

A Study of the Audit Failure of Kedi Dairy from the Perspective of CPA Due Diligence

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Abstract. This study employs the literature research and case analysis methods. First, through a comprehensive literature review, it synthesizes existing domestic and international scholarly findings and perspectives on audit failures and CPA due diligence. Then, it innovatively applies a due diligence perspective to examine the Asia Pacific Firm's audit failure in the Kedi Dairy case, analyzing the company's fraud techniques, the specific manifestations of the auditors' failure to fulfill their due diligence responsibilities, and the resulting regulatory penalties. By integrating the findings from the regulatory sanction announcements, the study specifically identifies the causes of the audit failure from three levels, including regulators, accounting firms, and individual CPAs, and proposes corresponding preventive recommendations based on this analysis.

Keywords: Audit Failure; Certified Public Accountant (CPA); Due Diligence; Kedi Dairy.

1. Introduction

1.1. Research Background and Significance

1.1.1. Research Background.

With the deepening of China's reform and opening-up, its capital market has experienced robust expansion. A growing number of companies are opting for listing as a means to finance their business expansion and sustainable development. However, after a prolonged period of high-speed growth, China's economic growth rate has begun to moderate. Concurrently, regulatory policies have become increasingly stringent, and the market competition environment has intensified. These factors have collectively led to increased difficulty and higher costs for companies seeking financing. Against this backdrop, some firms, in an effort to maintain stock prices, attract investors, or achieve other objectives, may resort to illicit practices such as financial fraud to embellish their financial statements. This poses a significant threat to investors and the healthy development of the entire capital market.

To mitigate the risks arising from this information asymmetry, the role of Certified Public Accountants (CPAs) becomes particularly crucial. As independent third-party auditors, CPAs are responsible for examining corporate financial statements to ensure their authenticity and fairness, thereby providing reliable information necessary for investor decision-making. However, recent years have witnessed frequent cases of audit failures in China, where CPAs have issued inappropriate audit opinions consecutively over multiple years, resulting in penalties from the China Securities Regulatory Commission (CSRC). A review of the CSRC's administrative penalty announcements reveals repeated references to CPAs' failure to exercise due diligence. The duty of due diligence, being the most fundamental requirement for CPAs during an audit, not only influences the success or failure of the audit itself but also impacts the interests of the broader investing public. Consequently, its breach can adversely affect the economic order of the securities market. To ensure sound economic development and promote the rational allocation of resources, it is imperative to enhance the professional standards of CPAs and strengthen their awareness of and commitment to due diligence.

1.1.2. Research Significance.

(1) Theoretical Significance

Current domestic audit research features a relative scarcity of case studies on audit failures examined specifically from the individual perspective of the CPA. Grounded in theories such as information asymmetry and audit conflict, this paper selects a specific case to investigate the causes of audit failures in listed companies, thereby aiming to enrich the theoretical framework related to audit failures in China.

(2) Practical Significance

This paper utilizes the Kedi Dairy audit failure as a case study to analyze behaviors where CPAs failed to fulfill their duty of due diligence. It delves into the underlying causes from the perspectives of the external regulatory environment, accounting firms, and individual CPAs. Ultimately, it proposes targeted recommendations aimed at standardizing CPAs' diligent practices. The objective is to enhance audit quality, reduce the incidence of audit failures, and thereby help ensure the orderly functioning of the economy and promote effective capital allocation.

1.2. Research Content and Methodology

1.2.1. Research Content.

Grounded in the perspective of CPAs due professional care, this paper examines the case of the audit failure of Kedi Dairy by the Asia Pacific (Group) Accounting Firm. It begins by systematically reviewing and analyzing the extensive scholarly research on audit failure theory, both domestically and internationally. The study then proceeds from an analysis of Kedi Dairy's financial fraud methods and the specific failures of the CPAs to exercise due professional care, delving into the root causes of the Asia Pacific Institute's audit failure in this case. Based on this causal analysis, the paper ultimately proposes countermeasures and recommendations for preventing audit failures, framed within the perspective of ensuring CPAs' due professional care. The paper is structured into five main sections:

The first section is the Introduction. This part elaborates on the research background and significance, outlines the research content and methodology, and discusses the study's innovations and limitations.

The second section concerns the Definition of Concepts and Theoretical Foundation. This segment defines the core concepts of audit failure and due professional care. It further explains key theories including Information Asymmetry Theory, Principal Agent Theory, Audit Conflict Theory, and the "Rational Economic Man" hypothesis. Additionally, it provides a systematic review and critique of the literature concerning various aspects of audit failure by scholars both in China and abroad.

The third section presents the Asia Pacific Institute's case study on the audit failure of Kedi Dairy. This section begins with an introduction to both the auditor and the auditee, followed by an analysis and summary of the methods employed by Kedi Dairy in committing financial fraud. Subsequently, it examines the specific instances where the certified public accountants failed to exercise due professional care during the audit process, and concludes with a listing of the relevant penalties imposed.

The fourth section provides an in-depth analysis of the causes behind the Asia Pacific Institute's audit failure in the Kedi Dairy case, examined through the lens of CPAs' due professional care. This section systematically investigates the specific causes of the audit failure from three critical perspectives: regulatory authorities, the accounting firm, and individual certified public accountants.

The fifth section presents conclusions and recommendations derived from the case analysis. Building upon the causal factors identified in the preceding analysis, this part proposes targeted countermeasures and suggestions for preventing audit failures, addressing implications across the same three dimensions: regulatory frameworks, accounting firm practices, and individual CPA conduct.

1.2.2. Research Methodology.

(1) Literature Review Method

An extensive review of literature pertaining to CPA due diligence and audit failures was conducted. By systematically synthesizing and summarizing the content of these scholarly works, this study establishes a theoretical foundation to support the subsequent analysis of the causes of audit failures and the formulation of recommended countermeasures.

(2) Case Study Method

This research is grounded in an in-depth examination of the specific audit failure case involving the Asia Pacific Firm's audit of Kedi Dairy. The study summarizes the fraud techniques employed by Kedi Dairy and analyzes the specific instances where the CPAs failed to exercise due diligence during the actual audit process. Based on this analysis, the underlying causes of the audit failure are identified, and corresponding countermeasures and recommendations are proposed accordingly.

1.3. Innovations and Limitations

1.3.1. Innovations.

This study synthesizes the definition of due diligence through an extensive literature review. It analyzes the causes of audit failures from the tripartite perspectives of external regulators, accounting firms, and individual CPAs, providing corresponding recommendations. This approach facilitates self-reflection and clarification of responsibilities for both CPAs and accounting firms, while also aiding regulators in identifying root causes and implementing timely measures to prevent audit failures. Consequently, it enriches the perspective for researching audit failures.

