

# Research on Audit Risks and Prevention of Three Squirrels in E-commerce Enterprises

Junke Chen

School of Business, Xinjiang University, Xinjiang 830000, China

**Abstract:** With the rapid development of Internet technology, the trading scale of e-commerce platforms has soared, and e-commerce listed companies have risen rapidly. Their unique marketing model and competitive means make revenue recognition risk the focus of audit. This study is based on the failure cases of revenue audit in e-commerce listed companies, exploring the particularity and risk points of revenue audit in e-commerce listed companies. Taking three squirrels as examples, the study analyzes their revenue audit risks in detail and proposes specific preventive measures. This article aims to reduce the risk of audit failure and promote the healthy development of the e-commerce industry.

**Keywords:** E-commerce enterprises, Audit risk, Three Squirrels.

## 1. Introduction

In recent years, with the intensification of competition in the e-commerce industry and the strengthening of regulatory efforts, the audit risk issues of e-commerce enterprises have gradually become prominent. On the one hand, e-commerce enterprises face more complex financial data and business processes due to their unique business models and operational characteristics, making traditional audit methods difficult to effectively cope with. On the other hand, e-commerce enterprises often overlook the importance of internal control and risk management while pursuing business scale and market share, leading to further increase in audit risk. Therefore, how to identify and prevent audit risks of e-commerce enterprises has become an urgent problem to be solved in the current auditing field.

Among numerous e-commerce enterprises, Three Squirrels has rapidly risen and become a leader in the industry with its unique brand positioning and marketing strategy. However, with the expansion of enterprise scale and the complexity of business, the challenges faced in financial management and auditing are becoming increasingly severe. Due to its unique business model and operational characteristics, audit risks are more prominent. Therefore, this article takes three squirrels of e-commerce enterprises as examples to conduct research on audit risks and prevention.

## 2. Significant Misstatement Risk in The Audit of Three Squirrels

### 2.1. There is a Risk at The Time of Revenue Recognition

In the process of auditing the financial statements of three squirrels, the accuracy of revenue recognition timing is an aspect that auditors need to focus on. According to the financial reports of three squirrels, in their online B2C model, companies typically recognize revenue 4 days after shipment, based on estimates of historical shipping and express delivery times, assuming an average customer delivery time of 4 days. However, this revenue recognition policy may face certain risks in practical operation.

Firstly, from the payment process of the three squirrels, customers usually have a 10 day confirmation period for

receiving the goods. This means that although the three squirrels confirmed their income 4 days after shipment, customers may not have completed the receipt confirmation at this time, and the e-commerce platform has not yet transferred funds to the enterprise bank account. Therefore, the three squirrels recognized revenue without obtaining the right to withdraw funds from e-commerce platforms, which deviates from the conventional practices of the e-commerce industry.

Secondly, compared with listed companies in the same industry, there are also differences in the recognition timing of the income of the three squirrels. For example, companies such as Liangpinpuzi, Qiaqia Food, and Yanjinpuzi all require revenue recognition after the transfer of product control to the end consumer or customer confirms receipt. This approach is more in line with the characteristics of e-commerce channels, because only after the customer confirms receipt, the e-commerce platform will transfer funds to the enterprise account, and the enterprise will have the right to withdraw funds at this time. In contrast, the income recognition policy of the three squirrels may be overly optimistic and fail to fully consider the actual situation of e-commerce transactions.

In summary, the risks faced by the three squirrels in terms of revenue recognition timing mainly stem from their overly optimistic recognition policies and inconsistency with industry practices. Auditors should focus on this issue during the audit process and evaluate its potential impact by collecting more evidence. In addition, auditors should also suggest that the company re-examine its revenue recognition policy to more accurately reflect the actual situation of e-commerce transactions.

