

From the Punishment Announcement to Explore the Audit Review Problems and Suggestions Abstract

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Abstract

In recent years, with the economic development, the influence of audit reports in the society is also expanding. Through statistical analysis of the punishment announcement of China Securities Regulatory Commission from June 2022 to January 2024, this paper found that the cases of financial data fraud of joint-stock companies are closely related to the review of audit quality. The low quality of review will lead to accounting firms issuing distorted audit reports and investors making wrong judgments, resulting in heavy losses and social impact. This paper analyzes the common problems, explores the influence brought by this factor and puts forward suggestions for reference.

Keywords

Audit Review; Audit Risk; Certified Public Accountant.

1. Analyze the Current Situation of Audit Review from the Penalty of CSRC

Table 1. Announcement of CSRC from January 2024 to June 2022

Numble	CSRC administrative penalty decision No	Quoted company	Review the problem
1	No. 13 [2024]	MishoEcology& Landscape Co., Ltd	
2	No. 1 [2024]	Kangde Xin Composite Material Group Co., Ltd.	√
3	No. 153 [2023]	Eglas, Inc	
4	No. 78 [2023]	Brilliance Automobile Group Holding Co., LTD	√
5	No. 79 [2023]	Sinoer Men's Wear Co., Ltd.	√
6	No. 58 [2023]	Huajing Diamond Co., LTD	√
7	No. 51 [2023]	Aerospace Communications Holding Group Co., LTD	
8	No. 42 [2023]	Tongjitang Health Industry Co., LTD	√
9	No. 18 [2023]	Zoneco Group Co., Ltd.	√
10	No. 3 [2023]	Easy see Supply Chain Management Co., LTD	
11	No. 69 [2022]	Rendong Holding Co., LTD	
12	No. 65 [2022]	Dewei New Materials Co., Ltd	√
13	No. 60 [2022]	Suzhou Victory Precision Manufacture Co.,Ltd.	
14	No. 55 [2022]	Yongcheng Coal Power Holding Group Co., Ltd.	
15	No. 36 [2022]	Burberry Dragon Co., Ltd	√
16	No. 32[2022]	Dongfang Jinyu Co., Ltd.	
amount to	16		8

Through the observation of the punishment announcement of the CSRC, it can be seen that the audit process preparation stage stipulated by the current audit standards is not prone to errors, and there are various problems in the actual implementation of the substantive procedures leading to audit failures. This paper statistically sorted out 16 cases of penalties imposed by the CSRC on accounting firms from June 2022 to January 2024. Among them, 8 cases involved issues related to review, accounting for 50%. It can be seen that review factors have a particularly significant impact on audit quality, and this aspect needs to attract the attention of certified public accountants and investors.

2. Current Audit Review Problems and Causes Analysis of Accounting Firms

In the audit work of an accounting firm, there are a variety of reviews, including the internal quality review of the project team, independent review, peer review, etc. The internal review referred to in this paper refers to the internal review of the accounting firm, including the internal quality review of the project team and independent review. [1].

2.1. The Accounting Firm Itself Mismanages the Review Work

At present, many firms pay only superficial attention to the issue of review. It is a common contradiction that each audit department of an accounting firm has heavy project tasks, few manpower and tight time. Especially in the busy audit season at the end of the year, even if the accounting firm has a clear regulation on the quality control time of review at all levels, the implementation is still not thorough enough. The firm does not have effective training and supervision mechanism for the auditors, so that the auditors are lazy in the review work, resulting in the implementation of the review procedure is not in place.

2.2. Auditors Do Not Pay Enough Attention to the Review Work

Accounting firm is a knowledge-based service industry, enough high-quality practitioners is one of the key factors for its rapid development, the importance of the level of manpower is far more important than the importance of other capital. Once the auditors themselves do not care about the review, it is difficult to realize the meaning of the audit work. According to the requirements of the Quality Management Standard of Accounting Firms No. 5101 -- Business Quality Management, the goal of accounting firms is to perform financial statement audit business, financial statement review business, other authentication business and related service business. Design, implement and operate the quality management system. Accounting Firm Quality Management Standard No. 5102 - Project Quality Review The goal of accounting firm is to appoint project quality review personnel who meet the relevant qualification requirements to make an objective evaluation of the major judgments made by the project team and the conclusions drawn accordingly. However, in practice, the workload of certified public accountants is relatively large, and they are busy with more tasks and more projects. Most of the review work carried out by certified public accountant employees is mere formality and lacks effective control over the review work. [2].