1.3.2. Limitations.

On one hand, as a specific case study focused on the Asia Pacific Firm's audit failure with Kedi Dairy, this research may not encompass all potential manifestations of CPAs' failure to exercise due diligence. Its findings are therefore inherently limited in scope and primarily serve as a reference for similar types of cases. On the other hand, constrained by the author's still-developing expertise and an understanding of CPA auditing that lacks profound depth, the analysis is limited in both its depth and breadth, resulting in certain shortcomings within this paper.

2. Relevant Concepts and Theoretical Basis

2.1. Concepts

2.1.1. Audit Failure.

Within academia, two predominant perspectives exist regarding the conceptual definition of audit failure. The first is the Outcome Failure Theory. This view posits that an audit failure occurs whenever the audit report fails to detect and disclose material misstatements or fraud in the financial statements, irrespective of whether the auditors adhered to appropriate auditing standards and procedures. The second perspective is the Process Failure Theory, which focuses on evaluating the quality of execution during the audit process itself. This includes the auditor's due diligence, the compliance of audit procedures, and whether a true and comprehensive assessment of the audited entity's operational conditions was conducted. According to this theory, if auditors fail to meet these professional standards, an audit failure is deemed to have occurred—even if the final audit opinion coincidentally proves correct.

This paper adopts the Process Failure Theory for two primary reasons: First, due to inherent constraints of time and cost, an audit necessarily relies on sampling techniques to examine the accuracy of financial statements and cannot uncover all potential risks and errors. Consequently, even with the implementation of numerous audit procedures, detection risk can only be reduced, not

eliminated. Given the unavoidable nature of inherent risk and control risk, an audit provides reasonable assurance, not absolute assurance. The Outcome Failure Theory overlooks this fundamental characteristic of the audit function. Second, from the perspective of audit conflict, management may exert pressure on CPAs to secure a favorable audit opinion, potentially compromising audit independence. The Process Failure Theory rightly emphasizes the critical importance of maintaining independence throughout the audit process.

2.1.2. Due Diligence.

The concept of "due professional care" is interpreted and expressed differently across relevant laws, regulations, and auditing standards.

In China's Securities Law, Article 163 explicitly stipulates the obligation of certified public accountants to exercise due professional care, requiring them to perform their duties diligently and conduct business activities in accordance with established regulations. Article 213 further specifies penalties for institutions providing securities services that fail to exercise due professional care and issue reports containing falsifications or misrepresentations, targeting both the institutions and the directly responsible individuals. However, these provisions only present a broad, generalized concept of due professional care without offering concrete explanations. This lack of specificity leaves the precise meaning of due professional care undefined, making it difficult to reasonably assess whether CPAs have fulfilled this obligation in their professional practice.

In the Chinese Certified Public Accountant Auditing Standards No. 1101 (hereinafter referred to as the Auditing Standards), Articles 16 and 17 require CPAs to possess a certain level of professional knowledge, maintain professional judgment and a skeptical mindset, and remain vigilant regarding audit evidence obtained. Articles 20 and 22 further stipulate that during the audit process, CPAs must maintain a cautious and skeptical attitude, exercise professional judgment appropriately, and obtain sufficient and appropriate audit evidence in accordance with the standards. From these stipulations, it is evident that the Auditing Standards provide specific requirements for CPAs' due professional care. As long as auditors act appropriately, perform audit procedures adequately, obtain sufficient audit evidence, and provide reasonable assurance for the issued audit report, they are considered to have exercised due professional care.

By reviewing the concept of due professional care in both the Securities Law and the Auditing Standards, this paper posits that "due professional care" should satisfy two fundamental aspects. First, the audit attitude must be diligent and responsible, while maintaining the necessary professional attention and skepticism. Secondly, audit work must be conducted in accordance with the guidance provided by the standards, and this includes performing necessary audit procedures, providing reasonable assurance for the audit report, and meeting other relevant requirements.

2.2. Theoretical Basis

2.2.1. Information Asymmetry Theory.

Information asymmetry refers to a situation in market economic activities where parties involved in a transaction possess differing levels of knowledge and access to relevant information. The party with an information advantage may exploit this position to secure greater benefits at the expense of the other party.

The pervasive nature of information asymmetry triggers a series of issues relevant to capital markets, such as the controlling behaviors of major shareholders over listed companies. Controlling shareholders, leveraging their informational advantage, can dominate the operational and decision-making processes of the listed company. Conversely, minority shareholders often have no choice but to passively accept these decisions, thereby infringing upon their economic interests. To curb this phenomenon, accounting firms, serving as independent third-party institutions, are required to fully utilize their independence and apply professional knowledge and skills to audit the company's

financial statements and issue audit opinions. This role is crucial for mitigating the adverse consequences stemming from information asymmetry and thus optimizing resource allocation.

2.2.2. Principal Agent Theory.

Agency theory posits that in contemporary enterprises where ownership and management are separated, the absence of effective monitoring mechanisms may lead agents to engage in behaviors detrimental to the interests of principals. To maximize their own interests, managers may take actions that sacrifice shareholder value, whereas shareholders expect managers to conduct operations in a manner that prioritizes the protection of their interests. This divergence in objectives between shareholders and managers results in shareholders bearing certain costs arising from managerial behavior, known as agency costs.

Given these issues, accounting firms are needed to mitigate the relationships among various parties. However, a contractual relationship also exists between accounting firms and the audited entities, which similarly constitutes a principal agent relationship. For business owners, who typically lack expertise in finance or auditing, it is difficult to accurately assess the quality of audit reports issued by accounting firms. Consequently, auditors may intentionally or under pressure simplify audit procedures and fail to exercise due professional care, leading to audit failures.

2.2.3. Audit Conflict Theory.

The Audit Conflict Theory suggests that the fundamental basis for auditing lies in the conflicts of interest among individuals. These conflicts create the risk that financial statements may contain misrepresentations, and the role of auditing is to mediate these conflicts by providing independent assurance services, thereby ensuring the protection of various stakeholders' interests.

During the audit process, conflicts can arise between the auditor and the management of the audited entity. Management may attempt to exert pressure on the auditors to secure a favorable audit opinion. For the CPA, strictly adhering to auditing standards during the audit carries a high probability of leading to client loss. Conversely, choosing to collude with the client risks regulatory penalties due to audit failure. If faced with this dilemma, the CPA prioritizes their own interests over those of the investors, audit failure is likely to occur.