### 2.2. The Brushing Line Generates Risks Due to Fictitious Income

In the fierce competition of the e-commerce industry, brushing orders is not uncommon. This behavior artificially increases the sales and positive rating of e-commerce platforms through non real transactions, posing a significant risk of misstatement to the financial statements of e-commerce enterprises. For Three Squirrels, a company that started with e-commerce channels, special attention should also be paid to such risks during its audit process. It is understood that brushing orders usually involves close

cooperation between e-commerce merchants and buyers. Merchants develop brushing plans and distribute tasks through buyers. After the buyer advances funds to place an order, the merchant will mark such orders with special marks and send low value products such as tissues to complete the logistics process. After receiving the package, the buyer will confirm payment and give a positive review according to the requirements, while the merchant will pay the buyer's advance payment funds and commission. Under this process, although there is no actual commodity transaction, the e-commerce platform system will automatically recognize revenue based on the brushing amount, thereby inflating the actual revenue of the e-commerce enterprise.

As shown in Figure 1, the three squirrels have achieved rapid growth in the e-commerce field with their unique marketing strategies and brand building. However, the authenticity and rationality of its explosive income growth data have attracted widespread market attention. Compared to other established e-commerce retail enterprises such as Liangpinpuzi and Qiaqia Food, the products of Three Squirrels are not significantly substitutable and have price advantages. In addition, its establishment time is relatively late, and there is still a certain gap in brand recognition and customer loyalty compared to established enterprises. However, in this context, the income of the three squirrels is much higher than that of other established companies in the industry, which undoubtedly increases the uncertainty of the authenticity of their income data.

Therefore, in the audit process of the three squirrels, auditors should focus on the authenticity and rationality of their revenue data, especially those sales orders with abnormal growth. Through in-depth analysis of transaction data, collaboration with e-commerce platforms and logistics

The company and other relevant parties should communicate and take other necessary audit procedures. The auditor should comprehensively evaluate the impact of brushing orders on the financial statements of the three squirrels and issue an accurate audit opinion based on this.

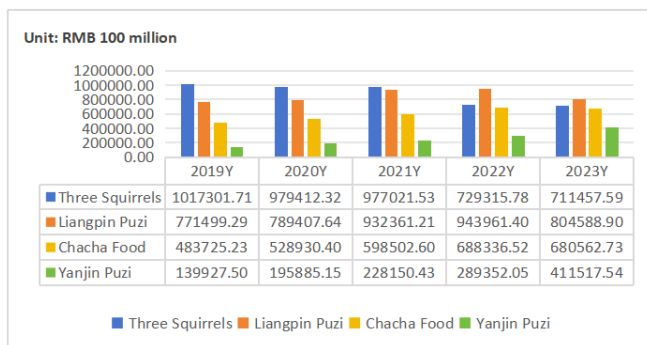


Figure 1. Comparison of operating revenue in the same industry from 2019 to 2023

At the same time, due to the relatively hidden brushing lines on e-commerce platforms, merchants often adopt this method to increase store traffic and transaction volume. This behavior can create a very high opportunity for e-commerce revenue to inflate. By continuously inviting buyers to place orders, merchants can create extremely high income out of thin air. The rationality of the visitor volume and revenue of the three squirrels on Double Eleven is worth verifying. Whether they artificially increased their revenue through brushing orders is an important income audit risk point that auditors need to pay close attention to.

### 2.3. Risk of Revenue Recognition Caused by Promotional Activities

In the e-commerce industry, promotional activities are an important means to attract consumers and increase sales. However, compared to traditional retail channels, the promotional activities on e-commerce platforms are more diverse and complex, which also poses risks to the revenue recognition of e-commerce enterprises. For e-commerce companies like Three Squirrels, the risk of revenue recognition in promotional activities is particularly prominent.

Firstly, there are various types of promotional activities for the three squirrels, including discounts, discounts, coupons, and other forms. These activities often involve a combination of platform discounts and merchant discounts, making the actual payment amount for consumers more complex. In practical operation, the three squirrels adopt a policy of confirming revenue 4 days after shipment, rather than waiting for customers to confirm receipt and recognizing revenue based on the actual amount received. This policy is more likely to trigger the risk of incorrect recognition of income amounts in the context of major promotional activities.

