

Research on Causes and Countermeasures of Audit Failure of Listed Companies

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Abstract: The occurrence of audit failure cases not only causes huge economic losses to investors, but also makes the credibility of certified public accountants decline sharply, affecting the survival and healthy development of the audit industry. This paper takes the Yabate audit failure case as the research object, analyzes the internal and external factors of audit failure, and proposes improvement suggestions from this point. Through the analysis of individual cases, the common problems of audit failure are found, which can be used for reference by accounting firms, certified public accountants and relevant regulatory authorities.

1. Introduction

With the continuous development and progress of social economy, many investors have become more and more dependent on the assurance and credit enhancement of audit reports. However, there are endless cases of audit failure, which seriously affect the healthy development of the capital market. It not only causes serious economic losses to investors, but also reduces the credibility of CPAs and hinders the survival and development of the audit industry.

According to the requirements of the China Institute of Certified Public Accountants in 2019, the theme activity of the national certified public accountants industry in 2019 is to carry out the “Year of Professional Construction”. As the public pays more and more attention to the service quality and audit failure rate of CPA audit projects, seriously implement and strengthen professional construction as the core to promote the high-quality development of the industry. To guide the vast number of practitioners to consciously improve their knowledge structure and professional skills, and to promote the normal and long-term construction of CPA professionalization.

This paper analyzes the reasons for audit failure by Zhonghua's audit failure case of Yabate's 2015 financial statements, analyzes the reasons for audit failure from various angles, and proposes corresponding improvement measures to reduce the occurrence of audit failure. Through the research of this article, the risk of CPA audit failure is reduced, the auditor's sense of responsibility is improved, and the quality control system of the firm is improved. It has certain reference significance for accounting firms, certified public accountants and relevant regulatory authorities.

2. Case Background

Yabate technology co., ltd. (stock code 002323), headquartered in Yancheng, Jiangsu, is a global comprehensive construction finance technology service enterprise. On August 5, 2015, it was listed on small and medium-sized boards in Shenzhen Stock Exchange, becoming the “first share” of A shares listed in the metal roof enclosure industry. In November 2016, Yabate successfully entered the Top 500 of Chinese Corporate Credit, and in December of the same year, ranked among the Top 100 Brands of Chinese Listed Companies in 2016. But on April 6, 2017, less than a year after Yabate went public, the CSRC filed an investigation into Yabate. According to the survey results of the SFC, Yabate only increased its business income by 580 million yuan and profit by 280 million yuan in 2015, accounting for 73% of the total profit in 2015, through fictitious Muertan projects, export construction materials sales and related transactions.

On September 25, 2015, Zhonghua Office accepted the Yabate 2015 annual financial statement audit business entrustment, and on March 23, 2016, it had a standard unqualified audit report. During the audit process, Zhonghua found that Yabate had multiple abnormalities in its revenue in

2015: Firstly, the gross profit rate of Muertan project is as high as 74.16%, and a large number of small repayments are made through multiple third-party companies. Second, the sales of export building materials to angobel international and LDA are targeted at ordinary building materials such as steel and aluminum, with a gross profit margin of 81.54%. Third, domestic material sales revenue increased significantly and the classification of revenue was changed.

After implementing the risk assessment procedure, Zhonghua believes that the area where Yabate may have significant risk of misstatement (related to fraud) is the authenticity of revenue, and designs a series of measures to be taken. According to investigation, due to Zhonghua's lack of due professional prudence and professional suspicion, the above-mentioned countermeasures are incomplete in obtaining audit evidence, and the implementation of audit procedures is not in place, thus failing to perform due diligence.

In response, the CSRC not only issued warnings, fines and various measures to prohibit entry into the securities market to the company and relevant responsible persons, but also ordered Zhonghua to make corrections. Confiscation of business income of 540,000 yuan, confiscation of illegal income of 120,000 yuan, and a total fine of 174,000 yuan, Yabate 2015 financial statements audit report signed by certified public accountants Sun Yong, Gu Jie gave a warning, and were fined 80,000 yuan.

On July 6, 2018, Shenzhen Stock Exchange said that it had officially started the compulsory delisting mechanism for Yabate. The company's shares were at risk of suspension and termination of listing. The short name of the shares was changed from “Yabate” to “*ST Baxter”.

