

Audit Risk Issues and New Opportunities for Small and Medium-sized Accounting Firms

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Abstract

The advent of the information technology era has brought a series of challenges and opportunities to the development of accounting firms in China, and at the same time, the current legal environment in China is not sound enough, and the penalties in financial fraud and other aspects are not perfect enough, resulting in the relatively low cost of violations in financial information fraud. Especially in the new era, enterprises are becoming more and more hidden in terms of financial information fraud, and the existence of these factors has brought certain challenges to the development of accounting firms. However, with the gradual improvement and continuous expansion of the market environment, the development opportunities facing accounting affairs are also increasing. These require accounting firms to continuously improve their service capabilities and better adapt to the development requirements of the market. This paper introduces the current status and problems of audit risks of small and Medium-sized accounting firms, analyzes the internal reasons for auditing risks, and proposes measures for avoiding and preventing audit risks from small and Medium-sized firms.

Keywords

Small and Medium-sized Accounting Firms; Audit Risk; Opportunities Development.

1. The Current Situation and Problems of Audit Risks of Small and Medium-sized Accounting Firms

In the new era, the structure of enterprises is becoming more and more complex, and the phenomena of related party transactions are becoming more and more close, which objectively increases the difficulty of the work of accounting firms, brings certain challenges to the work of accounting firms, and leads to an increase in audit risks. At the same time, the independence of accounting firms in China is not high enough, and the accounting firms are susceptible to the influence of audit objects and favoritism and fraud in the process of working, which increases the practice risk of accounting firms. The following is the status quo and problems of audit risks of small and Medium-sized accounting firms learned through the consultation of information and the guidance of seniors in the internship process of Shanxi Huihai Accounting Firm.

1.1. Violation of Internal Control Regulations

Firms and CPAs are disciplined for violating internal controls. As a whole, the accounting firms of small and Medium-sized firms are relatively small, the team management system is not sound enough, and there are fewer managers; the rights are relatively concentrated, and the organizational form is not advanced enough. Large firms generally have a quality control department, which can be strictly controlled in daily work, while most small and Medium-sized firms do not have a sound internal quality control department.

1.2. Violation of Standard Audit Procedures

Due to the lack of staff in small and Medium-sized areas, each auditor is responsible for multiple projects, such as receivables, accounts payable letters, bank letters and many other subjects,

which are prone to omissions, which further leads to incomplete audit procedures, including inventory and imperfect audit evidence verification. Imperfect implementation of audit procedures will directly affect the quality of audits and lead to deviations in the final audit report.

1.3. The Audit Report Issued is not Standardized

In order to continuously adapt to the new environment and survive, small and Medium-sized firms focus on developing new business, and the management assigns a variety of tasks to the auditors in a hurry while constantly contacting the new business every day, without strengthening the supervision of the quality of the audit work, resulting in the irregularity of the audit quality and the issuance of inappropriate audit reports. In 2015, two signatory CERTIFIOs of ZTE Guanghua Certified Public Accountants did not maintain due professional suspicion, the selection of the materiality level benchmark was inappropriate, and there were irregularities such as incorrect expression of the content of the audit report.

1.4. Unfair Low-price Competition

According to the information consulted, compared with the top 30 accounting firms in the country such as large-scale transactions such as PwC Zhongtian, Ruihua and Deloitte Huayong, many small and Medium-sized firms can only fight price wars, that is, the use of low-price competition methods due to their small scale and poor ability to withstand risks.

2. Analysis of the Causes of Audit Risk Problems of Small and Medium-sized Accounting Firms

2.1. The Audit Process is not Compliant

There are four main stages for the daily implementation of audit business of small and Medium-sized firms, namely, the undertaking stage, the planning stage, the implementation stage and the reporting stage. In the business undertaking stage, in order to quickly achieve high returns, small and Medium-sized firms only formally undertake and maintain procedures with customers. During the audit plan phase, firms often focus only on the ideas of the audit team members and ignore legal responsibilities. In the audit execution stage, certified public accountants often ignore the process of performing control tests and other processes in order to save costs without analyzing the actual situation, and the control test procedures of small and Medium-sized enterprises are difficult to detect the effectiveness of internal control designs well, and cannot fully cover the risk of major misstatement at the level identified by the audited unit. At the audit reporting stage, firms run the risk of abandoning their independence and pandering to clients to issue unqualified audit reports.

2.2. The Internal Control System is not Perfect

For the firm's old customers, auditors in blind trust will unconsciously lower the standard, and some major problems are difficult to find. Moreover, the audit review procedure in the firm was seriously irregular, such as the audit report that should have undergone a four-level review, and the firm was in a fluke to only use the second-level review. Even some small and Medium-sized firms have a serious lack of internal control systems, which will bring audit risks.

2.3. Subject to Audit Costs

The income of audit projects originally undertaken by small and Medium-sized firms is low, coupled with the fierce competition in the industry, which has lowered prices, and various factors have limited the audit budget costs of small and Medium-sized firms. In order to save audit resources and reduce audit costs, small and Medium-sized firms will try to save some

audit procedures and do everything possible to reduce the expenditure of various costs. These "cutting corners" will inevitably seriously affect the quality of audits.

