout the audit that the severe shortcomings mentioned above raised the likelihood of fraud in the advertising industry.

4. Analysis of The Reasons for The Audit Failure of ShineWing

4.1. Inadequate professional competence of CPAs

This case demonstrates that the CPA in charge of this audit engagement lacked the necessary professional competence, performed poorly during the planning and execution stages of the audit procedures, and did not correctly implement the audit procedures in compliance with the applicable standards. The certified public accountant in the audit engagement had major issues carrying out audit procedures, such as testing and correspondence, including failing to conduct alternative testing on all clients who were unresponsive and overlooking details in the implementation of audit procedures. In the 2016 audit engagement, the CPA also made a mistake in evaluating Letv's internal control shortcomings, failing to recognize that these shortcomings raised the risk of fraud in the advertising industry. The aforementioned dishonest actions show that certain of ShineWing's certified public accountants need to improve their professional abilities and practice level and that their professional competence is no longer sufficient to meet the demands of the accounting firm's audit division. In conclusion, CPAs' lack of professional competence impedes the efficient execution of the audit task and is a significant factor in the audit failure[3].

4.2. Lack of professional skepticism on the part of CPAs

These two audits failed for several reasons, one of which was the CPAs' lack of professional skepticism. Letv's audit was conducted without the CPA paying the required professional attention, understanding the company's industry, or having a thorough grasp of the audited organization. The certified public accountant did not pay attention to a lot of abnormalities and suspicions in Letv's routine business with professional skepticism. For instance, a certified public accountant should perform additional auditing procedures based on the specific circumstances, rather than reducing some important auditing procedures due to the reasons of auditing time and cost, when it was discovered during the audit procedures that the information provided by the enterprise internally was inconsistent with the external evidence and the number of replies to the letters of inquiry issued by the firm was small. It is important to pay close attention to the fact that the certified public accountant should be adaptable when evaluating audit evidence collected from sources both inside and outside the company for audit evidence presented internally [4].

4.3. Inadequate quality control system for the business of accounting firms

Since 2009, ShineWin has purchased 12 audit intermediaries of varied sizes to meet the needs of corporate development. Following the mergers and acquisitions, the firm's employees rose, the staff structure got more complex, and no effective risk management and quality control system was in place. Deng Yun Technology experienced concerns such as being abused by linked companies and falsification

when it was audited in 2017, but it nonetheless gave an unqualified audit report. In this regard, the internal quality control level of ShineWin CPA Firm is not high, and the quality control system is not ideal, thus the internal quality control system needs to be strengthened and improved.

4.4. Inadequate industry regulation and low penalties

At the moment, China's supervision of accounting firms and certified public accountants is not perfect, and the regulatory model of "joint government supervision, supplemented by industry self-regulation" still exists in practice, with issues such as regulatory dissonance, regulatory duplication, and fuzzy responsibilities[5]. Many government or industry regulators exist, for example, the finance department, the Securities and Futures Commission, the Industry and Commerce Bureau, and the China Association of Certified Public Accountants, among others. Multi-departmental regulation can easily result in regulatory authority distribution and ineffective regulatory coordination. Furthermore, at the moment, China's relevant laws and regulations are not yet perfect, and there are still some contradictions in different regulations and systems, etc., making it difficult for various regulatory departments to formulate a unified implementation standard, for example, the CPA Law and the Auditing Law have been inconsistent in the enforcement standard.

China's sanctions for such offenses and violations by publicly traded enterprises and accounting firms are insufficient to serve as a deterrence. Fundamentally, the fundamental reason for accounting firms' frequent audit failures is that there are still a big number of publicly traded organizations committing fraud to fulfill their varied goals or purposes. Since the penalties for breaking the law are so minimal and the CSRC is unable to conduct a thorough and comprehensive investigation into information disclosure violations, listed companies continue to operate under the assumption that they can get away with breaking the law. The CSRC punished ShineWing for audit failures during the IPO of Deng Yun Shares in 2013 and 2014, but the company did not learn from the mistake. This demonstrates that the current level of penalties and a single punishment are insufficient to deter accounting firms from continuing to make mistakes regardless of the repercussions.

