

# Research on the Causes and Countermeasures of Social Audit Failure

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**Abstract:** In recent years, cases of accounting firms assisting audited units in fraud have appeared from time to time, and major accounting fraud cases such as "Great Wisdom" and "New Land" have been exposed, which has greatly dampened the enthusiasm of investors. Therefore, in the context of a series of accounting fraud and financial scandal cases, how to strengthen the supervision of the CPA industry, ensure the quality of industry audits, and promote the healthy and orderly development of the industry has become a new topic and a practical problem that needs to be solved urgently. The consequences of failed audits are not only manifested in the chaos of the financial market, but also in the public's distrust of audits, which seriously threatens the stability of the capital market. Therefore, this paper analyzes the reasons for audit failure and proposes effective control countermeasures.

**Keywords:** Certified Public Accountant; Audit Quality; Audit Risk

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## Introduction

This article explores the possible causes of audit failure and how to reduce the risk of audit failure from three main bodies: accounting firms, certified public accountants, and external reasons. Accounting firms mainly involve management chaos, reputation, etc., while certified public accountants are the reasons for their independence and professional competence, and finally in terms of external reasons, they explore issues such as the company's own reasons and government management.

## 1. The causes of the failure of the certified public accountant's audit

### 1.1 Accounting firms

In recent years, the development of accounting firms in China has been very rapid. By the end of 2020, there were more than 9,000 firms nationwide. Not only that, each accounting firm will open branches in other cities to a greater or lesser extent, but many of them are integrated from several previous different firms, and due to the differences in corporate culture to a certain extent, there will be certain conflicts and collisions in the work process. Moreover, due to the large number of branches, frequent turnover of personnel makes it very difficult to manage the firm. On the other hand, the reputation of accounting firms is very important, and any firm that fails to audit will suffer incalculable losses, such as Ruihua's alleged financial fraud of listed companies in 2021, resulting in the termination of all its projects.

### 1.2 Certified public accountants

#### 1.2.1 Independence of certified public accountants

In recent years, in the audit work carried out by accounting firms, it is inevitable that some auditors will find it difficult to maintain independence for personal gain, resulting in audit failure. Specific manifestations are: (1) collusion with the management of the audited unit to make huge profits from it; (2) auditors in order to avoid trouble, reduce some necessary procedures in the work, resulting in erroneous audit results; (3) there will even be a situation where the accounting firm as a whole colludes with the audited unit to issue wrong audit reports and deceive the public.

## **1.2.2 The level of professional competence of certified public accountants**

In addition to maintaining independence, auditors also need to be professionally competent. However, there are countless cases of audit failure due to insufficient ability, which are specifically manifested in: (1) accounting firms are unwilling to pay enough remuneration to staff in order to reduce expenses, so they will recruit some personnel who have not passed the audit foundation, and even recruit personnel who have never learned auditing knowledge; (2) candidates who do not have relevant capabilities collude with internal personnel to obtain answers in advance in order to smoothly enter the post, deceive the company, and expel good money with bad money, resulting in uneven ability of the firm's auditors.

## **1.3 External causes**

### **1.3.1 The cost of violating the law is low**

In the context of China's relatively loose regulatory system, the regulatory authorities have only conducted partial spot checks on the audit reports of certified public accountants, and the possibility of investigation and punishment is very small. In addition, the regulator only imposes administrative penalties such as fines and warnings. In dealing with the problems identified, the investigating authorities are rarely held criminally and civilly liable.

According to the China Securities Regulatory Commission, the penalty for accounting firms is mainly the confiscation of operating income. Only those who are serious are disqualified from doing business; at the same time, CPAs are usually warned and fined. Overall, the cost of the violation is much lower than the receipt of goods for its huge benefits.

### **1.3.2 There are deficiencies in industry supervision**

At present, the supervision of China's auditing industry on the one hand comes from the government, but due to the strong professionalism of the auditing industry, the regulatory authorities can not understand the business of the industry in depth, the key issues are not in place, resulting in insufficient supervision; on the other hand, relying on the self-supervision of certified public accountants, auditors in the process of engaging in auditing work, need to comply with the corresponding practice standards, and maintain independence, however, this is a self-requirement, some auditors in the temptation of private interests, inevitably audit failure, The two regulatory models put less pressure on auditors to supervise, which led to audit failures to some extent.

