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A Study on the Problems and Countermeasures of Audit Quality in Accounting Firms

Tingjing Zhang*, Liangrong Song

Business School, University of Shanghai for Science and Technology, Shanghai, China
**Corresponding author: z_tingjing1202@163.com*

Abstract: *Audit quality is a key safeguard for the healthy development of capital markets, directly affecting the authenticity and reliability of accounting information. The audit quality of accounting firms plays a crucial role in maintaining market stability and protecting investors' interests. In recent years, the frequent occurrence of audit failures has drawn widespread attention to audit quality. This paper explores the connotation of audit quality, analyzes the existing problems and causes of audit quality issues in accounting firms, and proposes feasible improvement measures, aiming to provide constructive suggestions for the sustainable development of the auditing industry.*

Keywords: *Accounting Firms; Certified Public Accountants; Audit Quality*

1. Introduction

With the acceleration of global economic integration and the growing complexity of capital markets, the demand for high-quality auditing has become increasingly critical. Accounting firms, as the principal providers of audit services, play an irreplaceable role in ensuring the transparency and reliability of financial information, protecting investors' interests, and maintaining market stability. In this context, audit quality has become a key indicator for evaluating the credibility and professionalism of accounting firms. It reflects not only the technical competence and ethical standards of certified public accountants (CPAs) but also the foundation of public trust in financial reporting.

In recent years, however, the auditing industry has faced multiple challenges that have exposed weaknesses in audit quality. The diversification of financial instruments, the complexity of business operations, and the widespread use of digital technology have made audit procedures more demanding. Meanwhile, intensified market competition and profit pressures have led some firms to lower fees or shorten audit cycles, reducing the rigor of audit work. Insufficient professional competence, weak internal controls, and ethical lapses have further increased the risk of audit failure. In some cases, client influence and conflicts of interest have seriously undermined audit independence—the cornerstone of auditing credibility.

Improving audit quality is therefore essential not only for the sustainable growth of accounting firms but also for the sound functioning of capital markets. High-quality audits can effectively identify financial risks, detect material misstatements, and enhance information reliability. Strengthening audit quality management is thus not merely a technical refinement but a strategic necessity for maintaining professional integrity.

This paper explores the major problems and influencing factors affecting audit quality in accounting firms, analyzes their root causes, and proposes targeted countermeasures. By addressing internal weaknesses such as limited CPA competence, weak internal controls, and declining ethics, as well as external pressures including market competition and client influence, the study aims to provide constructive insights for improving governance and supervision. Ultimately, enhancing audit independence and professional standards will help build a more transparent and trustworthy auditing environment.

2. The Concept and Importance of Audit Quality

Audit quality is generally defined as the auditor's ability and willingness to provide reasonable assurance that financial statements are free from material misstatements. It reflects the extent to which audit work complies with relevant laws, regulations, auditing standards, and professional requirements,

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ensuring that the information presented in audit reports is truthful, fair, and reliable.

Audit quality directly affects the credibility of audit outcomes and users' confidence in financial reporting. High-quality audits should identify and report significant misstatements or frauds with independence, objectivity, and professionalism. In addition, high-quality audits can effectively detect financial risks, thus maintaining transparency and fairness in the capital market. Therefore, audit quality is not only fundamental to an accounting firm's reputation but also vital to the sound development of capital markets.

From the perspective of internal governance, Yao Yuan (2025) pointed out that annual report inquiry letters have a positive constraining effect on internal control quality, thereby improving audit quality [1]. Xue Shuang, Gao Qi, and Xu Rui (2025) further found that qualification penalties have reshaped industry competition and enhanced overall audit quality [2]. Liu Daoqin et al. (2025) demonstrated that the disclosure of data assets improves information transparency and significantly influences auditor choice and audit quality [3].

From the perspective of internal capacity and resources, Li Shigang and Xu Haili (2025) found that accounting firms' participation in setting fundamental standards enhances their professional reputation and pricing power, leading to improvements in both audit fees and audit quality [4]. Ye Chenyun et al. (2025) emphasized that the effectiveness of quality management systems is crucial for ensuring high-quality audits and must be strengthened through institutional enforcement and personnel training [5]. Moreover, Xue Shuang, Gao Qi, and Wang Haoyu (2025) noted that under the new quality management standards, local firms must adopt differentiated risk responses to improve the quality of engagement acceptance [6].

Digital transformation has also become an important pathway for improving audit quality. Li Yaqin and Wei Jin (2025) found that corporate digitalization enhances audit quality by improving the information environment and strengthening ESG performance [7]. Wang Haihong and Wang Yixuan (2024) argued that digital empowerment optimizes audit processes and enhances risk identification efficiency [8]. Similarly, Liu and Xia (2024) suggested that industry technological complexity has a non-linear relationship with audit quality, requiring firms to strengthen their digital audit capabilities [9].