5. Auditor Accountability

5.1. Content of the auditor's accountability system

The two categories of audit responsibilities that auditors have are classified as professional and legal audit responsibilities. Audit legal liability refers to the legal responsibility for significant losses incurred by the client or other stakeholders as a result of improperly fulfilling professional obligations, whereas audit professional liability refers to the duties and obligations of the auditor in the conduct of his or her business.

In the Auditing Standards for Certified Public Accountants published by the Chinese Institute of Certified Public Accountants (hereinafter referred to as "CICPA"), auditors' obligations and responsibilities in performing auditing services are clearly outlined. The Regulations on Certified Public Accountants, the Certified Public Accountants Law, the Securities Law, and other pertinent laws and regulations

must all be followed by auditors in addition to the CICPA's auditing standards.

If the financial statements of the audited entity have been prepared under an appropriate basis for the preparation of the financial report and whether they fairly present the financial position, results of operations, and cash flows of the audited entity in all material respects, the auditor must express an audit opinion in performing the duties of the auditing profession following auditing standards. Additionally, the auditing rules on fraud put into place after 2007 emphasize that the auditor must have a reasonable level of assurance that the financial statements, as a whole, do not contain any major misstatements due to fraud or error[6]. As a result, the auditor bears a heavy burden for the correctness, completeness, and veracity of accounting information.

The certified public accounting profession was reintroduced in China in 1980, but it wasn't until July 1986's promulgation of the Regulations on Certified Public Accountants that it became a matter of law. The CPA Regulations impose administrative penalties, such as warnings, fines, suspensions of practice, and revocation of practice qualifications, as well as criminal liability for violations of criminal law that constitute offenses, on auditors who violate professional ethics and have serious consequences.

Administrative and civil liabilities make up the majority of an auditor's audit-related legal obligations. However, since the 1990s, administrative liabilities rather than civil liabilities have typically been addressed when it comes to the legal obligations faced by auditors, whether in terms of the applicable legal standards on auditing or audit supervisory methods.

5.2. The Role of the Auditor's Accountability System

5.2.1. Impact of auditor accountability on audit quality

The auditor's liability system is a set of standards used to control the different auditing connections between auditors during independent audits carried out under particular conditions. It will be very helpful in coordinating the relationship between the capital market and the stakeholders, correcting and preventing accounting errors and frauds, as well as assisting to defend the fairness of social transactions, if the auditor responsibility system is properly enforced. The auditor's liability system is distinct from regular auditing and is one of the market economy system's infrastructures that is universally applicable to market economic activity.

The auditor liability system helps to maintain social and economic order, improves public confidence in the auditing profession, and protects the legitimate interests of the auditing institution and its auditors from unjustified accusations. It also supports the study of auditing theory and forensics as well as the development of contemporary auditing talents.

5.2.2. Mechanisms for the role of the auditor's accountability system

Audit risk, audit independence, auditor professionalism, firm size, audit quality control tools, and many other factors influence audit quality. The auditor's independence and professional competence are the two key characteristics of the auditor's responsibility system that have the most impact on the audit's quality.

(1) Relationship between audit independence and audit quality. In the auditing standards, the obligations of the audited entity to provide true and complete financial

statements and information and the obligations of the auditor to conduct an impartial audit are clearly defined, which protects the auditor's legal rights and interests and enables the audit to be performed by the auditing standards. An auditor who transgresses professional standards and issues an unsuitable opinion in an audit report may be subject to civil or even criminal liability in addition to administrative penalties, as was the case in this instance where both certified public accountants were given warnings and fines. As a result, the auditor liability system can, to a certain extent, prevent auditors from breaking the law, strengthen their sense of professional ethics, increase the independence of auditing, and enable them to exercise true professional judgment free from outside interference, all of which will enhance the auditing's quality.

(2) The connection between the caliber of the audit and the professionalism of the auditor. In a risk-oriented audit, the auditor must manage risks throughout the audit process, evaluate how well the unit's internal controls are working, and be aware of potential risks. The applicable audit procedures need to be strengthened if significant risks are found in the assessment. This integrated approach to auditing places greater demands on the auditor to make sure that the audit project team conducts the audit in a focused manner and improves the audit quality while saving time, money, and audit resources. The results of the audit risk assessment are used as a prerequisite for the development of the audit implementation plan.