## **2. The control measures for the failure of the certified public accountant's audit**

### **2.1 Countermeasures at the accounting firm level**

#### **2.1.1 Strictly supervise the internal control system**

The establishment of internal control systems is ultimately for management, and the quality of implementation can directly expose the applicability of the system. Therefore, in order to ensure the effective implementation of the internal control system and whether the operating effect can reach the expected goals, the accounting firm should regularly or irregularly supervise and evaluate the implementation of quality control, which can reduce the possibility of the failure of the CPA audit.

#### **2.1.2 Strengthen the training of the staff of the firm**

In order to minimize the probability of audit failure, the quality of the auditors themselves is also very important. If the auditor's own professionalism or audit ethics are not up to standard, it is also an important reason for audit failure. Accounting firms should establish a strict reward and punishment system, reward employees who maintain professional ethics, and severely punish acts that corrupt professional ethics. At the same time, the firm should select a certain number of

employees every year to strengthen the learning of audit knowledge and improve the professional ability of the auditors themselves, which can greatly reduce the possibility of audit failure.

## **2.2 Countermeasures at the auditor level**

### **2.2.1 Maintain independence at all times**

Certified public accountants should start from themselves, require themselves to maintain independence, work hard and do the following requirements: (1) Maintain the independence of personnel. Auditors shall not have a direct family relationship with employees and senior leaders of the accounting firm; (2) maintain financial independence. Auditors shall not collude with the personnel of the audited unit for personal gain. It should also be noted that accounting firms should also emphasize to auditors the importance of maintaining independence and ensuring that auditors do not make mistakes in the course of their audit work.

### **2.2.2 Strengthen the study of audit knowledge**

Auditors must have a certain degree of professional competence in the audit work to ensure that the audit work can be carried out smoothly and that there will be no errors and lead to audit failure. Moreover, if the CPA does not have professional competence, it constitutes fraud to a certain extent. Secondly, in daily activities, auditors also need to be aware of audit-related policy changes, professional knowledge, and strengthen their auditing capabilities.

## **2.3 Countermeasures at the level of the external environment**

### **2.3.1 Strengthen legislative and regulatory work**

For audit risks, the current provisions of the Company Law, the Auditing Law, the Certified Public Accountants Law, etc. are not detailed enough, and there is no corresponding responsibility investigation mechanism. Therefore, the government can formulate corresponding responsibility rules, strictly implement the responsibility system of the auditing industry, divide the responsibilities of the three parties to the audit, standardize the management and disposal of audit risk matters, bundle the audit risk and the corresponding responsibility, increase the cost of violating the law, and form a certain deterrent.

### **2.3.2 Strengthen the emphasis on auditing at the company level**

Since the reform and opening up, China's various industries have developed rapidly, and a number of listed companies have been derived, but due to the rapid development and relatively backward system, the situation in China's economic market has occurred frequently, and there have been more and more incidents of company fraud, which has seriously hit the confidence of investors. In order to create a good capital market, in addition to the government's vigorous supervision, major listed companies should also correct their attitudes and do the following: (1) hire an accounting firm to audit the company's internal control and financial statements every year, and make it public to investors; (2) set up a professional internal audit agency within the company, hire internal auditors, and establish an internal audit system to provide good conditions for the company's management and development.

## **Conclusion**

Social auditing is the "patron saint" and "economic police" of China's market economy, but in recent years, the endless cases of audit fraud have not only caused a huge impact on the capital market, but also hit the confidence of investors. To this end, this paper analyzes the causes of audit risks of certified public accountants from three aspects, including accounting firms, certified public accountants and external environment, and analyzes the control countermeasures of audit risks from these three aspects, in order to provide certain reference significance for standardized auditing. As can be seen from the above, the rectification of the auditing industry, in addition to the personal warnings of auditors, relies more on the control of the government and the supervision of the public, so the government should increase supervision, and the public should also strengthen their own auditing awareness to guide the correct direction of the capital market.

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