

Exploration of Methods for Teaching Students to Study Audit Standards: Taking Audit Standard No. 1504 as an Example

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ABSTRACT

The China Audit Standards Board (CASB) also issued new audit standards on December 23, 2016, and in its implementation rules, it requires A-share and H-share companies to comply with the new standards for audit reports used in mainland China starting from January 1, 2017. The Chinese Certified Public Accountants Auditing Standards No. 1504- Communication of Key Audit Matters in Audit Reports is a new addition to the standards issued this time, while the rest are revised. This article aims to explore methods to guide students on how to study these new guidelines, in order to enhance their professional competence.

KEYWORDS

Audit standards; Key audit matters; Teaching method.

1. INTRODUCTION

The reform of audit reports, as a major event in the international auditing community in recent years, has been widely concerned by various sectors of society. The Financial Reporting Council (FRC), the International Audit and Assurance Standards Board (IAASB), and the Public Company Accounting Oversight Board (PCAOB) in the United States have all issued corresponding policies and standards. Similarly, the China Audit Standards Board (CASB) also issued new audit standards on December 23, 2016, and in its implementation rules, it requires A-share and H-share companies to comply with the new standards for audit reports used in mainland China starting from January 1, 2017. At present, the first batch of new audit reports in China has been released, and analyzing and interpreting these reports will help further promote audit report reform.

Whether in China or worldwide, the formulation or revision of standards face several issues: how to read audit reports and fully utilize the information in them? How to mine the information content in audit reports? How to use this mined information to make decisions? How to improve and perfect audit report information? In order to provide better solutions to these issues, the world is constantly exploring and striving: starting in 2015, the IAASB (International Audit and Assurance Standards Board) revised and newly developed a series of international audit reporting standards. The revision of each criterion not only enhances information exchange among stakeholders, but also contributes to corporate governance and maximizes the effectiveness of the information contained in audit reports. On December 23, 2016, the Ministry of Finance issued 12 audit standards for Chinese Certified Public Accountants, including the "Communication of Key Audit Matters in Audit Reports".

2. BACKGROUND OF TEACHER INTRODUCTION GUIDELINES RELEASE

On December 23, 2016, the Ministry of Finance issued a notice on 12 new audit standards, including "Chinese Certified Public Accountants Auditing Standards No. 1504- Communication of Key Audit Matters in Audit Reports", requiring the new standards to be implemented in batches and steps. For A+H-share companies and pure H-share companies that issue audit reports in accordance with Chinese Certified Public Accountants Auditing Standards, implementation will begin on January 1, 2017. Other main board companies Small and medium-sized board companies should implement the new audit reporting standards starting from January 1, 2018, while allowing and encouraging early implementation.

3. INTERNATIONAL COMPARISON OF AUDIT REPORT SYSTEMS

From a global perspective, the differences in audit standards between international, UK, US, and China are mainly reflected in the following six aspects:

- (1) International, US, and Chinese auditing standards all require the position of the audit opinion section to be advanced, while the UK does not make clear provisions. However, in UK practice, audit opinions are usually prioritized.
- (2) For key audit matters, international, US, and Chinese audit standards require the addition of key audit matter paragraphs to explain them, and international and Chinese audit standards also require response measures. The UK audit standards do not explicitly state the concept of "key audit matters", but require disclosure of significant misstatement risks in audit reports.
- (3) The international, US, and Chinese audit standards do not provide clear provisions for the disclosure of materiality levels and audit scope, while the UK requires disclosure to be mandatory.
- (4) For going concern, international auditing standards have strengthened the expression of going concern responsibility. Chinese auditing standards require auditors to pay more attention to going concern issues, while the United States requires the maintenance of the original model, and the United Kingdom has not made clear requirements.
- (5) For other information, both international and Chinese auditing standards require the addition of additional information segments to illustrate the auditor's attention to other information. The UK auditing standards require auditors to consider other information, while the US has not made a clear requirement for this.
- (6) Both the United States and China's auditing standards require disclosure of the basis for forming an audit opinion, while international and UK auditing standards do not require it.

4. TEACHING METHODS

Divide students into groups and ask them to report in groups.