3. Literature Review

With regard to the definition of audit failure, Arens and Loebbeecke (1990) set forth the following: in the course of audit practice, the auditors of certified public accountants failed to comply with the recognized auditing standards of the industry, and formed and submitted erroneous audit opinions. Wu Fang (2004) believes that most of the reasons leading to audit failure are due to the auditor's failure to strictly abide by the auditing standards in the process of practicing. In the case of important misstatements or omissions in the financial statements of the other party, the auditor still issued an unqualified audit report. Sun Naizhong (2017) believes that the “consequentialism” of audit failure is unreasonable, one-sided and impersonal, which enlarges the responsibility of auditors and ignores the limitations of their cognition. Bi Xiaozhuo (2016) believes that the vast majority of investors do not know the real situation inside the enterprise and rely entirely on the audit reports issued by certified public accountants. Weng Jianke (2019) pointed out that due to the negligence of some certified public accountants and the acquisition of benefits and other reasons, they did not strictly follow the audit criteria, thus issuing inappropriate audit opinions, which led to audit failure and endangered the healthy development of the firm and the accounting profession.

Therefore, the only “outcome theory” is not conducive to the healthy development of the audit industry. The viewpoint of “process theory” measures the quality of auditors' work on the basis of auditing standards. This view is not only conducive to the improvement and refinement of audit standards, improve the professional quality of auditors, promote self-discipline and self-encouragement of auditors, but also conducive to the healthy development of the audit industry. Based on the characteristics of this view, this paper studies audit failure from the perspective of “process theory”.

4. Analysis of the Causes of Audit Failure

There are many reasons leading to the audit failure of listed companies, but the key factor is whether the auditors behave appropriately in the audit process. In the process of auditing, if auditors fail to strictly abide by the auditing standards, and ultimately sign and publish the audit report with wrong opinions, it is the internal factor that leads to the audit failure. The particularity of the industry in which the listed companies are located will increase the difficulty of the audit business.

In order to ease the fraud in the management crisis, the listed companies have laid more mines for the auditors that are not clear and easy to detect, which is also an important factor for the audit failure. Social environment is also the external cause of audit failure. Whether the audit environment is fair or not will seriously affect the judgment of the auditors, thus affecting the results of the audit work. Therefore, auditors should conduct risk assessment and self-discipline at the time of audit to deal with the influencing factors that may lead to audit failure. The main reasons for the Yabate audit declaration are as follows:

4.1 Risk assessment procedures are not in place

According to the audit working papers of Zhonghua firm, yabate's income in 2015 showed a number of anomalies. In response to the financial frauds such as the fictitious Muertan project, Angobel International, Lda's export of building materials, related party transactions, etc. After implementing the risk assessment procedure, Zhonghua believes that the area where Yabate may have significant risk of misstatement (related to fraud) is the authenticity of revenue, and designs a series of measures to be taken. However, insufficient audit evidence was not obtained or further audit procedures were adopted to verify the authenticity and legitimacy of the project sources questioned.

Before or after the risk event is assessed, the auditor shall quantify the impact of the incident on people's life, life and property, and the possibility of loss, and design and implement the risk of the material misstatement assessed. In response to the measures, increase the corresponding substantive procedures, the audit risk will be acceptable, and the possibility of audit failure will be reduced. In Yabate's case, the auditors have assessed the possible material misstatement risks in the 2015 financial statements, but they did not strictly carry out the risk response as required by the audit standards when implementing the follow-up response measures and substantive procedures. in order to obtain sufficient and appropriate audit evidence, they came to a conclusion and could not carry out reasonable risk assessment procedures for the audit business.

4.2 Control test design is not rigorous

The test program designed and implemented by Zhonghua Office is to extract the voucher and record the voucher number, whether there is a matching stamp on the invoice, whether to enter the debit of accounts receivable, invoice number and other information in the manuscript, but the above information cannot confirm that the goods have been delivered out of the warehouse. However, it was able to prove that the inbound and outbound documents and freight receipts issued by the goods were not designed and verified by Zhonghua, and the control test program designed by them could not reach the control target.

Effective control testing can evaluate the effectiveness of internal control in preventing or detecting and correcting major misstatements at the identification level. After fully understanding the internal control of listed companies, auditors should only perform control tests on those internal controls that they intend to rely on, and ensure the correct implementation, in order to reduce the audit forensics work and improve the efficiency of audit work. In the Yabate case, the control test designed by the auditor does not confirm the accuracy of the business control test being reviewed, and the level of assurance about the effectiveness of the control operation cannot be obtained.