2.2.4. The "Rational Economic Man" Hypothesis.

The "Rational Economic Man" hypothesis postulates that in economic activities, individuals, as decision-making entities, possess complete rationality and consistently make choices that maximize their own utility under various constraints.

Within the auditing profession, this premise implies that CPAs, in pursuit of maximizing their personal economic benefits, may sometimes prioritize maintaining client relationships. This can lead to issuing inaccurate audit opinions or reports containing misrepresentations to accommodate client preferences, thereby severely compromising audit independence. Consequently, if auditors lack the necessary independence during the execution of an audit engagement, it inevitably increases the likelihood of an audit failure occurring.

2.3. Literature Review

2.3.1. Research on Audit Failure.

(1) Causes of Audit Failure

Research on audit failure by domestic and foreign scholars is relatively extensive. This paper, through summarization and synthesis, will elaborate on the causes of audit failure from three aspects: the audit entity, the audit object, and the external regulatory environment.

Firstly, from the perspective of the audit entity, Richard et al. (1999) proposed that with increasing competition in the audit industry, some accounting firms adopt measures such as shortening the audit cycle and changing audit models to reduce costs, thereby increasing audit risk [1]. Chen Bo (2014)

argued that audit failures in listed companies are closely related to the internal governance and quality control of accounting firms. If a firm's internal governance is weak, it cannot objectively and impartially conduct quality control over audit engagements [2]. Qi Fei (2015), by analyzing the current state of audit engagement review in accounting firms, found that firms lack unified standard systems for engagement review and fail to comprehensively assess the knowledge base, work experience, and workload capacity of each team member, resulting in quality control becoming a mere formality [3]. Kong Ningning and Li Xue (2016), through empirical research on the impact of accounting firm restructuring on audit quality, found that the special general partnership system positively enhances the audit quality of firms and promotes their balanced development [4]. Wo Weiyong and Luo Liandian (2018), through in-depth analysis of penalty announcements issued by the CSRC between 2014 and 2017, found that deficiencies in the execution of audit procedures are the main cause of audit failures, such as failure to perform confirmation procedures, inadequate confirmation content, and lack of effective control over confirmation procedures [5].

Beasley et al. (2001) considered the lack of audit evidence and the concentration level of auditors as key reasons for audit failure [6]. Balsam et al. (2003) believed that CPAs lack of professional knowledge regarding the audited entity's operational model and its industry directly impacts the success of the audit engagement [7]. Li Junmei (2010) argued that issues such as insufficient professional competence and lack of ethics among auditors during audits are the main causes of audit failure [8]. Kilgore (2011), through research, found that the individual quality of CPAs has a greater impact on audit quality compared to the overall quality of the accounting firm [9]. Li Xiaohui and Zhou Yujie (2015) believed that auditors' failure to accurately grasp the core and essence of professional skepticism, leading to a lack of necessary professional skepticism, is an important reason for audit failure [10]. Zhao Lifang et al. (2022) pointed out three reasons for audit failure at the subjective fraud level: CPAs' failure to fulfill their duty of diligence during the audit process, failure to fulfill their duty of diligence when drawing audit conclusions, or a combination of both. Therefore, CPAs' failure to exercise due diligence is a common cause of audit failure [11].

Secondly, from the perspective of the audit object, Zou Jing et al. (2007) believed that most audited entities found to have fraudulent practices lack effective supervision over senior management and operational management, indicating deficiencies in internal control systems [12]. Gao Xiaoling (2013) proposed significant issues with the current payment structure in the audit industry, arguing that audited entities should not directly pay audit fees to audit firms, a situation that urgently needs change [13]. Chen Jiasheng (2014), using game theory analysis, concluded that to restrict fraudulent behaviors by management, it is necessary to improve corporate governance structures, establish effective management compensation and performance evaluation systems, and maximize the supervisory function of internal audit [14]. Wang Xiaobao (2020) argued that since the decision-making power to appoint third-party audit institutions currently lies with the management of the audited entity, this significantly affects audit independence, and the longer the cooperation duration, the greater the threat to audit independence [15].

Finally, from the perspective of the external regulatory environment, Li Shuang and Wu Xi (2002), through analysis of penalty announcements issued by the CSRC, concluded that the strength of securities audit market regulatory policies affects audit outcomes [16]. Li Mochui (2017) found that the ambiguity in auditing standards leaves auditors without a clear and unambiguous benchmark when making professional judgments, which fosters a tendency to cut corners on critical tasks by clinging to a glimmer of hope that they might avoid essential responsibilities [17]. Li Hong (2019) proposed that the current lack of a corresponding legal and institutional environment for the audit industry is one of the reasons for audit failure [18]. Siew and Qian (2020), using process variables to analyze factors influencing audit quality, found that the increased possibility of audit failure due to the adoption of more advanced data processing methods at the current stage requires effective regulatory solutions [19].

(2) Consequences of Audit Failure

Through a review of the relevant literature on audit failure, it is found that audit failure not only leads to penalties for individual CPAs, accounting firms, and audited entities, but also causes losses for other investors. Furthermore, it is detrimental to the healthy long-term development of the capital market.

Zhang Honggao (2007) proposed that audit failure damages the reputation and business of accounting firms, impairs the enthusiasm and assets of investors, and can even lead to market failure, harming the orderliness of the market economy [20]. Zhu Chunyan and Wu Lina (2009), through empirical research, found that CPAs are more likely to issue modified audit opinions in the year they are penalized and in subsequent years [21]. Liu Feng et al. (2010), through a study of the CSRC's penalty announcements from 1993 to 2004, found that when a scandal involving administrative penalties against an accounting firm is exposed, it not only damages the reputation of the CPAs, leading to a decline in the firm's market share and affecting investors' returns on investment, but also exerts a certain negative impact on the stock prices of other audit clients of that firm [22]. Du Shan (2017), by analyzing the series of impacts and consequences brought about by the Huishan Dairy case, found that audit failure damages the reputation of the accounting firm and the CPAs, infringes upon the rights and interests of investors to a certain extent, and also reduces the operational efficiency of the capital market [23].

(3) Safeguarding Against Audit Failure

Regarding the prevention of audit failures, domestic and foreign scholars have provided suggestions from three aspects: the audit entity, the audit object, and the external regulatory environment.

Firstly, concerning the audit entity, Xie Rong (2003) proposed that implementing an audit partner rotation system can effectively reduce audit risk and prevent audit failures [24]. Qi Fei (2015) suggested establishing a joint review mechanism between the headquarters and branches of accounting firms, and noted that unifying business standard systems can help reduce the occurrence of audit failures [3]. Wang Jianxin et al. (2020) argued that accounting firms should strengthen the ongoing training of their internal audit staff, focusing on theory, business, and practical operations to comprehensively enhance employees' professional competence and adapt to the ever-changing audit environment [25].

