

# The impact analysis of new auditing standards on audit risk

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**Abstract.** With the rapid development of social economy, the audit risk arising from carrying out the audit work is gradually being paid attention by the audit agency and auditors. In this paper, through the arising main reason analysis of the audit risk, the management system of audit agency and the audit teaching mode are improved; the professional auditor is trained and professional ethics construction is strengthened; to rich audit teaching content and increase teaching practices link and so on. From the above three aspects, the main method of audit risk aversion is interpreted under the new audit guidelines environment.

## Introduction

With China's rapid economic development, the economic system gradually forms scale. Accounting and auditing profession also play an important role in the development of a market economy, while they also face the challenge of audit risk. The Ministry of Finance adjusted 38 auditing standards in 2012, which revised the guidelines Chinese CPA practice. Among them, the 16 criteria of the content of the substantive revision, such as, the related parties, accounting estimate, fair value, the entity to be audited using the service mechanism considering standards, and identification, assessment, response to strengthen the risk of material misstatement, and got rid of the original procedure oriented thinking, and cancelled "Chinese CPA auditing standards 1621st - the small by audit institutions audit special consideration". A lot of new contents are added in to the implementation of new guidelines, and the structure have also been adjusted. Meanwhile, when provides guidance for audit affairs of CPA, it also presents higher requirements for the ability to practice of CPA. How to use the new auditing standards on accounting and auditing for effective risk aversion is the key studied problem in this paper.

## The concept and characteristics of audit risk

Audit risk is that the risk of inappropriate comments announced by auditor to errors and vulnerabilities of financial statement. Early risk oriented auditing theory think that the audit risk is composed of three parts, the inherent risk, control risk and detection risk. That is to say  $\text{audit risk} = \text{inherent risk} \times \text{control risk} \times \text{detection risk}$ . For customers, the possibility of inherent error occurrence and the possibility of that internal controls cannot be prevented or detected, namely the inherent risks and control risks in the financial statements. Auditors cannot control this risk, and they can only minimize the risk through appropriate measures. For auditors, the audits are face with the possibility of that it cannot be found by audit, this is detection risk. Modern risk oriented audit mainly analyzes business risks, and understands the entity and its environment from the macro, so as to fully identify and assess the risks of material misstatement of the financial statements in order to design and implement the control test, as well as substantive procedures, in order to save the cost of audit, reduce the risk of audit, improve audit efficiency. Modern risk oriented audit school thinks, audit model should be:  $\text{Audit risk (AR)} = \text{Risk of material misstatement (RMM)} \times \text{Detection risk (DR)}$ . Among them, the risk of material misstatement may be subdivided into Inherent risk and Control risk. As shown in Figure 1.

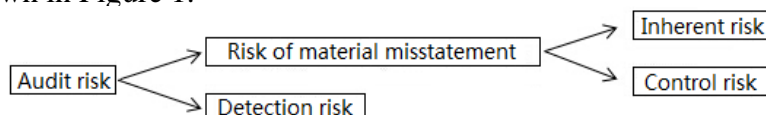


Fig1 : Diagram of the audit risk

Audit risk has the following characteristics: the first one is objectivity. No matter what form of audit approach is taken, there is a certain degree of error, which is inevitable, as long as the audit working, the generated objective conditions of risk exist. Therefore, for the existence of audit risk, the auditor can control and decrease the probability of its occurrence, and reduce the extent of damage. However, no matter what measures are taken, it cannot completely eliminate the audit risk.

The second one is universality. Audit risk exists throughout in all aspects of the audit process. There may be mistakes in every aspect of the audit, it will increase the final audit risk if it accumulated. Even during the period of after the end of the audit, there still has the possibility of risks occurrence. In short, what kind of audit activities exist, the corresponding risk also has adapted with it. Therefore, the control of the final audit risk, it depends on the control of the above mentioned risks.

The third one is occasionally. Audit risk is not a subjective sense of audit staff, but because of some objective factors. Auditors undertake the audit risk during an audit process, the risk is unavoidable and objective reality, rather than deliberate act of the auditors. Because there is such an occasionally, the auditor will use their ability and knowledge learned to reduce risk, which have actual meaning of audit risk control.