(3) Relationship between the professional competence of the auditor and audit independence. The foundation of the audit process and the heart of the audit cost is the independence of the auditor [7]. If the auditor is unable to preserve their independence, they will lose their capacity to exercise objective, true professional judgment, which will not only cause the financial report's dependability to drop but also taint the audit report that is ultimately issued. The degree of audit quality is directly influenced by the auditor's level of professional competence; if the auditor has a high level of competence and substantial practical experience, this can both enhance audit quality and reduce audit costs.

5.3. Linkage between auditor's responsibilities and accounting firm's responsibilities

The primary accountability for the audit's findings rests with the accounting firm. The accounting company is the one that publishes the audit report, and it is also the one who is accountable for any errors that may appear in it. After accepting responsibility, the accounting firm must determine internally where the issues are, such as whether the auditors involved in the audit were conscientious, whether they were bought off, or whether their level of expertise was insufficient given the complexity of the project.

Legal liability exists for signatory auditors. The criteria for determining whether an auditor has erred in his or her professional conduct are diligence, prudence, and due diligence, and the key to figuring out whether an auditor has been prudent is whether he or she has adhered to best practices for carrying out audit procedures, carrying out the audit work, and issuing the audit report. It cannot be guaranteed that all omissions and frauds will be found in a timely way due to audit risk and audit technique constraints. To ensure the independence of the auditor in the course of practice and to supervise the effective implementation of measures to ensure the quality of the audit, auditors should follow the audit

process as outlined in the China Auditing Standards for Certified Public Accountants, and accounting firms should establish systems related to quality control and implement quality control processes in their audit engagements. They should also choose their clientele carefully.

5.4. Existing problems with the auditor's liability regime

From the prior case studies, it is clear that the auditor responsibility system had a very small impact on ShineWing's audit of Letv. The auditor did not conduct the auditing procedure with due care and professionalism, according to auditing standards. By examining the issues, it is possible to presume that the auditor in this case lacked the necessary level of expertise in practice and that they failed to uphold independence during the execution of this auditing engagement. The head of ShineWing's project quality failed to identify the aforementioned issues during the subsequent accounting firm's review of the project's quality and issued an unqualified audit report, which suggests that there are also weaknesses in the accounting firm's internal controls. The investors of Letv demanded that Letv bear the civil liability of misrepresentation infringement and that ShineWing Accounting Firm bears the joint and several liabilities for the misrepresentation even though ShineWing and the two signing certified public accountants were subject to corresponding administrative penalties from the perspective of auditing legal liability.

This demonstrates that there are still a few issues with the auditor responsibility system, starting with gaps in the pertinent laws governing auditor independence. The Basic Code of Professional Ethics for Certified Public Accountants, which states that "a certified public accountant shall not concurrently engage in, or take up, any other business or position that is incompatible with his/her performance of auditing or other forensic accounting," is one such law and regulation that the auditor must abide by in addition to the CPA Auditing Standards issued by the CICPA. However, some accounting firms offer their clients more than just auditing services; they may also offer bookkeeping, tax preparation, financial counseling, and other services, which could prevent accounting firms and auditors from fully maintaining their independence and force them to issue audit opinions that are inappropriate for the situation. Additionally, this clause has not been discussed in detail at the legal level and is not sufficiently explicit, making it challenging to put into practice. Second, there is no oversight of audit quality control. We can infer from the ShineWing audit's failure that the accounting firm did not exercise due diligence in its capacity as the project's executor and quality control supervisor. And the management organization of CICPA only carries out some random inspections on accounting companies at the end of each year, which are not vast in number and arbitrary, and so cannot play an effective supervisory function.