Nelson (2009) believed that to effectively avoid audit failures, the professional knowledge of CPAs should be continuously updated to detect risks of material misstatement with more scientific professional skepticism [26]. Kostova (2012) proposed that to reduce detection risk, auditors should carry out targeted audit work and reasonably assess the applicability of audit procedures to all stages of the engagement [27]. Wo Weiyong and Luo Liandian (2018), addressing audit failures caused by improper implementation of confirmation procedures, advised that auditors must maintain control over the confirmation process and perform alternative procedures when necessary [5]. Fang Jin (2023) suggested that CPAs should assess the entity's significant risk points by considering both internal and external environments, and carefully judge the sufficiency and reliability of audit evidence [28].

Secondly, regarding the audit object, Lei Guangyong (2004) proposed that to effectively prevent and control financial fraud, an enterprise's organizational structure should be reasonable, and its internal control system should be sound [29]. Gao Minghua et al. (2005) believed that strengthening corporate internal governance and supervision is conducive to avoiding audit failures [30].

Finally, concerning the external regulatory environment, Ding Hongyan (2013) suggested that regulatory bodies such as the CSRC should attach great importance to the timeliness of penalties for audit failures, increase the severity of penalties, and enhance the deterrent effect of supervision [31]. Huang Yingqiu (2016) proposed that to prevent audit failures, efforts should start with the system, addressing loopholes in audit practice standards and effectively implementing the continuing education system for CPAs [32].

2.3.2. Research on CPA Due Diligence.

(1) Definition of Due Diligence

Regarding the definition of due diligence, Zheng Zhaohui (2001) found that exercising due professional care assists CPAs in fulfilling their duty of diligence. Furthermore, the application of professional care should be based on practical circumstances, analyzing specific issues case-by-case, thereby eliminating inefficient procedures [33]. Hu Yuntong (2022) proposed that judging whether CPAs have fulfilled their duty of diligence should be based on auditing standards and involve both subjective and objective aspects. Specifically, from the subjective aspect, this involves assessing whether CPAs are faithful to their duties, diligent and prudent. From the objective aspect, it entails evaluating whether audit procedures have been adequately performed [34]. Gong Pingcheng et al. (2023) emphasized that the criteria for judging due diligence should be flexibly adjusted according to specific cases, differentiating the degree of negligence attributable to the accounting firm [35].

(2) Recommendations for Improving Due Diligence

Wang et al. (2011) proposed that stricter regulatory enforcement would compel auditors to maintain professional competence and exercise caution and diligence in their practice [36]. Chu Maokang et al. (2020), by constructing models of changes in the benefits and net benefits of CPAs' due diligence, found that four factors—the likelihood of the CPA fulfilling diligent obligations, the probability of financial fraud at the audited entity, audit fees, and social reputation benefits—influence their diligence. They concluded that improvements in both regulation and auditing standards are necessary to enhance auditors' due diligence during audits [37]. Li Zhongwei (2022) argued that various regulatory bodies should establish collaborative mechanisms to jointly enhance regulatory effectiveness and urge auditors to actively fulfill their responsibilities during due diligence investigations [38].

2.3.3. Literature Commentary.

A review of the existing literature reveals that current research on the causes, consequences, and preventive measures of audit failures involving CPAs, both domestically and internationally, is largely empirically based. In recent years, many scholars have investigated audit failures by incorporating announcements of disciplinary actions issued by the CSRC. Among these studies, research on the causes of and safeguards against audit failures can generally be categorized into three dimensions: the audit subject, the audit object, and the external regulatory environment. Scholars argue that audit failures result not only from issues related to the audit subject, such as lack of professional competence and impaired independence, but also from factors related to the audit object, including fraudulent behaviors and inadequate internal governance structures, as well as regulatory factors such as ambiguous auditing standards and lenient penalties. Accordingly, proposed preventive measures are also developed along these dimensions.

Regarding the concept of due care, its definition can be broadly divided into subjective and objective criteria. The subjective criterion refers to the professional attitude of CPAs, that is, whether they act with honesty and prudence. The objective criterion pertains to whether their professional conduct complies with the requirements of applicable standards.

In summary, most existing studies on audit failures are conducted at a macro level, with limited attention to specific micro-level perspectives. Therefore, this paper adopts a case study of the audit failure at Kedi Dairy, examining the issue from the perspective of CPA due care, with the aim of enriching research perspectives on audit failures.

3. Case Analysis of the Kedi Dairy Audit Failure

3.1. Case Background

3.1.1. Audit Object: Henan Kedi Dairy Co., Ltd.

Henan Kedi Dairy Co., Ltd. (hereinafter referred to as "Kedi Dairy") was established in 2005 and successfully listed on the Shenzhen Stock Exchange A-share market on June 30, 2015. The company's core business encompasses the research, development, production, and sales of dairy products and dairy beverages. Additionally, it is committed to supporting activities such as dairy cow farming and breeding. This has resulted in an integrated operational structure spanning from dairy cow farming and breeding to the R&D, processing, and sales of dairy products, constituting a comprehensive industrial chain. Kedi Dairy introduced modern production equipment and technical processes from countries including the United Kingdom, Sweden, and France. Its facilities were constructed in strict compliance with international dairy industry standards, possessing advanced production and quality control systems. It stands as one of the largest high-quality dairy production bases in Central China, operating two large-scale modern organic ranches and over 20 company-controlled standardized dairy farms. The specific development history of Kedi Dairy is presented in Table 1.

Table 1. Development Event

Year	Development Event
2005	Kedi Dairy Co., Ltd. was established.
2011	Underwent a joint-stock reform.
2015	Listed on the SME Board of the Shenzhen Stock Exchange (A-shares) on June 30.
2016	Launched "Little White Milk," which gained market popularity and led to a significant performance increase.
2017	Sales volume surged, and Kedi Dairy began large-scale purchases of fresh milk.
2018	Both operating revenue and net profit declined.
2019	Received an inquiry letter from the SZSE regarding its 2018 annual report on April 27. The "Milk Farmer Plea Letter" was exposed on August 2, revealing Kedi Dairy's default on 140 million RMB in milk payments. Received the "Notice of Case Filing for Investigation" from the CSRC on August 16.
2020	Announced on June 23 the existence of non-operational fund appropriation involving company funds. Officially changed its stock name to "ST Kedi" on June 29.
2021	Received the "Administrative Penalty and Market Entry Ban Decision" from the CSRC on September 16. Admitted to financial misstatement practices for the period 2016-2018.
2022	Delisted on June 23.