In terms of external supervision and market environment, Wu Xi et al. (2014) proved that preventive supervision and audit risk interviews significantly improve the rigor of audit results [10]. Wang Pengcheng and Li Dongxu (2023) drew lessons from the UK's experience, emphasizing that regulatory independence and industry transparency are essential for achieving high-quality audits [11].

3. Factors Affecting the Audit Quality of Certified Public Accountants

3.1 Professional Competence of Certified Public Accountants

The professional competence of certified public accountants (CPAs) is the foundation of audit quality and determines whether audit procedures can be carried out accurately and effectively. Although China's auditing profession has developed rapidly, there is still a shortage of high-level audit talent. Many auditors have weak theoretical foundations and limited practical experience, making it difficult to adapt to increasingly complex audit environments. Some CPAs, after obtaining their licenses, become complacent and neglect continuous learning, which leads to outdated professional knowledge and declining audit quality.

Audit competence also includes the ability to apply auditing standards flexibly, exercise sound professional judgment, and handle complex audit risks. Accounting firms should strengthen talent cultivation, organize systematic training, and establish incentive mechanisms to promote lifelong learning. Only by improving professional competence and maintaining a high level of technical and ethical standards can firms ensure stable and reliable audit quality.

3.2 Audit Independence

Independence is widely regarded as the soul and lifeblood of auditing—it forms the essential precondition for objectivity, credibility, and public trust in audit results. However, since auditing operates as a market-based service, the relationship between auditors and clients inevitably involves economic and contractual ties. This creates a potential conflict between the commercial interests of the accounting firm and the professional requirement of objectivity. In practice, auditors often face subtle or explicit pressures from clients, particularly when the continuation of audit engagements or future contracts depends on maintaining favorable relationships.

Under such circumstances, auditors may consciously or unconsciously compromise their independence by softening audit opinions, downplaying identified risks, or failing to challenge management's assertions. The problem becomes even more severe when firms compete aggressively for clients in a saturated market or seek to expand profitability. Excessive reliance on large clients can further weaken auditors' bargaining power and professional autonomy. Moreover, the current audit engagement system—where clients select and pay auditors—may amplify these independence risks, making it difficult to avoid conflicts of interest.

3.3 Professional Ethics and Conduct of CPAs

The professional ethics and conduct of certified public accountants form the moral backbone of the auditing profession. They represent a set of moral principles, behavioral norms, and professional standards that auditors must strictly adhere to during their practice. These ethical values guide auditors in exercising professional judgment responsibly, maintaining fairness, and safeguarding public interest. High ethical standards serve as the invisible guarantee of audit independence, preventing auditors from succumbing to financial temptations or external influence.

Ethical conduct also underpins the social image and credibility of the accounting profession. When CPAs consistently demonstrate honesty, diligence, and impartiality, they strengthen public confidence in the audit system as a whole. Conversely, ethical violations—such as intentional misreporting, collusion with clients, or falsification of audit evidence—can cause irreparable harm, not only to individual firms but also to the broader credibility of the industry. In severe cases, such misconduct may lead to legal prosecution, loss of license, and long-term reputational damage that erodes the foundation of public trust.

4. Major Problems Affecting Audit Quality in Accounting Firms

4.1 Personnel Competence Issues

Currently, audit work in many Chinese accounting firms still faces problems related to personnel competence, mainly reflected in two aspects:

First, unexpected events during audits are often not handled promptly, seriously affecting audit quality.

Second, there is insufficient awareness of audit risks—such as inherent risk (the possibility of material misstatement in any item of a financial report), control risk (the failure to detect or prevent misstatements in time), and detection risk (failure to identify major misstatements during testing). The root causes lie in auditors' lack of technical proficiency, limited work experience, insufficient professional training, and poor work attitudes.

4.2 Internal Control Issues

Some accounting firms have weak internal control systems that fail to effectively regulate audit quality. This often results from a lack of awareness among firms and auditors about internal control importance. Many only formally comply with control systems without updating or enforcing them properly. Audit quality control procedures, such as the "three-review and three-check" system, are often superficial—signature CPAs sign off without conducting substantive reviews. Consequently, subsequent review and quality control work are not carried out as required, making it difficult to detect potential issues and compromising overall audit quality.

4.3 External Pressures and Market Environment

External and market factors significantly affect audit quality, manifested in the following aspects:

4.3.1 Industry Competition and Fee Pressure:

In a highly competitive market, accounting firms may lower audit fees to attract clients. Excessive fee reductions can lead to insufficient audit procedures and reduced resource input, compromising audit quality. Auditors may also face time pressure, increasing the risk of misstatements and omissions.

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4.3.2 Client Expectations and Pressure:

Clients may pressure auditors to take a lenient stance on financial statements, especially when facing financial distress or seeking to present favorable results. Without strong professional ethics and independence, auditors may yield to such pressure, undermining audit objectivity. Complex business transactions and financial arrangements can further increase audit difficulty, especially when market pressure discourages thorough investigation.