Secondly, following the principle of substance over form, the three squirrels need to deduct the merchant's discount from the sales revenue of a single order as the final revenue amount when confirming revenue. This requires the three squirrels to accurately distinguish between the merchant discount and platform discount amounts for each order in the accounting process, in order to ensure the accuracy of the revenue amount. However, in practical operation, due to the diversity and complexity of promotional activities, this distinction often becomes difficult, thereby increasing the risk of revenue recognition.

Finally, the accounting personnel of the three squirrels also face certain challenges in recognizing income amounts and accounting processing. They need to accurately understand and apply complex promotional rules, while also ensuring timely processing of large amounts of order data during busy promotional periods. This challenge not only increases the workload of accounting personnel, but also increases the error rate of income amount recognition, thereby increasing the income audit risk of the three squirrels.

In summary, the recognition risk of the revenue amount of the three squirrels in promotional activities is a key issue that needs to be focused on during their audit process. In order to reduce this risk, the three squirrels need to strengthen internal controls, improve the professional quality of accounting personnel, and strengthen communication and cooperation with audit institutions. At the same time, audit institutions also need to adopt more scientific and reasonable audit methods and technical means based on the characteristics of e-commerce enterprises to ensure the accuracy and reliability of audit results.

### 2.4. Significant Seasonal Characteristics of Income Lead to Risks

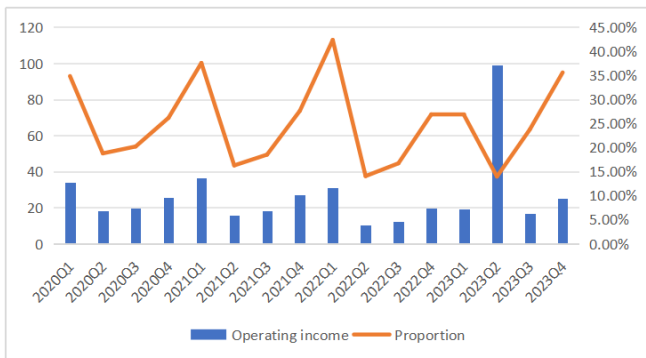
As a well-known e-commerce nut snack brand, the sales revenue of Three Squirrels is significantly influenced by consumer purchasing habits and e-commerce promotional activities, thus exhibiting obvious seasonal characteristics. Especially in the first and fourth quarters of each year, with the approaching Spring Festival and the hosting of e-commerce platform promotions, the demand for nut fried snacks among consumers has surged, and the e-commerce

order volume of Three Squirrels has rapidly increased.

From the quarterly income data structure of the three squirrels, as shown in Table 1, the proportion of income in the first and fourth quarters of the three squirrels is much higher than that in the second and third quarters. For example, from 2020 to 2023, the total proportion of income in the first and fourth quarters of each year reached 61.01%, 65.21%, 69.24%, and 62.3%, respectively. This data intuitively reflects the significance of the seasonal characteristics of income for the three squirrels. This seasonal characteristic is particularly evident on the line chart of quarterly revenue proportion in Figure 2, with the first and fourth quarters of each year being the peak periods of the line chart.

**Table 1.** Quarterly Revenue Proportion of Three Squirrels from 2020 to 2023

	Revenue (100 million yuan)	Proportion
2020Q1	34.12	34.84%
2020Q2	18.39	18.78%
2020Q3	19.79	20.21%
2020Q4	25.62	26.17%
2021Q1	36.70	37.57%
2021Q2	15.90	16.27%
2021Q3	18.09	18.52%
2021Q4	27.00	27.64%
2022Q1	30.89	42.36%
2022Q2	10.25	14.05%
2022Q3	12.19	16.71%
2022Q4	19.60	26.88%
2023Q1	19.00	26.71%
2023Q2	99.28	13.96%
2023Q3	16.89	23.74%
2023Q4	25.32	35.60%



