

Avoiding Risk and Going for Profit: Chinese Certified Public Accountants Should Strive for Survival in Balance

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Abstract

Chinese certified public accountants are facing the two-way selection including the risk control and profit maximization, and this article analyzes the relative causes of this phenomenon, and puts forward the countermeasure that the certified public accountants should strive for survival in balance.

Keywords: Certified public accountant, Risk, Profit, Balance

1. Introduction

As the independent agency, the accounting firm should not only get benefits in the drastic market competition, expand the scale, and enhance the efficiency of auditing work, but also avoid risk and unnecessary lawsuits, protect itself, pursue long-term development, and enhance the effect of auditing work as far as possible. The conflict will certainly exist between both sides. To enhancement of auditing efficiency often would not ensure the quality and effect of the auditing works, and the enhancement of the quality and effect of auditing works often will reduce the efficiency and benefits. As viewed from the balance of the benefit and auditing risk of accounting firms, following opinions will be discussed in this article.

2. Avoiding risk has been the most basic condition to stay relevantly and develop significantly for certified public accountants and accounting firms

2.1 *The state is increasing the punishment degree for certified public accountants' improper auditing reports*

In recent years, starting from the lawsuit case of Sichuan Deyang Accounting Firm, many lawsuits such as Shenzhen Yuanye, Beijing Zhongcheng, Hainan Xinhua, Hainan Qiongminyuan, Sichuan Dongfang Boiler and Chengdu Hongguang Industry relating to certified public accountants broke out in succession, and the state have adopted different punishment measures such as penalty, cessation of business, cancellation of license for illegal accounting firms and certified public accountants, and implemented the punishment of internal control for tens of certified public accountants with serious problem, which can not but make accountants in the auditing circle feel unprecedented risks.

2.2 *The position of standardizing the securities market and protecting middle and small investors makes certified public accountants have to more carefully issue the auditing report*

The development characters of Chinese economy include dispersed investments and numerous investors. And most of them are middle and small investors. To encourage the investment, the state has reduced the interests a several times in recent years, and people's investment enthusiasms are increasingly rising. But their investments seem to have not large returns, and many enterprises utilized middle and small investors' investment enthusiasms and immature investment psychology to "collect money" in the stock market, which significantly harmed investors' investment enthusiasms. The state has noticed that, because the investments of this part are very large, and if the popular support is lost, the national enterprise reform can not go on, and the securities market will not be developed continually and stably. From the reform of the accounting system in recent two years, the state has further required the disclosure transparency of the accounting information, and it is more and more difficult to handle the accounting surplus for the providers of accounting information. However, the large gap between the faking cost of accounting information and the incomes makes the providers of accounting information always have the tendency to provide the advantaged accounting information for themselves, and as the "economic police", whether the certified public accountants could reject the faked accounting information from the stock market has been the increasingly concerned problem for investors. Middle and small investors could not understand the complex accounting report, so they more depend on certified public accountants' easy auditing reports, which makes auditing personnel be facing higher probability of lawsuit.

3. The necessary road to develop the accounting firms: obtaining benefits and expanding scale

From above analysis, Chinese accountant industry is facing unprecedented auditing risk, and the system characters such as the partnership and the corporate system and the few amounts of listed companies make the business source of this industry be less and less, and make this industry more and more difficult to obtain benefits.

3.1 The enterprise organization form of Chinese accounting industry makes the profit maximization to be their first need of survival

The current accounting firms and accounting consultation firms in China all have adopted the partnership system or the limited liability company, and they have to seek business sources for the development, and when they face the selection, they always have no time to consider but accept the business. The limitation of the auditing business makes the auditing industry in the drastic competition.

3.2 General small-scale of accounting firms restrains their development of business

The auditing object of Chinese auditing business is the annual accounting report of listed company, and there are only about one thousand listed companies, so the auditing business is not sufficient, and the amount of the companies who engage in the auditing business is numerous, which makes the auditing industry is “not enough to satisfy everyone”. For those certified public accountants with small scale, because of the limitation of resources, they could not possess the auditing business of listed companies, and they have relatively weak profit ability, so they would more accept improper requirements of listed companies.

4. Industrial mess of Chinese certified public accountants: large risk and few businesses

The road of Chinese certified public accountants is very difficult, and people called certified public accountants as the “academicians of two academies (good ones go to hospital and bad ones go to courthouse)”, and they seems to have only one dead road. If they operate according to relative standards, the clients will not satisfy and they are often fired, and the business sources are less and less, and if they could not follow the standards, they would face large legal risk, so this industry is being in the mess.

5. Avoiding risk and going for profits: striving for survival in balance

Certified accountants should not only avoid risk, but pursue profits, and to be responsible for the public, they should pay more attention to following aspects.

5.1 Carefully selecting auditing clients

Generally, the larger fact influencing the accounting report quality of listed company is the honesty degree of the management layer. When evaluating the risk, the certified public accountants must fully evaluate the honesty degree of the management layer.

5.2 Increasing the business cognition of audited enterprises

One very important factor of the auditing failure is that the certified public accountants could not know the business of the audited enterprises clearly, because the object reflected and supervised by the accountant is just the economic activity of the audited enterprise. If the certified public accountant could not fully know the economic activity of the audited enterprises, he will not really identify whether the accounting information is reliable.

5.3 Strengthening the quality control of accounting firms

It is the necessary channel to strengthen the management for the survival of the accounting firms. In many cases that the certified public accountants colluded with the audited enterprises, only one certain certified public accountant implemented the fraud behavior, but the accounting firm would finally accept the penalty according to relative civil law. So the accounting firms should strengthen the management and control for the certified public accountants to ensure the auditing quality and reduce the auditing failures.

6. Conclusions

From above discussion, only certified public accountants put the long-term benefit on the first position, the auditing quality could be ensured better, and only the auditing quality is ensured and the auditing risk is controlled, Chinese certified accounting industry could be developed significantly.

References

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