4.1. First group student group report

4.1.1. Types of Key Audit Matters

The audit reporting standards in our country do not provide specific explanations for the types of matters. Certified public accountants can disclose information based on the actual situation of the enterprise, which provides them with sufficient room for judgment. Therefore, the types of audit matters disclosed in the company's audit reports cover a wide range, including the frequency of key audit matters disclosed in the audit reports of 84 A+H listed companies. Firstly, the total impairment

of assets (including goodwill) reached 81 times (accounting for 38%), which has almost become a key audit issue in every audit report. This to some extent indicates that asset impairment has become a highly anticipated high-risk area.

Secondly, revenue recognition, which ranks second, has always been the most important concern for auditing. The revenue recognition issue is also the most direct occurrence of significant misstatements, especially since several audit reports in the sample only disclosed the key audit issue of revenue recognition. Finally, it involves the issue of fair value of the evaluated items. For the audited entity and certified public accountant, the assessment of fair value requires high professional judgment skills, so it is indeed worth paying special attention to. As shown in the above picture, Agricultural Bank of China.

4.1.2. Industry distribution characteristics of key audit matters

According to statistics, the financial industry (securities trust/banking/insurance) has the highest average number of key audit matters, with CITIC Securities having the highest number. The key audit matters disclosed in the financial industry audit report mainly focus on issues such as impairment losses on loans, advances, accounts receivable, and released funds, financial instruments, and structured entity mergers. The particularity of the financial industry determines the high level of attention paid by certified public accountants, and the key issues disclosed in existing reports meet the basic requirements of industry characteristics and auditing standards. From the overall trend, there is not much difference between different industries, with an average of 2-3, indicating that the industry gap is not significant.

4.1.3. Expression of key audit matters

The guidelines do not provide detailed provisions on how to describe key audit matters, therefore auditors have absolute autonomy (standardized or personalized language). From the reports of 84 listed companies, it can be seen that the majority of audit reports contain key audit issues that reflect industry or individual characteristics, and personalized language is also used in the description of the issues and audit response strategies. However, in some industries, standardized language has emerged, and the similarity of audit reports within the industry is high, such as in the construction industry where audit reports are a typical example. The disclosure of "key audit matters" in the audit reports of these four companies has serious duplication, while the four companies in the construction industry have simultaneously disclosed the recognition of revenue from construction contracts and accounts receivable issues. Therefore, such matters are easier to standardize and appear in most audit reports, reducing the personalized characteristics of audit reports. In the audit reports issued by Deloitte for China Railway and MCC, the description of the key audit matters related to "recognition of construction contract revenue" is almost identical, and the corresponding audit responses are also almost identical.

4.1.4. Information content

Quantitatively compare the number of key audit items in the audit report from the perspective of the accounting firm. Given the characteristics of key audit matters, it is often difficult to determine their quantity range. However, if the quantity is too small, it will reduce the information content, while if the quantity is too large, it will cause information overload and make it difficult to highlight the key points. The description of key audit matters and the level of detail in audit responses are another indicator that can measure the amount of information. Based on the review of all samples, most of the key audit matters and responses in China's current audit reports are on about one page. In terms of content, many auditors conduct quantitative analysis of absolute and relative values when describing matters. In audit response, the form of point by point discussion is often used to concretely explain key audit matters, which facilitates the understanding of audit work by information users. Formally, most certified public accountants innovatively use tables to express themselves, with items

described on the left and audit responses filled in the corresponding positions on the right, making the expression clearer and more convenient for users.

4.2. Second group student group report: guideline content and case analysis

4.2.1. Content of guidelines

The guidelines are mainly divided into the following chapters: Chapter 1: General Provisions; Chapter 2: Definition; Chapter 3: Objectives; Chapter 4: Requirements.

Include the following sections in the requirements section: Section 1: Determine key audit matters; Section 2: Communicate key audit matters; Section 3: Communication with the governance team; Section 4: Audit Work Draft.