**Figure 2.** Quarterly Changes in Revenue Proportion of Three Squirrels from 2020 to 2023

However, this seasonal characteristic also brings significant risks to the audit of e-commerce revenue for the three squirrels. Firstly, the sharp increase in order volume in the first and fourth quarters means that enterprises need to handle a large amount of express delivery packaging, product packaging, and other work in a short period of time, and the probability of errors in these processes also increases. Meanwhile, due to the sharp increase in consumer demand, the number of returns and refunds has also correspondingly increased. The revenue recognition policy for the three squirrels is carried out 4 days after shipment, which means that if a large-scale return occurs, it will directly affect the

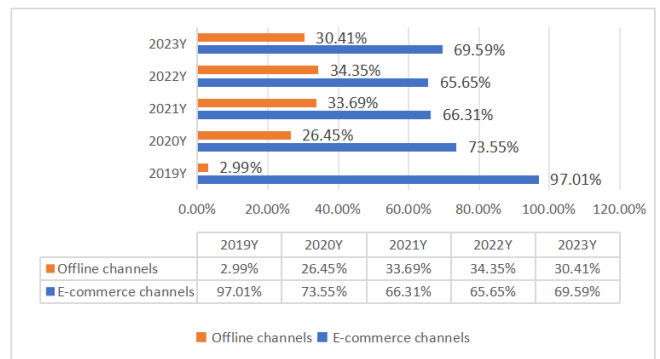
occurrence and deadline recognition of revenue, posing risks to revenue auditing.

Secondly, in order to meet the sales peak in the first and fourth quarters, the three squirrels need to make large purchases in advance to stock up. However, changes in consumer tastes and preferences are rapid, and if the three squirrels fail to accurately predict market trends or adjust product strategies in a timely manner, there is a high possibility of inventory stagnation. Once inventory becomes unsold, it not only leads to inventory backlog and capital occupation, but also has a significant impact on the company's revenue, thereby triggering significant misstatement risks at the revenue recognition level.

Therefore, for the three squirrels, it is necessary to fully pay attention to the audit risks brought about by their seasonal income characteristics, and take corresponding preventive measures to ensure the accuracy and reliability of income data.

## 2.5. Excessive Concentration of E-Commerce Sales Channels Leading to Income Fluctuation Risk

From the analysis of revenue channels in Figure 3, the contribution of e-commerce channel revenue in 2019 was 97.01%, while in 2023, the contribution of e-commerce channel revenue was only 69.59%. According to the 2023 annual report of Three Squirrels, one of the important reasons for the decline in revenue that year was the decline in e-commerce platform traffic, which seriously affected the revenue of e-commerce channels. It can be seen that the decrease in revenue of Three Squirrels e-commerce channels is an important reason for the significant decline in revenue. From this point, it can be seen that in previous years, the three squirrels relied on e-commerce channels and obtained high income. However, in recent years, the three squirrels have seen a decline in e-commerce traffic and revenue from e-commerce channels, resulting in a significant decline in overall revenue.



**Figure 3.** Sources of income channels for three squirrels from 2019 to 2023

Against the backdrop of rapid development in the current e-commerce industry, the transformation of e-commerce sales channels is changing rapidly, especially the gradual rise of decentralized social e-commerce channels, which have brought unprecedented challenges to traditional e-commerce enterprises. For e-commerce companies like Three Squirrels, their dependence on e-commerce platforms is relatively high, and their e-commerce sales channels are relatively concentrated, which puts them at significant risk of income fluctuations.

As the main sales channel of the Three Squirrels, e-commerce platforms have frequented and complex changes in

traffic allocation rules, promotion strategies, and marketing models. The platform has absolute say in these aspects, and the three squirrels need to constantly adapt and cooperate with the platform's strategic adjustments in the process of cooperation. However, if the three squirrels are unable to reach timely consensus with the platform on relevant strategies, platform service fees, etc., or cannot make timely adjustments according to changes in e-commerce rules, their sales on the platform will be seriously affected.

