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Study on Causes of Audit Failure and Preventive Measures

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Abstract: With the rapid economic development in our country, accounting firms play a more and more important role in economic supervision. Audit reports made by accounting firms are increasingly trusted by people and have more and more important reference value in investment. However, in recent years, when accounting firms provide audit services for companies, audit failures occur frequently, and the cases are widely concerned by people. The reasons for the failures need further study and analysis, so as to improve the audit quality. This paper analyzes the current situation of audit failure of accounting firms in recent years, and finds that although the top accounting firms have strong strength, audit failure cases still occur from time to time, and the audit quality of accounting firms needs to be further improved. In addition, this paper also finds the reasons for audit failure from four aspects, such as the association relationship of accounting firms, the sense of work responsibility, the imperfect audit procedures and the insufficient external punishment, and puts forward the strategies to improve the audit quality of accounting firms.

Keywords: Accounting firm, Audit failure, Prediction.

1. Introduction

With the rapid development of China's economy, the two rights of enterprises are separated, and there is a conflict of interest between shareholders and management that is difficult to coordinate. Shareholders expect to maximize the interests of shareholders, and management expects to obtain more benefits such as promotion and salary increase. Users of financial statements are worried that management provides unfair or even fraudulent information, so they seek authentication services from external certified public accountants. As an external independent third-party certified public accountant, it enhances the trust of the intended users of the financial statements other than management through the audit of the financial statements. In China's securities market, the "Measures for the Management of Information Disclosure of Listed Companies" clearly stipulates: "The periodic reports that listed companies should disclose include annual reports, interim reports and quarterly reports. All information that has a significant impact on the decision-making of investors shall be disclosed. The financial and accounting report in the annual report shall be audited by an accounting firm with securities and futures related business qualifications." It can be seen that the CPA industry bears the heavy responsibility of "gatekeeper" in the development of capital market.

However, in recent years, there have been frequent incidents of fraud in listed companies, Kangmei Pharmaceutical, which once had a "100 billion market value white horse stock" with an increase of 29.9 billion yuan, Kangdexin, a technology giant with "12.2 billion bank deposits missing", and Zhangzidao, a drama fine with "scallop running away", have constantly stimulated the sensitive nerves of small and medium-sized investors and challenged the bottom line of the capital market again and again. Subsequently, the China Securities Regulatory Commission (hereinafter referred to as the CSRC) launched a case investigation, found out the cause and punished, and the relevant responsible people were duly punished, and after the market noise left only independent investors and a chicken feather. In many cases of financial fraud, although the enterprise management can not avoid the blame, the CPA also has the responsibility for the audit failure. Therefore, this paper analyzes the causes and consequences of CPA audit failure, and puts forward the corresponding prevention.

2. The Conceptual Analysis of Audit Failure

The definition of audit failure by relevant scholars can be roughly divided into two types: the first is that auditors do not operate strictly in accordance with relevant audit standards and procedures during the implementation of audit work, and give improper audit opinions; The second is that the CPA has issued inappropriate audit opinions on the audited entity, or the audit report issued is wrong, regardless of whether the audit process is correct. In contrast, the first view focuses on the process and the second on the outcome. Here, the audit failure of an accounting firm is defined as the existence of financial fraud in the audited entity, the failure of the certified public accountant to implement appropriate audit procedures and strictly follow the audit standards during the audit process, and the inappropriate audit opinion.

In fact, there are many reasons for audit failure of listed companies, and related scholars hold different ideas and views on it. Some people believe that audit failures mainly come from certified public accountants. In actual work, certified public accountants do not follow the regulations, so they make unscientific audits, and various reasons lead to audit failures. Another view is that the audit failure of listed companies is mainly due to their own loopholes, and the audit will fail. The CPA did not conduct the audit in a timely and professional manner and accurately, so it did not have standardization and did not carry out its work in accordance with the corresponding procedures. In addition, in the audit did not find the financial loopholes, there will be an audit failure. Regardless of the reason for the failure, most people believe that the occurrence of fraud in the enterprise will promote the audit failure, which is one of the most important factors.

3. Causes of Audit Failure

(1) Lack of independence and professional ethics of certified public accountants

Certified public accountants must be independent in order to carry out audit work. Based on the CPA, the independent analysis is carried out. In fact, auditors should fulfill relevant obligations, avoid external influences, and cultivate their professional quality and judgment ability. We must abide by our posts and do practical work in accordance with national laws and regulations.

(2) The control system of accounting firms is not comprehensive

First of all, the accounting firm should have a relatively perfect system to carry out internal control in time to ensure the fairness and justice of the audit. Many enterprises do not pay attention to audit work, mainly because audit work brings obstacles to the interests of enterprises. Some items may touch on financial issues and security issues that need to be avoided by audit. For the audit to be successful and the results accurate, independence must exist. Do not want to be affected by any factors, do not want to conflict with the enterprise, in the audit, the first thing to ensure the independence, for auditors, to actively reflect their own advantages, play a role. No matter large enterprises or small and medium-sized enterprises, they do not attach great importance to the audit work, mainly because the audit work will bring many obstacles, such as investment, expenditure and income, which need to be under the supervision of the audit department. Subject to too many constraints, resulting in enterprises can not show their strength, can not obtain higher competitiveness in the development. Although the pace of enterprise development will be slowed down due to audit work, it will bring more security and avoid risks in investment. Cooperating with audit work is like responding to the call of the state to unconditionally cooperate in accordance with laws and regulations.