Kedi Dairy is affiliated with Kedi Food Group Co., Ltd. (hereinafter referred to as the "Kedi Group"), which holds a 44.27% stake, making it the largest controlling shareholder of Kedi Dairy. The ultimate controlling shareholder of Kedi Group is Zhang Qinghai. Therefore, Zhang Qinghai is also the de facto controlling person of Kedi Dairy. In this paper, the term "controlling shareholder" of Kedi Dairy specifically refers to either Kedi Group or Zhang Qinghai.

3.1.2. Audit Subject: Asia Pacific (Group) Accounting Firm.

The Asia Pacific (Group) Accounting Firm, established in 1984, is a comprehensive organization offering diversified services, primarily providing audit and assurance, taxation, and management consulting services. The firm has established 34 branches in major economic centers such as Shanghai, Shenzhen, and Jiangsu, and currently employs over 2,000 professionals, including approximately 600 CPAs.

Since 2012, the Asia Pacific Firm had served as the independent third-party auditor for Kedi Dairy. Table 2 presents the audit opinions issued during this engagement period. As shown, from 2012 to 2018, the Asia Pacific Firm consistently issued unqualified opinions. It was not until 2019, following

the formal investigation initiated by the CSRC, that the firm issued a qualified audit opinion. The failure of the Asia Pacific Firm to detect the expropriation of company interests by the controlling shareholder and the material misrepresentations in the financial statements of Kedi Dairy between 2016 and 2019 justifiably raises reasonable doubt regarding the firm's independence and the fulfillment of the CPAs' duty of due diligence.

Table 2. Audit Details of Kedi Dairy

Reporting Year	Accounting Firm	Certified Public Accountants	Audit Opinion
2012-2015	Asia Pacific Accounting Firm	Jin Aimin, Sun Zhengjun	Unqualified Opinion
2016	Asia Pacific Accounting Firm	Tang Ziqiang, Sun Zhengjun	Unqualified Opinion
2017	Asia Pacific Accounting Firm	Tang Ziqiang, Zhang Man	Unqualified Opinion
2018	Asia Pacific Accounting Firm	Tang Ziqiang, Zhang Man	Unqualified Opinion
2019	Asia Pacific Accounting Firm	Tang Ziqiang, Zhang Man	Qualified Opinion
2020	Asia Pacific Accounting Firm	Tang Ziqiang, Zhang Man	Disclaimer of Opinion

3.2. Analysis of Financial Fraud Practices at Kedi Dairy

According to the administrative penalty decision issued by the CSRC against Kedi Dairy, the company employed three primary methods of financial fraud: the occupation of funds by the controlling shareholder and related parties, the provision of illegal guarantees, and the falsification of revenues and profits.

3.2.1. Occupation of Funds by the Controlling Shareholder and Related Parties.

The controlling shareholder, leveraging its absolute control over the company, illegally transferred and misappropriated corporate funds over an extended period without repayment. This constitutes an occupation of funds, which led to a capital shortage for the listed company and even pushed it into a financial crisis.

As can be seen from Table 3, between 2016 and 2019, the funds improperly occupied by Kedi Dairy's controlling shareholder and other related parties amounted to approximately 8, 25, 34, and 6.8 billion RMB, respectively. Notably, in 2019, Kedi Group occupied 6.657 billion RMB of Kedi Dairy's non-operating funds, with 1.865 billion RMB still outstanding at the period-end. According to the 2019 audit report, Kedi Group borrowed these substantial funds allegedly for its own production and operational needs. However, these transactions were not approved through the company's requisite decision making procedures. The massive fund occupation by the controlling shareholder forced Kedi Dairy to continuously seek new borrowings to sustain its own production and operations, and was also the direct cause for its persistent default on payments to dairy farmers.

Table 3. Kedi Dairy: Fund Occupations by Controlling Shareholder

Unit: CNY 10,000

Year	Funds Occupied	Amount Repaid during the Period
2016	78,546.00	78,546.00
2017	248,305.37	248,305.37
2018	340,615.03	340,615.03
2019	676,691.74	479,184.93

3.2.2. Unauthorized Guarantees.

Unauthorized guarantees represent one of the most concealed methods employed by controlling shareholders to expropriate company resources. Through their control, they manipulate the company into providing non-compliant guarantees for borrowings by themselves or related parties. When the guaranteed party fails to repay its debts on time, the listed company becomes obligated to assume the corresponding liabilities. This leads to an increase in corporate debt, adversely affecting normal production and operations, and may even result in a deterioration of the company's financial condition.

As illustrated in Table 4, from 2017 to 2019, Kedi Dairy provided unauthorized guarantees for Kedi Group and other related parties on 11 separate occasions, involving a total amount of 453 million yuan. These guarantees were not disclosed promptly in the previous annual reports. Due to subsequent capital chain constraints and poor operational management, the relevant related parties were unable to repay their borrowings, resulting in Kedi Dairy becoming entangled in debt disputes.

Table 4. Kedi Dairy's Unauthorized Guarantees

Year	Number of Unauthorized Guarantees	Amount of Unauthorized Guarantees (CNY 10,000)
2017	8	38,820.00
2018	1	2,000.00
2019	2	4,500.00

3.2.3. Falsification of Revenues and Profits.

According to the announcement by the CSRC, during the period from 2016 to 2018, Kedi Dairy simultaneously falsified its operating revenue, corresponding cost of sales, and selling expenses. This resulted in a total overstatement of profits by approximately 300 million yuan, with the specific annual breakdown as shown in Table 5, thereby ensuring the company's overall profit margin did not exhibit significant fluctuations and preventing investor suspicion.

During this period of financial fraud, Kedi Dairy launched "Little White Milk," which gained significant popularity among consumers. According to its 2017 annual report, revenue from ambient dairy products, which included "Little White Milk," reached as high as 815 million yuan. However, the true sales performance of "Little White Milk" has since been called into question. On one hand, to sustain the market momentum generated by the product, Kedi Dairy might have resorted to falsification despite lacking the operational capacity to support the reported figures. On the other hand, the company also required strong reported performance to maintain its market image and attract more channel distributors.