4.3.3 Economic Cycle Effects:

During economic booms, firms may expand their business rapidly, employing inexperienced auditors and thereby lowering audit quality. Conversely, during recessions, clients may demand fee reductions, forcing auditors to work under resource constraints. Financially distressed clients may also attempt to conceal problems, increasing the difficulty of identifying material misstatements or fraud.

5. Basic Countermeasures to Improve Audit Quality in Accounting Firms

5.1 Enhancing the Comprehensive Competence of CPAs

Accounting firms must strengthen the training and development of CPAs and related personnel to enhance professional and ethical competence. A sound incentive mechanism should be established to encourage continuous learning and adaptation to changing market and industry needs.

On one hand, accounting firms should assume primary responsibility for building long-term mechanisms to promote CPA ethics and competence. Firms should ensure that all auditors fully understand and strictly comply with relevant professional and ethical standards. Adhering to legal and regulatory requirements also ensures fairness in market competition and audit practice.

On the other hand, firms and professional associations should organize ongoing training programs covering not only technical skills but also ethical conduct. Through such training, auditors can systematically assess risks at each audit stage, ensuring thoroughness and reliability. Training content should also keep pace with the times by incorporating modern management and legal knowledge, thereby strengthening auditors' global adaptability and improving audit quality.

5.2 Optimizing Internal Management and Strengthening Internal Control

As the primary entities responsible for audit quality, accounting firms should focus on improving internal governance and exercising comprehensive quality control throughout the audit process. Each audit engagement should be led by an experienced CPA who monitors all procedures. During audit planning, project leaders should assign tasks according to team members' expertise and experience.

Evidence collection must be comprehensive, compliant with national laws and auditing standards, and subject to multiple levels of review. Firms should fully implement the "three-review and three-check" system to ensure the authenticity, objectivity, and fairness of audit reports. Internal control systems should be regularly reviewed and updated, with clear operational requirements for audit review and quality control to ensure strict compliance and consistent improvement.

5.3 Regulating Market Mechanisms and Strengthening Policy and Legal Support

A sound market entry mechanism should be established to ensure that only firms with sufficient professional competence and resources can operate in the audit industry. Firms should also be encouraged—or required—to publicly disclose internal control and quality inspection results to enhance market transparency.

Regulatory authorities should align auditing standards with international norms and update audit quality guidelines regularly, clarifying fundamental audit requirements, processes, and control measures. Governments and professional bodies should introduce supportive policies encouraging continuous education, advanced audit technologies (e.g., data analytics, AI, blockchain), and digital transformation.

Moreover, legal systems should clearly define auditor responsibilities, independence requirements, and penalties for audit failures. Violations such as collusion, lack of independence, or fraud should result in strict sanctions—including fines, license revocation, or industry bans. At the same time, auditors who expose fraud or misconduct should receive legal protection and anonymous reporting channels to ensure

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a fair and fearless audit environment.

6. Conclusion

Audit quality stands at the core of the auditing profession and serves as a crucial determinant of the credibility and authority of accounting firms. As this study has shown, audit quality is affected by a complex interplay of internal and external factors—including the professional competence of CPAs, the strength of internal control mechanisms, the robustness of ethical standards, and the external pressures imposed by market competition and client relationships. When these factors are not effectively managed, the integrity of audit results may be compromised, leading to distorted financial information, weakened investor confidence, and potential market instability.

To address these challenges, accounting firms must first strengthen the comprehensive competence of certified public accountants through systematic training, professional development, and ethical education. Building a culture of lifelong learning and professional responsibility is essential for maintaining technical excellence and moral integrity in audit practice. Second, internal management systems must be optimized to establish effective quality control mechanisms throughout all audit stages—from planning and evidence collection to final reporting. Implementing rigorous internal review systems, ensuring proper task allocation, and promoting accountability at every level can significantly enhance audit consistency and reliability.

In addition, firms should actively adapt to the evolving external environment by embracing digital transformation and technological innovation. The use of artificial intelligence, data analytics, and blockchain can enhance risk assessment, improve efficiency, and reduce human bias in audit procedures. Meanwhile, external regulation and market supervision should be further refined. Establishing transparent market entry standards, reinforcing legal accountability for audit misconduct, and improving regulatory independence can collectively create a fairer and more disciplined industry ecosystem.

Ultimately, improving audit quality requires a comprehensive and collaborative effort among accounting firms, regulatory authorities, professional associations, and society at large. By integrating internal governance reform with external oversight, and by aligning professional ethics with technological innovation, the auditing profession can reinforce its independence and authority. Such efforts will enhance the credibility and reliability of audit outcomes, promote investor trust, and ensure the long-term, stable, and healthy development of both accounting firms and the broader auditing industry. In essence, only through continuous improvement and steadfast commitment to quality can accounting firms fulfill their mission as the guardians of financial integrity and the cornerstones of economic sustainability.

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