The fourth one is the controllability. Currently, the development of the audit profession cannot be bound because there are risks, the correct understanding of audit risk is very essential. Auditors cannot be afraid of the occurred audit risk, because it is an objective reality. As long as audit activities carry out, there will have audit risk. Although the audit risk cannot be completely eliminated, but can be controlled, as long as we enhance risk awareness and initiatively take measurements, it can effectively control, prevent and mitigate the risk, so that audit risk can be reduced to a minimum limit, as long as the reduction of audit risk in the acceptable range, auditors can audit clients.

### **Reason for audit risk generation**

In the audit work, the impacted and produced reason of audit risk is various, which mainly has the following three aspects.

*The management system of audit agency is not perfect*

With the gradually accelerating the pace of economic globalization, many companies fail to be strict accordance with the implementation of new auditing standards in the audit work, the audit work assessment is not strict, the target is not clear. In the overall background of social development, a number of companies in order to achieve maximum benefits, artificially fabricate, modify the accounting data, and make fraud on their own financial situation, this way, there are a lot of problems such as disorder finance and economic order, serious distortion of accounting information, untrue and illegal financial revenue and expenditure, and others, which are the potential hidden dangers to the accuracy and impartiality of audit. Meanwhile, for audit staff, the difficult of checking and judging is increased, and some auditors limited their professional level, weak sense of responsibility and low job requirement, cannot make good audit risk aversion, leading to increased risk of audit.

*Professional skill and risk awareness of auditor are not strong*

With the development of the audit profession, for audit staff audit work have become increasingly demanding, auditors need to have the professional skills and good moral character, but also need to have good judgment ability. However, at present, the risk awareness of some of Chinese auditors is weak, lack of caution attitude in the work, and they have no sense of responsibility, their technical level is not high, which results in that it cannot effectively make the audit risk aversion, leading to make trouble of audit work. The professional skills not only include the mastery of professional techniques, but also moral quality of auditors. During the audit process, some auditors violate professional ethics, play favoritism and commit irregularities, cannot treat audit work in a fair and impartial attitude, and falsify audit data colluded with customer to make some audit findings and evaluations which do not match the facts, seeking his own interest, to form audit risk.

### *Laws and regulations rules are not perfect*

Although China's legal system continues to be adjusted and constantly to be improved, in the process of rapid development of the economy, it will still be some unexpected problems and states. The laws only adjusted once a few years, new problems arising during the audit process may not be provided legal support. The administrative rules and regulations established by some local governments, only take into account some of the local realities and local interests, and does not converge with national laws and regulations, or even has conflicting. Financial laws and regulation is the basis of to judge the financial revenue and expenditure, and economic responsibility of the unit under auditing. If the legal system is not complete or divergence, it will make the loss of a unified auditing standards, increasing the risk of chance.

### **The main method of audit risk aversion in the new auditing standards environment**

Audit risk is an objective reality, but also throughout the entire audit process. The new implemented auditing standards are to regulate the rules and actions of the audit profession, but also are the professional standards to perform auditing service and the basic scale of evaluating audit quality. In new auditing standards, the concept of risk-oriented audit is introduced, and combining with the facts of China's audit, the audit behavior is made norms to ensure audit quality and prevent the audit risk. Its implementation for us to strengthen risk management and reduce audit risk provide a strong guarantee. The method of implementation of new auditing standards to circumvent the audit risk mainly includes the follows:

#### *To perfect the management system of audit agency and improve the audit teaching mode*

With the deepening of the modern enterprise system reform, more and more companies realize the importance of the audit for business development, many companies have set up audit department, and the standardization of the audit have higher requirements. General management system of audit agency includes plan management systems, auditing statistical system, accountability system, and audit file management system and so on. Through these aspects of management, it enables enterprises to make a clear to the processes and matters that require attention of internal audit, which can better improve enterprise management, making the audit department to become the core strength of the enterprise.