Table 5. Falsification of Revenue and Profit at Kedi Dairy

Unit: CNY 10,000

Year	Overstated Revenue	Overstated Profit
2016	33,619.77	11,843.35
2017	21,010.96	6,864.13
2018	29,713.74	11,275.39

3.3. Analysis of the Asia Pacific Firm's Failure to Exercise Due Diligence

The annual reports of Kedi Dairy for the period 2016-2018 contained false records and material omissions, including overstatement of revenue and profit, and failure to disclose fund transfers to its controlling shareholder and related parties. The Asia Pacific Institute, serving as Kedi Dairy's auditor, issued standard unqualified audit opinions on each of the aforementioned annual reports. However, in August 2023, CSRC issued an administrative penalty decision, determining that the Asia Pacific Institute had failed to fulfill its duty of due care. The specific failures were primarily manifested in two key areas: deficiencies in the audit procedures for risk identification and assessment, and inadequate execution of substantive audit procedures for monetary funds.

3.3.1. Deficiencies in Risk Identification and Assessment Audit Procedures.

During the period from 2016 to 2018, Kedi Dairy exhibited significant characteristics, including simultaneously high deposits and loans at period-ends, a high share pledge ratio by its controlling shareholder, and abnormal transactions in major bank accounts. During the actual execution of audit procedures, the Asia Pacific Institute insufficiently considered the risk factors that could arise from these circumstances. Consequently, the identified risks—whether risks of material misstatement,

fraud risks, or significant risks—notably failed to include monetary funds, resulting in an inappropriate risk assessment outcome.

3.3.2. Inadequate Substantive Procedures for Cash.

Firstly, the Asia Pacific Firm failed to effectively verify the authenticity of the evidence obtained. It failed to obtain bank statements for a major bank account directly from the account-opening bank, instead accepting statements provided by the company. Some of the official seals stamped on these statements were abnormal, and the Firm also failed to obtain the online banking records for this account. It did not sufficiently scrutinize the authenticity of the statements nor perform additional procedures to verify their reliability.

Secondly, the audit procedures for large monetary transactions in 2016 and 2017 were not effectively performed. The substantive procedures for cash and cash equivalents for both 2016 and 2017 planned to check for the existence of large monetary transfers for purposes unrelated to operations and trace their settlement in relevant accounts. At the same time, if receipts and payments unrelated to the audited entity's operations were identified, the procedures required that the reasons be investigated and recorded accordingly. However, the relevant audit working papers indicate that these planned procedures were not effectively executed during the 2016 and 2017 audits.

Finally, the audit procedures for large monetary transactions in 2018 contained significant flaws. The Asia Pacific Firm conducted interviews with three entities involved in large monetary transactions and queried their business registration information. However, it failed to maintain necessary professional skepticism, and the audit evidence obtained remained insufficient.

3.4. Penalties in the Kedi Dairy Audit Failure Case

The consequences of an audit failure primarily manifest as penalties imposed on the company involved in financial fraud and its responsible personnel, as well as on the accounting firm and the CPAs. Taking the Kedi Dairy financial fraud and audit failure case as an example, the securities regulatory authorities levied penalties on the responsible individuals and institutions involved, with specific details as follows.

3.4.1. Penalties against Kedi Dairy and Responsible Personnel.

On September 24, 2021, the Administrative Penalty Decision issued by the Henan Bureau of the CSRC to Kedi Dairy indicated that administrative penalties and corresponding fines were imposed on Kedi Dairy and related individuals such as Zhang Qinghai, Liu Xinqiang, and Cui Shaosong. The specific details are presented in Table 6. Ultimately, on June 23, 2022, the Shenzhen Stock Exchange decided to delist and remove Kedi Dairy's shares from trading.

Table 6. Kedi Dairy Administrative Penalties

Sanctioned Party	Administrative Penalty
Henan Kedi Dairy Co., Ltd.	Warning, CNY 600,000 fine
Zhang Qinghai	Warning, CNY 900,000 fine
Hu Wenmeng	Warning, CNY 200,000 fine
Liu Xinqiang, Zhang Yongli	Warning, CNY 100,000 fine each
Cui Shaosong	Warning, CNY 50,000 fine
Zhang Fenghua, Li Shengxi, Wang Shouli	Warning, CNY 30,000 fine each

3.4.2. Penalties against the Asia Pacific Firm and its CPAs.

On August 25, 2023, based on the Securities Law of the People's Republic of China revised in 2005, and considering the facts, nature, circumstances, and societal harm of the violations committed by the parties involved, the CSRC imposed administrative penalties on the Asia Pacific Institute and the relevant Certified Public Accountants. The specific details are presented in Table 7. Among them,

Tang Ziqiang was the signing CPA for the audit reports from 2016 to 2018, and Zhang Man was the signing CPA for the audit reports in 2017 and 2018. It is noteworthy that, while the audit scope remained consistent, the audit service fees charged by the Asia Pacific Institute increased from RMB 550,000 in 2016 to RMB 900,000 in 2017 and 2018. This fee increase likely reflects a heightened audit risk associated with Kedi Dairy during this period. In light of such circumstances, it is imperative for regulatory authorities to intensify supervision over accounting firms and CPAs, and consider augmenting the severity of penalties as appropriate.

Table 7. Administrative Penalties against the Asia Pacific Firm

Sanctioned Party	Administrative Penalty
Asia Pacific Accounting Firm	Ordered to make corrections, confiscation of business revenue of CNY 2,216,981.07, and imposition of a fine of CNY 4,433,962.14
Tang Ziqiang	Warning, and a fine of CNY 600,000
Zhang Man	Warning, and a fine of CNY 400,000

4. Analysis of Reasons for CPAs' Failure to Exercise Due Diligence

4.1. Regulatory Level

4.1.1. Penalties Are Relatively Lenient.

In the Kedi Dairy audit failure case, the CSRC's penalties against the Asia Pacific Firm consisted of an order to make corrections, confiscation of audit fees, and imposition of a fine, while the penalties against the related CPAs were warnings and fines. These punitive measures were not only limited in variety but also lenient in severity, exerting minimal impact on the firm's ability to secure future engagements. Inadequate civil liability, weak links to criminal enforcement, and a generally feeble accountability mechanism collectively result in low costs for violations and insufficient legal deterrence. This environment fostered a gamble mentality among the Asia Pacific Firm's CPAs during the audit process, leading them to overlook obvious risk indicators—such as Kedi Dairy's simultaneous high deposits and loans and the high pledge ratio of its controlling shareholder's shares—and ultimately fail to exercise due diligence, resulting in audit failure.

Furthermore, while Kedi Dairy was penalized for overstating revenue and profit between 2016 and 2018 in September 2021, the penalty announcement targeting the Asia Pacific Firm and its related CPAs was not issued until August 25, 2023. This clearly indicates a protracted penalty cycle for parties responsible in audit failures. The significant lag in imposing punishments severely undermines the deterrent effect of regulation, effectively emboldening CPAs to neglect their duty of due diligence during audits.