4.3 Lack of professional skepticism

Analysis of the main financial data of Yabate2015 reveals that there are many doubts. For example, the Muertan project has received a large number of small refunds from a number of companies, and the gross profit margin is as high as 74.16%, which is significantly higher than the average of 39.17% of other similar projects of Yabate; Yabate's domestic sales revenue of materials is 280 million yuan in 2015, which is the income of 2014 (31 times the amount of domestic material sales in the income of domestic materials sales increased from approximately 3% in 2014 to 35% in 2015. All the above-mentioned signs show that if auditors have the professional competence and make a careful analysis of Yabate's financial data, it is not difficult to find the odd place of sudden increase in operating income and huge increase in profits. further audit procedures

should pay more attention to operating income and related cost, expenses, transactions and other report items and maintain the professional skepticism. In addition to maintaining their independence and professional competence, auditors should also maintain due professional prudence in their audit work. Career prudence is an important quality guarantee for identifying and assessing the risk of major misstatement. Auditors should be fully aware of the particularities of the auditees' overseas business and their industries. Due to the inherent limitations of overseas business, the professional knowledge of construction and engineering will make auditors less exposed to this type of business and lack accurate control of audit risk assessment. In the case of Yabate, foreign business income, domestic material income accounted for a relatively high proportion, and accounts receivable and inventory items were quite abnormal. After the auditors discovered the above risks, they still issued an unqualified standard audit report. It can be seen that the auditors did not maintain the professional cautiousness required by the basic ethical standards in the auditing standards.

4.4 The general auditing ability of auditors is insufficient.

After Zhonghua office implemented risk assessment procedures for Yabate's 2015 financial statements, Zhonghua believed that Yabate's financial statements may have significant misstatement risks, and designed the countermeasures to be taken. However, due to the lack of working ability of auditors in Zhonghua Firm, the above measures are incomplete in obtaining audit evidence and inadequate in executing audit procedures, and fail to be diligent and responsible.

Professional competency usually refers to the ability of relevant personnel to work in a certain field or to handle specific industry matters. Auditors should not only have the necessary professional knowledge, but also be familiar with Yabate's main business and industry environment, especially its competency in construction and engineering. At present, the hidden and diversified financial frauds require higher and higher professional competence of auditors. Due to the contradiction between the complexity and diversity of audit projects and the limited and unitary cognition of auditors, the audit industry urgently needs high-quality and compound audit talents. Professional competence is one of the basic standards of professional ethics for certified public accountants, and is also the threshold for auditors to enter the audit industry. Only with proper professional knowledge and relevant skills can auditors be in an invincible position in the audit industry.

4.5 Lack of independence caused by vicious competition

The fees charged by Zhonghua for auditing the financial statements of Yabate in 2015 are 470,000 yuan, 120,000 yuan for auditing the internal control of financial reports in 2015, and 70,000 yuan for auditing the profit forecast in 2015. Auditors may reduce the quality of audit reports for high audit fees to cover up financial fraud and illegal activities of the audited entity.

With the rapid development of Chinese economy, the demand for audit services has also increased, and the living pressure of auditors has become more and more serious due to excessive competition in the audit market. As a “rational economic man”, auditors have the motivation to pursue the maximization of economic benefits. Many customer factors, such as audit tenure, customer importance and non-audit services, may affect the “willingness to discover problems” and “ability to expose problems” of accounting firms and auditors. Therefore, when listed companies need low-quality audit reports to cover up their fraud and illegal activities, if auditors maintain and adhere to high-quality audit reports, they will face the possibility and pressure of dismissal and then lose the income. After weighing the gains and losses, auditors may adjust their coping strategies to ensure the maximization of their rights and interests.

5. Audit Failure Countermeasures and Suggestions

Yabate audit failure case not only caused serious economic losses to investors, but also brought serious negative impact to Zhonghua Firm. In order to reduce the occurrence of audit failures and further improve the quality of audits, the countermeasures for audit failures are as follows:

5.1 Strict implementation of audit procedures

Through the analysis of Yabate's audit case, Zhonghua's risk assessment failed to be designed and implemented in accordance with the requirements of the audit standards, and the lack of risk assessment procedures led directly to the failure to find significant error risks and serious fraud risks. There is no evidence of sufficient violations to manipulate profits, increasing the risk of audit failure.

In order to reduce the risk of audit failure and improve the quality of auditing, accounting firms and auditors should strictly implement auditing services in accordance with the relevant requirements and regulations of the auditing process. In the initial stage of the audit, we should conduct a detailed and in-depth understanding of the listed company and its environment, and develop an audit plan based on what is known. To assess the risk of major misstatement of listed companies, we should perform our duties and responsibilities in the audit process, strictly implement the audit procedures stipulated in the audit standards, and improve the audit quality. We should not only be responsible to the auditees, but also to investors and society.

5.2 Improve the internal control testing system

Auditors design control tests to test the effectiveness of control operations. The auditors of Zhonghua should design and implement an effective control test system to obtain audit evidence to achieve the control objectives tested.