2.3. The Degree of Cooperation of the Audited Project is Not Enough

When conducting project reviews, firms often have multiple review procedures, and independent reviews do have an impact on the other work tasks of the reviewers, especially during busy periods. When the time for independent review is insufficient, the reviewer may not conduct an in-depth review of the project team's review results or take further action on issues identified during the review. Sometimes, they may only raise some issues symbolically and take simple measures accordingly. This situation is relatively common in the industry, because there is no clear accountability mechanism, we are often in line with the principle of

avoiding trouble to complete the work, and in the continuous inquiry or need to be reviewed by the project team to provide documents will also occupy a lot of time and energy for the project team, resulting in the review behavior is not timely or perfunctory.

2.4. Analysis of the Impact of External Factors on the Quality of Review

The audit behavior of accounting firms is the key link to guarantee the audit quality. However, this behavior is facing many challenges from external supervision. At present, government regulation and industry regulation are the two main regulatory forces, but their strength is slightly insufficient. Due to the large number of accounting firms, the government mostly adopts the method of spot inspection when conducting supervision. Although this method can play a role in supervision to a certain extent, it is difficult to cover the whole, resulting in some institutions with potential problems falling through the net. Government supervision is mostly post-event supervision, that is, problems are found and then dealt with, which lacks timeliness and is difficult to correct problems in time. As an industry self-regulatory organization, the Chinese Institute of Certified Public Accountants also conducts spot checks, but its punishment is relatively light, which makes some institutions estimate the cost of violations too low, thus weakening the warning effect on the entire industry. [3].

3. Suggestions for Accounting Firms to Improve the Level of Review

3.1. CPA Moral Training and Ability Improvement

In today's highly competitive market, accounting firms cannot act only for profit. It is very important for them to cultivate their professional image, and the cultivation of talents is a key point for accounting firms. Accounting firms should train auditors to uphold the bottom line of ethics in their work. Keep continuous attention to the risks of all links in the substantive operation of the work, punish and inform the violators, and increase the cost of violations. In their daily work, accounting firms should also regularly organize ethics and practical ability training courses and exchange seminars, order online courses and invite industry experts to give lectures, conduct case analysis of violations and other methods, provide a variety of learning opportunities for CPA firms, and improve the professional level and professional ethics of CPA through these various methods. Improve the problem solving ability of CPA. In the recruitment of personnel, we should also do a good job in the investigation, should pay attention to the examination of their practical ability and professional ethics level, for those who have violated the law, we should increase the assessment, sign relevant contracts to avoid their mistakes again to affect the firm, and ensure the quality of the staff from the basic recruitment. [4]

3.2. Improve Industry Supervision

Industry supervision has a key impact on the improvement of audit quality, and the supervision is mainly restricted by external supervision and industry association. Industry association should strengthen case education to restrain CPA's behavior through moral education and play a warning role. When self-discipline of industry association fails to restrain violations, laws and regulations of external supervision are the key bottom line. Audit management departments should improve the shortcomings of current laws and regulations, actively update regulations and keep pace with the problems faced by society, avoid the situation where violations of laws and regulations cannot be judged without rules, increase punishment for violations of laws and regulations, strengthen publicity and education for violations of laws and regulations, and strengthen information exchange among various regulatory agencies to improve punishment efficiency. The punishment will be implemented in a timely manner, so that those who violate the law have no opportunity to destroy evidence, falsify, etc., industry associations can make

suggestions on common problems, and regulatory authorities can make guidance on the punished units to improve the overall audit quality of the industry.

3.3. Improve the Internal Control of Accounting Firms

Accounting firms should improve internal control and implement supervision methods, which is an important way to improve the level of audit project review. Accounting firms generally have their own internal control provisions and supervision methods, but these provisions are often superficial and cannot be effectively implemented, so many audit failures are often caused by this. The leadership and staff of the accounting firm should pay enough attention to the establishment and implementation of the internal control system of the accounting firm, so that the internal control system and supervision method of the operation of the accounting business can be effectively implemented, and the improvement of the quality of audit review can be guaranteed at every step. The various regulations created to ensure the quality of audit review not only conform to the regulations of the industry, but also improve the credibility of the audit report. However, the internal control system and supervision method should be based on the actual development of the accounting firm to form a system that conforms to the firm and can be operated in practice, so that employees can jointly supervise and timely detect problems to avoid losses.

4. Conclusion

To sum up, in the continuous development of the society, with the popularization of audit knowledge, people pay more and more attention to the information role of audit reports in the identification of stock investment, financial situation, economic responsibility and other aspects. It can be seen from the punishment announcement of the CSRC that audit failures caused by the review of failed audit reports will cause losses to a wide range of investors in the society. The credibility of the audit report will be affected, which is not conducive to the high-quality development of China's economy. Improving the audit quality will not only increase the core competitiveness of the accounting firm in the market, but also help protect the rights and interests of social investors to provide accurate and valuable information for the users of the audit report, play the due role of audit, and promote the high-quality development of China's economy.

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