6. Recommendations for Improving Audit Quality Under the Auditor's Accountability System

The complexity and diversity of China's society and economy, as well as the country's quick development, have raised both the danger and the difficulty of auditing work. The auditor may not be able to recognize that the financial

statements, accounting information, and other electronic information provided by the audited entity may be incomplete and false due to information asymmetry, and the auditors' lack of professional competence and experience may also significantly hinder their ability to obtain sufficient and pertinent audit evidence. Specifically at the project review stage, where there may be significant disagreements on an issue, such as the CPA's view that there are no significant issues and an unqualified audit report should be issued, and the project reviewers' view that a qualified audit report should be issued, there may be inconsistencies in the relevant laws and regulations or departmental internal control systems, as well as differences in the professional level of auditors. On the other hand, some audited units have financial fraud, causing the third-party auditor to issue an unqualified audit report, and some firms and auditors lack risk awareness and professionalism, causing high compensation, resulting in a fluke in the heart of the audited unit with the audited unit of the financial statements of the whitewash, the issuance of an unqualified audit report, among other things. However, due to ineffective communication with the person in charge of the accounting company, some auditors are compelled to take on riskier auditing work and sign and seal the audit report. Another situation that raises the risk to the signing CPAs is when there are some CPAs with titles in the accounting company who are only in charge of sealing the audit report after it has been signed and reviewed by other auditors.

The auditor responsibility system should be strengthened and put into place in response to the aforementioned factors and the analysis of the Sino Audit failure case to guarantee the caliber of audits.

6.1. Auditor level

6.1.1. Auditors maintain formal and substantive independence

The independence of the audit profession as a third party between the audited organization and the readers of the financial statements is largely what allows it to thrive. In addition to being a requirement for the auditor to conduct the audit, independence on both a formal and substantive level is also a necessary criterion. The so-called formal independence is intended to give the certified public accountant the ability to gather audit evidence fairly, objectively, and independently when conducting an audit. It also allows the certified public accountant to make a prudent assessment of the evidence collected in accordance with the provisions of the Auditing Standards and issue a reasonable audit report. Significant independence entails that the audit's subject and its purpose are not closely related. The project auditor, for instance, is a close relative of the executives of the audited entity. There are also no other relationships or private financial transactions that could jeopardize the project auditor's independence, such as the audited entity paying a large audit fee to the third-party auditor. Therefore, it is essential to enhance the professional and ethical attributes of the certified public accountant in order to ensure the auditor's audit independence. Additionally, it is necessary to mandate that the auditor always adhere to the rules of professional ethics and the principles of objectivity, impartiality, independence, and integrity.

6.1.2. Auditors are required to maintain professional skepticism by strictly adhering to the code of practice

Every profession has a "yardstick" that encapsulates its distinctive qualities, and the standards of the auditing

profession are the auditing profession's professional standards. Practitioners of the auditing profession are obligated to conduct audits by the standard or the code of conduct that they have been assigned. The purpose of auditing professional standards is to increase audit effectiveness, audit quality, and efficiency. In order to achieve these goals, auditors must adhere carefully to the standards [8]. Additionally, the auditor must increase his or her understanding of practice risk, take the initiative to avoid risky auditing work and maintain timely and effective communication with the audited unit and the accounting firm. An auditor can't act arbitrarily for the sake of fleeting interest and disregard the enormous risks involved in that interest.

The auditor must develop a questioning mindset, have in-depth knowledge of the audited entity and the environment in which it operates, and always be wary of odd events because professional skepticism is crucial to auditing. The auditor should pay close attention to unusual and noteworthy transactions or events in specific audit engagements, be vigilant for any subtle irregularities, and thoroughly evaluate the audit evidence gathered. In order to increase the sense of professional skepticism among auditors, accounting firms should also conduct frequent surveys and provide feedback on them.

6.1.3. Improved professional competence of Auditors

Accounting firms must conduct a thorough evaluation of entry-level staff in terms of practice skills, professional ethics, and personal attributes to assure the professional competency of auditors. To raise the professional standards of auditors, implement professional skill development for auditors, actively foster an audit culture, and improve the caliber of auditors' professional ethics, accounting firms should set up a set of reasonable training mechanisms. In order to adapt to a variety of complicated audit operations, auditors should also focus on improving their business capability, timely studying new standards and systems, and timely mastering new auditing technologies.