The auditor shall conduct a correct analysis and judgment on the audit evidence obtained to ensure the comprehensiveness and authenticity of the audit evidence and enhance the adequacy and appropriateness of the audit evidence. It is necessary to have a comprehensive understanding of the internal control of listed companies, and combine the internal and external evidence that may be generated for analysis. If it is not possible to obtain the assurance level for controlling the effectiveness of operation, auditors should design and implement alternative procedures to obtain audit evidence. To establish and perfect the internal control system, we must also strengthen auditors' compliance with and implementation of audit standards, continuously improve auditors' ability and professional quality in handling control tests, strengthen the awareness of laws and regulations, and ensure the smooth completion of audit work with high quality and quantity.

5.3 Raise the professional skepticism

In Yabate's audit failure case, fraud is mainly caused by inflated sales revenue, which in turn leads to inflated profits. Income is the basis for the survival and development of listed companies. Income is the basis for the main business activities of listed companies, while the key source of income is sales income. Therefore, in many audit failure cases, the fraud of sales revenue is the hardest hit by financial fraud.

When auditing income, auditors should focus on the credibility of income sources and the accuracy of data, and at the same time adopt various methods to verify and obtain sufficient and appropriate audit evidence to ensure the accuracy and credibility of income. Before conducting the audit, it is necessary to know in detail the overall situation of the audited entity and its external environment, mainly including the development of the same industry, the sales income of enterprises in the same industry, the percentage of profit growth and other aspects, and make horizontal comparison and analysis. Vertical comparison and analysis are made on the perfection of the internal control system of the audited unit and the performance appraisal of the management. After a thorough understanding and analysis of the comprehensive situation of listed companies, we should formulate the overall audit plan and audit objectives, refine the audit items of financial statements, increase appropriate substantive procedures, maintain the necessary professional skepticism, and ensure the level and quality of audit reports.

5.4 Attaching importance to the training of auditors' working ability

Looking at Yabate audit failure cases, if the auditors have rich practical experience and sufficient professional competence, and have a full understanding of the auditees' business processes and the

market and industry environment. And in the audit execution, the audit independence can be strictly observed, which will reduce the inspection risk of the audit project.

Accounting firms and auditors play a dual role in economic development. They can not only promote the successful listing of enterprises, but also effectively supervise enterprises. Therefore, the cultivation of auditors' working ability is very important, of which professional ability and professional accomplishment are especially important. Auditors should maintain a high degree of sensitivity and necessary professional suspicion to the information disclosure of auditees. When auditing the initial public offerings of listed companies, they should enhance their professional competence and business judgment, detect fraudulent and fraudulent acts in time, strictly abide by the requirements of auditing standards and abide by professional ethics. Germany, improve the reputation and credibility of the audit industry.

5.5 Improve the construction of audit environment

The opinions of the audit report finally issued by the auditors of Zhonghua and the audit fees charged are fundamentally a rational choice for the firm and the auditors after comprehensively weighing customer pressure and regulatory pressure.

Under Chinese current system, the audit independence of firms and auditors is affected by many factors. In order to achieve high-quality audit work, we should continuously improve and perfect the audit environment to avoid changes due to different relative pressures while auditors' behavior choices under different environments. At the same time, we should improve the supervision pressure and reduce the impact of customer pressure. At the same time, the current audit entrustment model can be reformed to make the relationship between auditees and intermediaries relatively simple and unrestricted. By improving the environment of CPA practice, the professional quality of CPA can be enhanced and the quality of audit can be improved.

6. Conclusion and Enlightenment

Audit work is a systematic process. The quality of audit work depends on the perfect and perfect supervision system. As the main body of supervision system, accounting firms and certified public accountants are the last checkpoint of financial statements disclosure of listed companies, which fully reflects the importance of audit work, while audit failure is a comprehensive one. The result of sex is also influenced by many internal and external factors. Therefore, as the only person responsible for the implementation of the audit work and the audit report, the accounting firms and auditors are the root causes of the audit failure. However, factors such as fraud, operating conditions and industry characteristics of the auditees, as well as the regulatory environment of listed companies, accounting firms and auditors, also play an important role in the audit failure. At present, Chinese economy is in rapid development, and research in many aspects needs to be improved and improved. Therefore, the construction of the audit industry requires a more rigorous institutional environment and a more comprehensive and comprehensive audit system, which can effectively prevent and reduce the occurrence of audit failures, improve audit quality, protect the legitimate rights and interests of investors, and ensure the healthy development of the market economy.

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