(3) The audited entity has system defects or malpractices

Most of the domestic listed companies do not have a relatively perfect structure, and there are various problems in internal audit. For example, the lack of risk management awareness should be avoided in the audit. In the normal operation of enterprises, there will be various problems, such as personnel leaving their posts and failing to perform their duties. These belong to the loopholes of the enterprise, so the internal audit needs to monitor them, so that the loopholes can be found and patched in time. Internal audit staff should first conduct risk assessment, and management and relevant stakeholders should actively participate in the risk assessment, so as to promote the management level to have the ability to identify risks, find the loopholes in the enterprise in time, and remedy them.

When an enterprise carries out internal audit, it should first track and record the operation of the enterprise, establish a more complete remedy plan, and provide a better development opportunity for the enterprise. In addition, when the internal audit work is carried out, it is necessary to fully integrate big data technology, pay attention to the emergence of risks when using the network, timely monitor the network, and avoid hacker attacks. Under various protection measures, the risk management awareness of enterprises will continue to improve, promote enterprises to obtain higher benefits, and internal audit will also play a more powerful role. Internal audit is very important for enterprises and needs to be paid attention to by enterprises and governments.

The phenomenon of corporate financial fraud is still serious in the world. In recent years, the amount involved has increased and the means have become increasingly complex. In order to pursue high performance and stock price, listed companies often whitewash financial statements by falsely increasing income, reducing costs, and falsely reporting assets, which damages investors' interests and disrupts market order. Regulatory agencies such as the CSRC continue to strengthen information disclosure norms and audit supervision, while promoting the improvement of internal control mechanisms and the enhancement of social supervision, in order to effectively curb financial fraud and maintain the healthy and stable development of the capital market.

4. Measures to Prevent Audit Failure

(1) Standardize audit procedures

One of the important reasons for audit failure is that the audited entity has financial malpractices, the CPA fails to find them in time, or ignores them and gives inappropriate audit opinions. The main reason for the analysis is that the audit opinions issued by certified public accountants are not supported by sufficient and appropriate audit evidence, and the audit procedures are lack of standardization. In this regard, accounting firms need to standardize audit procedures, set up reasonable risk assessment procedures, and provide reference for the implementation of subsequent processes with the help of effective risk assessment. At the same time, audit procedures should be optimized to promote the improvement of audit quality. Some key audit procedures, such as monitoring, verification, etc. Not because of lack of cost, time and other reasons not to implement, as far as possible to ensure the integrity of the audit procedure. At the same time, the professional quality of certified public accountants will have an impact on the implementation of audit procedures, requiring them to maintain a cautious attitude in the implementation of audit work, for some areas with high risk of fraud, in strict accordance with the relevant standards to carry out various work, so as to reduce the audit failure probabilities.

(2) Enhance the responsibility of accounting firms

Auditors of accounting firms have high professional quality and sufficient experience in auditing, but the ultra-high professional quality and excellent skills can not reduce the occurrence of audit failures of accounting firms. After years of development, accounting firms have their own set of audit procedures. The staff of accounting firms will not break the conventional methods in their work, but only work step by step, which will reduce the quality of audit reports. Accounting firms formalized their work, did not maintain a professional skeptical attitude when working, excessively trusted the annual report data when working, and did not work with the attitude of finding problems. In carrying out their work, accounting firms should bear in mind their professional ethics as auditors. In addition, the CSRC can also regularly conduct professional ethics training for accounting firms, enhance the sense of responsibility of staff, realize that auditing for the company is not only their own work, but also related to the vital interests of many investors, and enhance the social responsibility of accounting firms

Feel. When conducting audit work, auditors should first consider not the economic interests of the accounting firm, but the responsibility of the accounting firm as the supervisor of the company's financial situation, break away from the usual routine work, and use their professional knowledge and work experience to do a good job as the supervisor.

(3) Improving the regulatory environment

Under the new development environment, laws and regulations related to auditing have been continuously improved, and relevant departments need to refine the definition of audit behavior, reduce fuzzy description as much as possible, narrow the scope of professional judgment, and ensure that all audit behaviors can be legally followed to reduce illegal operations. At the same time, the functional scope of the supervision work of relevant institutions, departments, accounting firms and listed companies should be clarified to avoid the problem of omission or cross-supervision. For accounting firms, certified public accountants and listed companies involved in audit failures, China Securities Regulatory Commission, tax department and Audit Office all have the right of supervision. In the case of multiple supervision, it is easy to have the problem of unclear distribution of functions and powers among various departments, and they are reluctant to take responsibility in the face of violations. It also makes some illegal accounting firms and certified public accountants have not been cleared out in time, affecting the normal development of the market. In this regard, we should do a good job in the construction of regulatory environment, improve the independence of accounting firms, and ensure the effect of auditing. At present, the CSRC and other relevant regulatory agencies are not strong when punishing accounting firms for violations, in most cases, they warn and then punish according to the income of accounting firms, which is impossible to affect the earnings of accounting firms, and can not play the corresponding restraint role. In this regard, in the process of implementing supervision, regulators should appropriately increase penalties to ensure that penalties can exceed the revenue brought by accounting firms for violations, so as to form constraints. In addition, the regulatory body must improve the corresponding rules and regulations, through the establishment of integrity files and other ways, to constrain the behavior of accounting firms and certified public accountants, and create a good audit environment.

5. Conclusion

The financial fraud in the capital market will push the accounting firms and certified public accountants as the intermediaries of securities business to the fore and accept the inspection of the regulatory authorities and the public. Audit failure will cause accounting firms to lose market credibility, lose customers, and even withdraw from the market. Moreover, it will directly affect the "money bag" of small and medium-sized investors and seriously reduce the happiness of shareholders. Therefore, from the perspective of accounting firms and certified public accountants, this paper puts forward corresponding measures to prevent audit failure, that is, accounting firms should strengthen the quality control of audit projects in the three stages before, during and after, and certified public accountants should also improve their professional competence. It is hoped that these suggestions can provide reference for accounting firms and certified public accountants who fall into the trap of audit failure.

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