For the professional audit staff that the quantity demanded is increased now, a good auditing teaching program is also the basis of personnel training. Auditing teaching mode should be different from the traditional teaching mode. In the college audit teaching, the main teaching method is the case teaching method. Successful implementation of the case teaching method relies on a large collection of real cases by teachers, and modification and regulation according to the case to make it stylized. Good or bad of audit case directly affect the success or failure of case teaching. Therefore, choosing the appropriate teaching cases is crucial. Good audit case should be searched through a variety of channels by the instructor personal or be adapted according to the survey results, these cases are real, effective and practical. Case materials can be combined to reflect theoretical knowledge to make a profound impression to students. In the classroom, teachers should make the student to dominate, seriously think about the case, and organize discussions. Teachers can also ask questions on the case, and allow students to answer. This teaching model will stimulate students' interest in learning, so that students can take the initiative to learn boring and arcane financial knowledge to pave the way for future work.

#### *To train professional audit talents and strengthen professional ethics construction*

For the training of highly qualified audit personnel, it should focus on two basic qualities. One is the mastery of professional knowledge, and the other is ideological and moral qualities. American Institute of Certified Public Accountants (AICPA) for training of audit personnel made three requirements: the first one is profession, that is the ability of audit risk estimates and resolved; the second one is the personality, the good professionalism, competence to communicate with people and teamwork ability; the third one is a broad business perspective, that is the ability of strategic thinking, market-oriented, resource management, the concept of legal and other aspects. An outstanding audit personnel, is to have these comprehensive strength. In the theoretical knowledge

teaching process, colleges also should pay more attention to the personality cultivation of the students, in order to allow students to enter the state after graduation as soon as possible to well play their role in society.

New auditing standards for the quality of the audit staff put forward specific demands, requiring auditors to perform audit services during the audit work to abide by professional ethics, maintain proper audit independence, and have the necessary professional competence. Training objectives of the audit professional ethics is to enable students to form the way of thinking and framework to resolve the audit professional ethics conflicts, while requiring auditors to adhere to the principle, and continuously improve their overall quality and operational capacity. Most audit work are around the finance and accounts of corporates, the auditors have to face hundreds of data every day, which requires auditors have the ability of self-adjustment, patience, careful, responsible, good professionalism and meticulous treatment of the data, in order to ensure audit quality, and provide a guarantee to audit risk prevention.

*To enrich audits teaching content and increase practice teaching link*

Teachers should carefully study the contents of the new auditing standards, to convey the latest audit teaching developments to the students, so that students understand the developments trend and the latest results in auditing, increasing the attractiveness of the classroom to improve student learning initiative. For many mentioned elements of the new auditing standards, for example, for the content of the regulatory environment, financing capacity, industry environment, supply chain, internal control, and information technology environment of unit under auditing, teachers should be through the collection of case data to explain. And in teaching methods, it can use the multimedia teaching methods. The teaching content will be made in the form of courseware, with projectors and other equipment so that students can receive, so there is a pattern of color with sound educational content to attract students' attention, so that teaching content is more intuitive. Due to a number of IT-related contents are added and amended in the new auditing standards, it should strengthen the culture of audit personnel on the aspects of information technical on the basis of normal teaching content, it can start computer courses, and learning through audit software, the ability of data handling use and analysis of students can be cultivated. Moreover, selecting the appropriate audit sample data establish risk assessment model.

Based on the course content enrichment and case teaching improved, practice teaching should also be increased. Due to the special nature of the audit profession, students miss some aspects of practice operations links. Students is often direct employment after graduation, and only when they enter into the community, they can contact with learning content in school. Before student's graduation, schools should arrange for students to practice in the relevant accounting agency, to expose students to some of the financial statements, books and certificates. Then, let the students to divide to groups and perform audit simulated teaching practice, such as accepting the commission, preparation of the audit engagement letter, audit plan, audit working papers and issuing audit reports. Through this way, the students can learn about the audit process, but also to deepen their understanding of book knowledge, as well as to indeed master and understand the learned theoretical knowledge, and find their inadequate. While in practice process, the teacher's guidance is very important. School should arrange teachers regularly visit a number of accounting firm or industrial and commercial enterprises to make practice and training, and enrich practical experience. Conditional school can also buy some audit instructional software, such as Kingdee, Superdata and other specialized financial software to carry out the practice of teaching.

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