Therefore, the three squirrels need to pay special attention to the concentration of their e-commerce sales channels and the resulting income fluctuation risk during the audit process. Auditors need to have a deep understanding of the cooperation between the three squirrels and the e-commerce platform, evaluate their level of dependence on the platform, and pay attention to the impact of changes in the market environment on the e-commerce platform and the three squirrels. At the same time, auditors also need to conduct a detailed verification and verification of the e-commerce revenue of the three squirrels to ensure the accuracy and authenticity of their income, and to avoid the risk of significant misstatement.

### **3. The Inspection Risks Associated with Auditing Three Squirrels**

#### **3.1. E-commerce Revenue Audit Procedures Need to Be Improved**

With the booming development of the e-commerce industry, Three Squirrels, as the top players in the industry, their e-commerce revenue has been increasing year by year as a proportion of total revenue. However, this also brings new challenges to audit risks, especially in terms of e-commerce revenue audit procedures. The particularity of e-commerce revenue auditing lies in the large amount of data involved, frequent and complex transactions, and reliance on various e-commerce platform systems. The e-commerce revenue audit program of Three Squirrels, although covering basic steps such as revenue recognition and transaction verification, still has some room for improvement in practical operation.

Firstly, in response to the unique issues of brushing orders and false transactions on e-commerce platforms, the audit program of Three Squirrels still lacks targeted inspection measures. At present, the audit team mainly relies on methods such as sampling verification and comparing historical data, but these methods are difficult to fully cover all transaction data and are easily influenced by human manipulation.

Secondly, the recognition and measurement of e-commerce revenue involves multiple stages, including order generation, payment, logistics, etc. In any of these links, any issues that arise may lead to distortion of income data. However, the audit program for the three squirrels is not comprehensive and in-depth enough in monitoring and verifying these processes, and there is a possibility of missing risk points.

In addition, with the continuous development and changes of e-commerce platforms, new transaction models and payment methods are constantly emerging, which also brings new challenges to e-commerce revenue auditing. The audit procedures for the three squirrels need to be continuously updated and improved to adapt to these changes and ensure the accuracy and effectiveness of the audit work.

#### **3.2. E-commerce Revenue Audit Software and Technology Lag Behind**

In the context of digitalization and informatization, the business model of e-commerce enterprises, such as the Three Squirrels, increasingly requires software and technology for auditing work. However, one of the challenges currently faced by the three squirrels in auditing e-commerce revenue is the relatively lagging audit software and technology, which have not kept up with the rapid development of the e-commerce industry.

Specifically, the e-commerce sales model of Three Squirrels has the characteristics of frequent transactions, large and complex data volume, which requires audit software to efficiently and accurately process and analyze a large amount of data. However, the audit software currently used by the three squirrels is still in the traditional stage and has not been effectively integrated with their financial systems, resulting in the need for manual data import and organization during the audit process. This approach is not only inefficient, but also increases the risk of human error, greatly reducing the accuracy and efficiency of audit work.

In addition, the three squirrels generate a huge amount of data on a daily basis in the e-commerce environment, calculated in terabytes. Faced with such a massive amount of data, relying solely on auditors to manually organize and analyze it is obviously unrealistic. This not only consumes a lot of time and energy from auditors, but may also lead to the omission or misjudgment of key information. Therefore, lagging audit software and technology have become important factors that constrain the quality and efficiency of the income audit work of the Three Squirrels e-commerce industry.

To solve this problem, Three Squirrels needs to actively introduce and update advanced audit software and technology to adapt to the characteristics and needs of the e-commerce industry. For example, advanced technologies such as big data analysis and cloud computing can be utilized to automate the processing and analysis of data, improving the intelligence level of audit work. At the same time, strengthen cooperation and communication with audit software developers, customize and develop suitable audit tools based on the actual situation of the three squirrels, in order to comprehensively improve the accuracy and efficiency of e-commerce revenue auditing.