3. Control Measures for Audit Risks of Small and Medium-sized Accounting Firms

3.1. Standardize the Audit Process

Small and Medium-sized firms can organize a special risk assessment team at the business undertaking stage to measure the size of the audit risk and whether it can be effectively controlled. Screen out high-risk customers and be cautious about undertaking business so as not to be in a passive position. At the stage of the audit plan, new and old customers should be treated equally, and should not be careless because of old customers. In the business execution stage, the certified public accountant should assume the obligation of supervision and monitoring to ensure that the auditor strictly implements the audit procedures, finds the loopholes in a timely manner and takes measures. In the stage of formulating the audit report, the person in charge of the project should further review the audit report, and the firm, as a third party, should ensure its independence and ensure that the audit report issued is true and reliable.

3.2. Improve the Internal Control System

First of all, small and Medium-sized firms should formulate audit quality control procedures and related policies in light of their actual conditions. Specifically, it includes: audit business execution, audit draft preparation, customer relationship, and maintenance of professional ethics. Actively implement the multi-level review system to overcome the shortcomings of weak internal management, and supervise and verify at all levels to ensure the quality of audits. Clarify the rights and obligations at all levels. Secondly, small and Medium-sized firms can establish a reward and punishment mechanism and assessment system to reduce audit risks and improve audit quality, which can mobilize the subjective initiative of all employees and stimulate internal potential and creativity.

3.3. Increase the Fee for Quality Customer Audits

At present, many firms are still using the charging standards of many years ago, which cannot meet the necessary costs due to inflation and price increases, and the price increase will face the risk of losing customers due to fierce competition in the same industry. Small and Medium-sized firms should formulate scientific pricing standards, establish a reasonable charging system, and should be linked to the customer's operating scale, operating income, financial strength and other factors. Appropriately adjust prices on the basis of ensuring the quality of audits, rather than reducing the quality of audits due to the cost of audits.

3.4. Improve the Recruitment and Training System

Small and Medium-sized firms should break the professional restrictions of traditional recruitment and recruit professionals in various fields. The firm should take on the responsibility of regularly organizing internal personnel to study the latest promulgated laws and regulations and policies, supervise and urge auditors to continue to study, improve their knowledge reserves, be familiar with the legal and regulatory system, and keep pace with the times. In addition, the firm should strengthen the risk prevention and control awareness of auditors, strengthen the moral construction of auditors, and emphasize the importance of the independence of auditors.

4. The Opportunities and New Development Paths Facing Accounting Firms

4.1. The Market Demand is Increasing

With the rapid growth of China's economy and the growing volume of China's economy, the market demand for the services of accounting firms is also increasing. For example, with the improvement and improvement of government service functions, more and more government departments have chosen third-party audits, which has also brought huge market demand. At the same time, with the continuous improvement of corporate governance in China, non-listed companies have also paid more and more attention to corporate auditing, which has brought rare opportunities to the development of accounting firms. Third-party audits are increasingly needed by government functions as well as public utilities. At the same time, for various departments such as public institutions, the requirements for financial transparency are also getting higher and higher, and it is also objectively necessary for accounting firms to be able to provide different levels of services. Especially with the continuous and in-depth development of China's market economy reform, the domestic demand economy, external economy and other aspects are facing huge opportunities, such as the implementation of the Belt and Road, the "four major inventions" in the new era, etc., will give birth to new business models and enterprises, these enterprises for accounting firms service demand is also more and more, accounting services face more and more business volume, thus also bringing opportunities for development.

4.2. Opportunities Brought about by Market Reforms

In recent years, with the continuous deepening of China's economic system reform, especially the continuous emergence of New Economic Forms in China, China's economy has gradually entered the development path of the new normal, which has also provided a golden opportunity for the development of accounting firms. Especially under the influence of supply-side reform, China's laws will become more and more perfect, and the withdrawal of backward production capacity and the formation of new service models have also provided new impetus for optimizing business models. In this context, new industrial forms continue to emerge, and the old industrial model is gradually eliminated, which also brings more audit opportunities, requiring accounting firms to continuously improve their service capabilities. At the same time, under the background of market reform, domestic accounting standards are becoming more and more perfect, the service capabilities of accounting firms are also continuously improving in market competition, and the service capabilities and competitiveness of accounting firms have been significantly improved. The improvement of the service level of accounting firms also caters to the needs of the market and can better seize the opportunities in the market.

4.3. Opportunities Presented by the Speed of Information Technology

With the assistance of information technology, auditing technology has undergone earth-shaking changes, especially with the continuous implementation of Internet +, and the rapidity of information technology has also brought new opportunities to the development of accounting firms. The traditional inefficient audit model is gradually replaced by a high-efficiency model, which means that accounting firms can complete more audit operations and process more audit data per unit of time, which also brings higher service capabilities. The speed of information technology also objectively expands the scope of service objects of accounting firms, and accounting firms need to constantly strive to meet the needs of the gradual diversification of the market. At the same time, with the support of information technology, the business of accounting firms is also constantly upgrading, which has brought new development opportunities to the development of accounting firms.

5. Conclusion

At present, there is still a relatively large gap between China's accounting firms in terms of service capabilities and service levels and foreign advanced firms, although China's accounting firms are also constantly enhancing their own strength, but still face more challenges in market development. In the new era, China's accounting firms should further enhance their service capabilities, strengthen internal system management, and constantly improve service standards, only in this way can they better seize the development opportunities of the times and give play to the value of accounting firms.

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