6.1.4. Auditors should improve internal communication with accounting firms

During the audit process or when releasing audit results, auditors may disagree with the project reviewer or the head of the accounting firm. For this reason, whether or not the audit report is signed and sealed by the auditor, it is essential for the auditor to strengthen communication with the accounting firm and maintain a high level of practice and professionalism.

6.2. Accounting firm level

6.2.1. Prudence in undertaking audit projects

A preliminary examination of the audited entity and the project should be done by an accounting firm when it is starting an audit project for the first time. To confirm the presence, completeness, and effective application of the company's internal controls and to look for any anomalies, this can be done by studying the audit working papers of the previous CPA or by comprehending the internal and external environments of the company, among other things. Furthermore, it's critical to carry out sufficient preliminary examinations of businesses having multiple ties. The engagement for this firm cannot be carried out if the company's audit risk cannot be accepted after being evaluated and determined to be within an acceptable range.

6.2.2. Sound and perfect quality control system

To further regulate quality control behavior and raise the

level of quality control at accounting firms, accounting firms should create a special quality management department made up of certified public accountants with extensive training and strong professional skills. The quality management department should constantly monitor the status of the project during daily audit work and keep in touch with the project team members to better understand the quality issues and solutions that have arisen during project implementation. In addition to reporting, the quality management department should also impose the appropriate sanctions on those who do not strictly adhere to the quality control system. The company should recruit outside, independent specialists or scholars to establish a quality control review team and closely apply the "three-tier review system" in order to guarantee the caliber of the audit work.

6.2.3. A clear system for defining audit responsibilities should be established between auditors and accounting firms

With accounting companies, auditors must establish a clear system for identifying audit tasks. If a certified public accountant makes a mistake during the audit process and the audited unit fails to produce true and complete financial data per accounting standards, you are responsible for the audit; if the SEC links the audited unit to financial fraud, the accounting firm will be jointly and severally liable for the audited unit's investor losses. And in other instances of audit failure, the failure may not be the auditor's fault but rather the accounting firm's loss of independence. To safeguard the rights and interests of auditors, it is imperative to have a flawless, unambiguous description of what constitutes an audit obligation.

6.3. External Regulatory Level

6.3.1. Building an efficient regulatory system using big models

To ensure coordination between the various regulatory bodies, it is important to make clear the relationship between government and industry regulation, strengthen the cooperation among the various government regulators, and, to a certain extent, increase the autonomy of industry self-regulation by the Institute of Certified Public Accountants.

To enhance the practice quality and public perception of the auditing industry, allocate regulatory resources as efficiently as possible, use large models to increase regulatory efficiency generally, and use dual regulation of the government and industry to prevent illegal and unethical behavior of listed companies.

6.3.2. Continuous improvement of regulatory laws and regulations

Oversight and management of publicly traded companies, as well as auditing institutions and auditors, should be strengthened to improve regulatory norms and regulations. It is also critical to ensure that the rules and regulations are consistent, reasonable, and scientifically grounded in order to avoid regulatory issues caused by inconsistent application of numerous laws and regulations.

6.3.3. Strengthening of penalties

Penalties should be improved and tightened to raise the cost of infractions for publicly traded companies and accounting firms. The emphasis should be on investigating and punishing those who are primarily responsible for financial fraud and audit failures, and appropriately applying administrative, civil, and criminal means to legally prosecute them, particularly for

accounting firms that commit repeated violations of the law, as well as imposing more targeted and harsher incremental penalties.

7. Conclusion

Audit quality has a direct impact on the market economy's security and stability[9]. As a result, the improvement and implementation of the auditor's responsibility system must externally ensure the auditor's audit independence, as well as improve the auditor's professional competence and professionalism, as an important task for the government and regulatory bodies, as well as the auditor's employing organizations to grasp. In the audit process, any link, no matter how minor, can lead to audit failure; thus, for all conceivable variables that might lead to audit failure, there should always be a diligent and timely response, particularly for the company's financial fraud detection and punishment mechanism. Auditors must also learn from each work experience and lesson learned in order to put their knowledge into practice[10], to reduce the possibility of audit failure.

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