#### **3.3. Insufficient Competence of Auditors**

With the rapid development of the e-commerce industry, the business models, data structures, and information technology applications of e-commerce enterprises have shown high complexity and specificity. For e-commerce companies like Three Squirrels, their audit risk not only comes from traditional financial risks, but mainly from their highly dependent e-commerce sales model on information systems. This sales model requires auditors not only to have solid audit expertise, but also to have a deep understanding and understanding of the authenticity of data in the e-commerce environment, the software and hardware programs of information systems, and internal controls.

However, in actual audit work, three squirrels found that some auditors had insufficient competence. Although these auditors have basic knowledge of auditing, they often appear inadequate when facing the unique auditing environment of e-commerce enterprises. They may lack understanding and

mastery of knowledge in areas such as computer programs and information systems, and may not be able to accurately assess risks in the e-commerce environment. Meanwhile, due to a lack of understanding of the operational mechanisms of information systems and the principles of e-commerce transactions, they may overlook some potential risk points, thereby increasing the risk of inspection.

During the audit process of three squirrels, there was a situation where auditors relied too heavily on internal IT experts. Although this to some extent alleviates the lack of professional knowledge among auditors, it may also lead to interference in their professional judgment, affecting their independence. Therefore, improving the competence of auditors, strengthening their audit skills and knowledge reserves in the e-commerce environment, is of great significance for reducing the audit risk of the three squirrels.

## **4. Measures to Address Audit Risks in E-Commerce Enterprises**

### **4.1. Building a Cloud Audit Platform for E-commerce Enterprises**

In order to comprehensively address the challenges faced by the Three Squirrels in e-commerce auditing, the primary task is to build an efficient and flexible e-commerce enterprise cloud auditing platform. The platform should integrate full chain functions such as data collection, storage, processing, and analysis to ensure the real-time and accuracy of audit data. During the platform construction process, special attention needs to be paid to the design of data interfaces to ensure seamless integration with the existing e-commerce systems of the three squirrels, and to achieve automatic synchronization and updating of data.

The cloud audit platform should have high scalability and customizability to meet the personalized needs of different audit projects. By introducing cloud computing and artificial intelligence technology, the platform can automatically execute some audit procedures, such as data verification, anomaly identification, etc., reducing the workload of auditors and improving audit efficiency.

In the process of platform operation, it is necessary to strengthen data security and privacy protection to ensure the integrity and confidentiality of audit data. By adopting advanced encryption technology and access control strategies, data leakage and illegal access are prevented, providing strong guarantees for the smooth progress of audit work.

### **4.2. Strengthening the Assessment of Significant Misstatement Risks Through Big Data Tools**

We need to fully utilize big data methods for risk assessment and early warning regarding the potential significant misstatement risks of the three squirrels in terms of revenue recognition timing, brushing behavior, promotional activities, and other aspects. Firstly, by collecting and analyzing historical transaction data, user behavior data, etc., a risk assessment model is established to identify and quantify potential risk points.

Secondly, utilizing big data technology for real-time monitoring and early warning of transaction data. By setting reasonable thresholds and rules, abnormal transactions can be automatically identified and marked for timely intervention and handling by auditors. In addition, big data technology can

be used to evaluate the effectiveness of promotional activities and prevent the risk of revenue recognition caused by improper promotional activities.

Establishing a risk information sharing mechanism is also crucial, as it can strengthen cooperation and communication with other e-commerce platforms, financial institutions, etc. By sharing risk information and lessons learned, we can jointly improve our risk prevention and control capabilities for the entire e-commerce industry.

### **4.3. Adapt to Big Data Technology and Upgrade Audit Software**

In order to address the issue of lagging e-commerce revenue audit software and technology, it is necessary to actively adapt big data technology to upgrade audit software.

The new audit software should have strong data processing and analysis capabilities, and be able to support rapid processing and analysis of large-scale data. By introducing advanced technologies such as distributed computing and data mining, in-depth analysis and mining of massive transaction data can be achieved.

The new audit software should have highly automated features. Through preset audit rules and algorithms, the software can automatically execute some audit procedures, such as data validation, anomaly recognition, etc. This can not only reduce the workload of auditors, but also improve the accuracy and efficiency of audit work. The new audit software should also have good scalability and customizability. Based on the specific needs of the three squirrels, we can personalize and develop the software to meet the special needs of different audit projects. At the same time, we also need to pay attention to the usability and user experience of the software to ensure that auditors can easily get started and use it efficiently.