4.1.2. Ambiguity in Auditing Standards.

During the CSRC's administrative penalty proceedings against the CPAs, the signing CPA Zhang Man defended herself, arguing that she had diligently fulfilled her duty of due diligence during the audit process, acted without subjective fault in issuing the audit report, and should therefore not be penalized. However, the CSRC's response clarified that the determination of the Asia Pacific Firm's failure to exercise due diligence in auditing Kedi Dairy's annual reports was based primarily on specific violations of auditing standards, such as deficiencies in risk identification and assessment procedures and inadequate performance of substantive procedures for cash and cash equivalents. The CSRC emphasized that this determination did not represent a retroactive presumption of a lack of due diligence merely because of Kedi Dairy's information disclosure violations. This administrative review process highlights the divergent interpretations of due diligence between the regulator and the CPA.

As the guiding framework for audit practice, auditing standards significantly influence the professional judgment exercised by CPAs during an audit, thereby impacting audit quality. However,

the inherent ambiguity present in current auditing standards, which lack a precise definition of due diligence, provides CPAs with a pretext to justify insufficient diligence. This ambiguity allows them to subjectively rationalize their non-compliant actions.

4.2. Accounting Firm Level

4.2.1. Intense Industry Competition.

As of December 31, 2023, there were 102,017 CPAs and 10,665 accounting firms in China, serving only 5,346 listed companies, resulting in an oversupply and intense competition within the audit industry. According to audit conflict theory, since audit fees are paid by the client, auditors—motivated to retain business—may choose not to fulfill their duty of due diligence and may issue an unqualified audit opinion, even if they discover material misstatements or fraud within the audited entity.

4.2.2. Inadequate Internal Quality Control.

Currently, China's CPA profession is still in its developmental stages, with quality control systems in many firms being insufficiently robust. Similar to numerous other domestic firms, the Asia Pacific Firm employs a three-level review system. First, this system involves the project manager reviewing the completeness of working papers. Second, it involves the engagement partner reviewing critical audit matters. Third, it involves the chief partner providing overall supervision of audit quality. Each level of reviewer focuses on different aspects. If all reviewers diligently performed their duties, the probability of audit failure would be significantly reduced. However, the audit process for Kedi Dairy revealed that this internal quality control system failed to correct even the most fundamental deficiencies in audit procedures, indicating its effectiveness was severely limited.

4.3. Certified Public Accountant Level

4.3.1. Lack of Necessary Professional Skepticism.

Professional skepticism is an essential quality for CPAs. Only by continuously strengthening their ability to identify audit risks can CPAs perform audits with due diligence, issue high-quality audit opinions, and reduce audit failures. The following analysis examines the CPAs' deficiency in necessary professional skepticism in the Kedi Dairy audit failure case from two perspectives: corporate governance structure and financial condition.

(1) Corporate Governance Structure

On one hand, Kedi Dairy faced the issue of highly concentrated ownership. The Kedi Group had consistently been the largest controlling shareholder of Kedi Dairy, holding a proportion of shares significantly larger than those of other shareholders. Furthermore, the ownership structure analysis presented in Figure 1 reveals that Zhang Qinghai and his wife collectively held 99.83% of the shares in the Kedi Group. This resulted in Zhang Qinghai, through direct and indirect means, holding a 44.69% stake in Kedi Dairy, effectively making him the actual controlling person of the company. This situation clearly demonstrates an irrational ownership structure characterized by the problem of "dominance by a single majority shareholder." The controlling shareholder possessed absolute decision-making power, which exacerbated the problem of information asymmetry and also created opportunities for the controlling shareholder to utilize related parties for committing fraud.

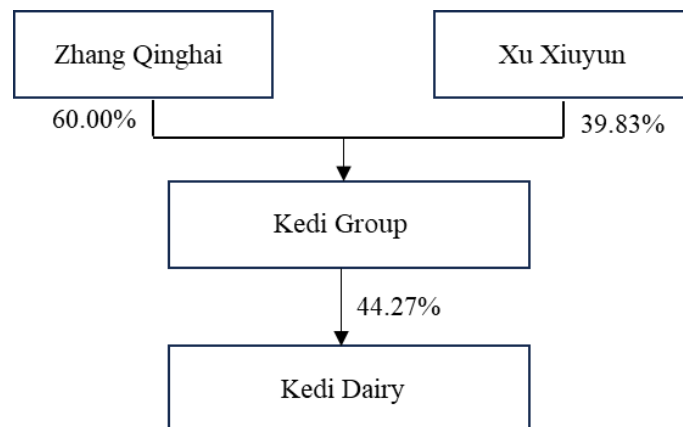


Figure 1. Two or more references

On the other hand, Kedi Group is a typical family-managed enterprise. Zhang Qinghai served not only as Chairman of Kedi Group but also held the position of Chairman at Kedi Dairy. His son, Zhang Fenghua, occupied key roles at Kedi Dairy as a Director and General Manager, while concurrently serving as Executive Director and Legal Representative for several subsidiaries under Kedi Group. His daughter, Zhang Shaohua, held the position of Executive Director at Kedi Quick Freeze. Among the numerous shareholders of Kedi Quick Freeze, individuals including Zhang Haihong, Zhang Cunhai, Xu Qinqin, and Xu Xiuling were relatives of Zhang Qinghai and his wife, Xu Xiuyun. Under this family-dominated management model, characterized by mutual protection among members and a lack of effective oversight, actions such as misappropriating funds from the better-performing Kedi Dairy to subsidize other loss-making companies within the group faced no internal barriers. This environment readily facilitated the expropriation of interests, harming stakeholders such as investors and shareholders.

During the audit of Kedi Dairy, the Certified Public Accountants from the Asia Pacific Firm failed to obtain a sufficient understanding of the audited entity and its environment. They did not apply the necessary professional skepticism to corporate governance issues such as the highly concentrated ownership and family-dominated management structure. This clearly indicates a failure to fully fulfill their duty of due diligence.

(2) Corporate Financial Condition

On one hand, Kedi Dairy exhibited the phenomenon of simultaneously high monetary funds and high interest-bearing liabilities, specifically the "high deposits and high loans" scenario. Given that its long-term borrowings remained stable, short-term borrowings were used as a proxy for the total loan amount. As shown in Table 8, this coexistence of high deposits and high loans had been present at Kedi Dairy since 2015.