### **4.4. Adapting to the Development Trend of Information Technology and Optimizing Audit Methods**

With the continuous development of information technology, the business models and data structures of e-commerce enterprises are also constantly changing. In order to maintain the effectiveness and adaptability of audit work, it is necessary to adapt to the trend of information technology development to optimize audit methods. Firstly, strengthen understanding and research on new transaction models and payment methods in the e-commerce environment. By gaining a deeper understanding of the characteristics and risk points of these new transaction models and payment methods, corresponding audit procedures and strategies can be developed to address these challenges.

Secondly, it is necessary to strengthen the audit of internal controls in information systems. In the e-commerce environment, the security and stability of information systems are crucial for the normal operation of enterprises. Therefore, we need to conduct a comprehensive audit and evaluation of the software and hardware programs, network security measures, etc. of the information system to ensure its stability and security.

In addition, it is necessary to pay attention to the application and development trends of new technologies in the field of auditing. For example, blockchain technology has the characteristics of decentralization and immutability, which can provide strong technical support for e-commerce auditing. We can actively explore the application scenarios

and solutions of blockchain technology in e-commerce auditing to improve the efficiency and accuracy of auditing work.

#### **4.5. Intensify the Cultivation of Composite Auditing Talents**

Driven by the current wave of big data, the rapid development of e-commerce enterprises poses new challenges to the field of auditing, and there is an urgent need for talents with expertise in e-commerce auditing. The ability of auditors is directly related to the quality and effectiveness of audit work, becoming a decisive factor. In order to reduce excessive reliance on external experts and unnecessary communication costs, audit teams should strive to reduce their reliance on external experts and enhance their independence and professionalism.

Given the lack of dedicated e-commerce auditors in the current audit team, and the varying levels of understanding of the audited entity's business areas among auditors, it is particularly important to strengthen the training of specialized audit talents. Therefore, it is necessary to start from multiple aspects to provide solid talent support for the efficient implementation of audit work.

In terms of personnel training, in addition to ensuring that auditors master basic audit professional knowledge, it is also necessary to strengthen professional knowledge training in the e-commerce field, so that auditors can keep up with the pace of the times, familiarize themselves with audit processes and technical requirements in the big data environment.

##### **Conclusion**

The e-commerce industry is one of the fastest-growing industries in recent years, and in this context, e-commerce platforms have gradually become the main retail channel for social commodity or service transactions, giving birth to multiple listed e-commerce companies. This article takes Three Squirrels, a listed retail e-commerce company, as an example. Combining the characteristics of the e-commerce industry and the current situation of Three Squirrels e-commerce business, it specifically analyzes the major misstatement risks and inspection risks that should be emphasized in the audit of Three Squirrels e-commerce revenue, and puts forward specific suggestions for preventing revenue audit risks in the e-commerce industry.

Firstly, in the process of auditing the revenue of the Three Squirrels e-commerce, there are significant misstatement risks, including: the risk of improper revenue recognition timing, the risk of fictitious revenue generated by brushing orders, the risk of revenue amount recognition caused by promotional activities, the risk of obvious seasonal characteristics of revenue, and the risk of revenue fluctuations caused by excessive concentration of e-commerce sales channels; The specific inspection risks include: incomplete e-commerce revenue audit procedures, lagging e-commerce revenue audit software and technology, and insufficient competence of audit personnel.

Secondly, based on specific case studies, the following conclusions can be drawn in response to audit risks: to fully

utilize big data technology, build a cloud audit platform for e-commerce enterprises, and use big data technology to strengthen the assessment of significant misstatement risks for enterprises; Adapt to big data technology upgrade audit software; Optimizing audit methods in line with the trend of information technology development; Actively cultivate composite auditing talents, improve the professional competence of auditors, and thus ensure the quality of auditing.

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