Table 8. Monetary Funds and Short-Term Borrowings of Kedi Dairy

Unit: CNY 100 million

Year	Monetary Fund	YoY Growth	Short-Term Borrowings	YoY Growth
2015	6.03	587.78%	6.90	73.37%
2016	10.34	71.47%	7.76	12.52%
2017	9.49	-8.26%	8.07	3.87%
2018	16.72	76.20%	11.92	47.74%
2019	0.27	-98.40%	13.24	11.14%

The phenomenon of "high deposits and high loans" often conceals underlying financial statement fraud. Listed companies may engage in practices such as fabricating financial statements, overstating monetary funds, inflating revenue and profits, and concealing related-party transactions. This should serve as a warning to auditors, highlighting the need to focus on the risks of financial fraud and the

concealment of related-party information during the audit process. However, in the actual execution of the audit, substantive procedures for monetary funds were still not effectively performed, demonstrating a clear lack of professional care and skepticism, and indicating a failure to exercise sufficient due diligence.

On the other hand, Kedi Group, plagued by debt issues, was repeatedly involved in borrowing disputes. It had pledged a high proportion of its shares in Kedi Dairy as collateral, creating the risk of a margin call—a situation that should have raised significant concern for the auditing firm.

4.3.2. Lack of a Due Diligence Mindset in Audit Procedures.

(1) Inadequate Execution of Tests of Controls

Between 2016 and 2019, Kedi Group provided unauthorized guarantees and misappropriated funds from the listed company without undergoing the requisite corporate decision-making and approval processes. This clearly indicates that Kedi Dairy's internal control system was ineffective. When performing tests of controls, the Asia Pacific Firm failed to thoroughly inspect, observe, and inquire about the specific implementation of the company's internal controls, and also did not adequately perform reperformance procedures.

(2) Inadequate Performance of Substantive Procedures

As analyzed previously regarding the manifestations of the Asia Pacific Firm's lack of due diligence, the audit procedures for large monetary fund transactions in 2016 and 2017 were not effectively performed. Had the auditors obtained a sufficient understanding of Kedi Dairy and its financial condition, they should have been alerted by the company's "high deposits and high loans" phenomenon. This should have led to a focus on the movement of monetary funds, for example, by selecting multiple points in time to verify whether the funds were actually present in the company's accounts, thereby determining the potential existence of fund misappropriation by the controlling shareholder.

5. Recommendations for Preventing Audit Failures

5.1. Regulatory Level

5.1.1. Strengthen Regulatory Penalties.

The current regulatory landscape in China indicates that the cost of violations for audit firms is significantly lower than the illicit gains obtainable through collusion with audited entities. Furthermore, the protracted nature of penalty procedures substantially diminishes their deterrent effect. Regulatory authorities, when exploring regulatory models, could adopt a collaborative multi-agency approach. If a firm found to be non-compliant faces penalties not only from the CSRC but also subsequently from bodies such as the CICPA and the Ministry of Finance, it would naturally foster greater caution and self-regulation within the firm. Such a parallel, multi-faceted regulatory system could potentially reduce the occurrence of audit failures.

5.1.2. Refine Auditing Standards and Clarify Due Diligence Benchmarks.

Abstract and ambiguous regulations can foster complacency and a gamble mentality among CPAs, both during audit execution and in subsequent defense arguments following penalties. Should the current legal, regulatory, and standards framework provide a clear and detailed interpretation of the currently vague concept of "due diligence," it would significantly assist auditors in strictly adhering to these standards and exercising self-restraint during audits. Enhancing the clarity of the standards' content would also facilitate a more precise determination of responsibility in the event of an audit failure.

5.2. Accounting Firm Level

5.2.1. Strengthen the Internal Quality Control System to Enhance Audit Quality.

As the "gatekeepers" of China's capital market, the quality of audit work performed by accounting firms is intrinsically linked to the accounting information quality of listed companies and directly impacts the economic interests of numerous minority investors. Establishing and maintaining a robust internal quality control system can effectively enhance the quality of audit work.

On one hand, all personnel involved in the audit must strictly adhere to established procedures within the audit plan when performing audit processes. Evidence and documentation gathered during the audit should be promptly categorized, organized, and retained. On the other hand, during the review of audit working papers, a review system with at least three tiers should be implemented based on the engagement's size. Experienced CPAs should be authorized to conduct these reviews, and all efforts should be oriented towards ensuring the quality of the final audit report.

5.2.2. Prioritize Engagement Risk Assessment.

Placing emphasis on project risk assessment primarily aims to gain a preliminary understanding of the audited entity's business type and risk areas before the audit commences. This not only effectively helps the firm avoid accepting high-risk engagements beyond its competency but also provides adequate guidance for the subsequent development of the audit plan and the execution of audit work. For long-term cooperative relationships, such as that between the Asia Pacific Firm and Kedi Dairy, this assessment warrants particular attention. Especially in situations where the audit scope remains consistent with prior years yet the audited entity is willing to pay significantly higher fees, the accounting firm must be vigilant to guard against the perception of engaging in 'audit opinion shopping'.

5.3. Certified Public Accountant Level

5.3.1. Maintain Necessary Professional Skepticism and Attention.

In most audit failure cases, auditors lack sufficient prudence and professional skepticism. Possessing a well-developed sense of professional skepticism is an indispensable component of a CPA's comprehensive competency. During the audit process, CPAs should maintain a diligent and prudent attitude, sustain risk awareness throughout the entire engagement, and avoid allowing audit work to become a mere formality. They must exercise due professional care by conducting reasonable assessments of the audited entity, avoiding over-reliance on information or explanations provided by the client, and refraining from judging management's integrity based solely on past impressions. This approach can significantly enhance audit quality and reduce the risk of audit failure.

5.3.2. Enhance Professional Competence.

In this specific case, the methods employed by Kedi Dairy for financial fraud—overstating revenue and profit—were commonplace. Furthermore, clear indicators such as the "high deposits and high loans" phenomenon pointed to the issue of fund occupation by the controlling shareholder and related parties. Had the auditors diligently performed procedures and carefully examined the evidence during the audit, they could likely have detected the company's fraudulent activities to some extent. Therefore, a crucial factor in fulfilling the duty of due diligence is whether the CPA possesses strong audit capabilities.

CPAs should focus on cultivating their professional competence. This involves utilizing spare time for continuous learning to update their knowledge base, actively participating in various training programs organized by their firms, and consistently staying abreast of changes in laws and regulations, industry developments, technical requirements, and practical skill applications. Furthermore, they must continually gain practical experience to enhance their professional acuity. Only by doing so can they better identify and assess potential risks within the audited entity, competently address various issues arising during the audit, issue correct audit opinions, and ultimately prevent audit failures.

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