The guidelines include the following: firstly, clarifying the responsibility of certified public accountants to communicate key issues in audit reports. The second is to standardize how the audit committee determines key audit matters and how to communicate key matters in the audit report, including the form and content of communication. The third is to communicate key audit matters, aiming to increase the communication value of audit reports by improving the transparency of audit work already performed. Communicating key audit matters can provide additional information to the expected users of financial statements to help them understand what the certified public accountant, based on professional judgment, considers to be the most important matters for the audit of the current financial statements. Communicating key audit matters can also help expected users of financial statements understand the audited entity and areas in the audited financial statements that involve significant management judgments. Fourthly, it provides a basis for the expected users of financial statements to further communicate with management and governance regarding matters related to the audited entity, audited financial statements, or executed audit work. Fifthly, communicating key audit matters in the audit report cannot replace the disclosure made by management in the financial statements based on the applicable financial statement preparation basis, or the disclosure made to achieve a fair presentation of the financial statements. Certified public accountants shall issue non unqualified opinions in accordance with the provisions of the Chinese Certified Public Accountants Auditing Standards No. 1502- Non unqualified opinions in audit reports, based on the specific circumstances of the audit business. When there are significant uncertainties in matters or situations that may lead to significant doubts about the going concern ability of the audited entity, the certified public accountant shall report in accordance with the provisions of the Chinese Certified Public Accountant Auditing Standards No. 1324- Going concern. Communicating key audit matters in the audit report is not the sole opinion of a certified public accountant on a single matter. Sixth, the scope of application.

4.2.2. Case of CITIC Securities Co., Ltd

(1) Case Introduction. CITIC Securities Co., Ltd. is one of the first batch of comprehensive securities companies approved by the China Securities Regulatory Commission. Its predecessor was CITIC Securities Co., Ltd., which was established on October 25, 1995 in Beijing. The registered capital is 6630467600 yuan, jointly invested and established by China CITIC Group Corporation (formerly China International Trust and Investment Corporation), CITIC Ningbo Trust and Investment Corporation, CITIC Xingye Trust and Investment Corporation, and CITIC Shanghai Trust and Investment Corporation. On August 4, 2015, during the trading session, CITIC Securities announced the suspension of margin trading from that day onwards; Starting from September 25th, CITIC Securities suspended the entrusted trading function of third-party client software; On October 29th, CITIC Securities released its third quarter financial report, achieving a revenue of 42.408 billion yuan and a net profit attributable to shareholders of the parent company of 15.986 billion yuan; On November 26th, CITIC Securities was investigated by the China Securities Regulatory Commission; On December 11th, the China Securities Regulatory Commission issued a notice to terminate the review of CITIC Securities corporate bonds. CITIC Securities occupies a leading position in the

securities and trust industry, and has the most key audit matters in the audit reports of 84 A+H-share listed companies, which is representative to a certain extent. Therefore, this company is selected for analysis.

(2) Comparison of New and Old Audit Standards. Compared to the version released on November 1, 2010, the revised version on December 23, 2016 removed the provision on the implementation start date; Propose to maintain a balance between maintaining consistency, comparability, and providing more relevant information to increase the value of audit reports; No longer use "standard audit reports" or "non-standard audit reports" to describe report types; The content of the audit report and the order of each element are changed, and the audit opinion is placed before it as the first part of the audit report; The elements of an audit report include the basis for forming an audit opinion; Where applicable, the audit report may also include significant uncertainties and key audit matters related to going concern; Increase the management's responsibility to evaluate and disclose the ability to continue operating; Significantly increase the expression of the audit responsibility of certified public accountants for financial statements; Change the content included in the notes from "Summary of Significant Accounting Policies and Other Explanatory Information" to "Significant Accounting Policies and Accounting Estimates"; The signatory is clearly the project partner and the registered accountant responsible for the project; Reports issued by listed entities are required to indicate project partners; In addition, some wording and structure have been modified.

(3) Key audit matters disclosed. The key audit matters disclosed in the audit report of CITIC Securities Co., Ltd. include: impairment assessment of goodwill; Merger of structured entities; Valuation of financial instruments measured at fair value and classified as third tier; Assessment of impairment of released funds; Assessment of impairment of available for sale financial assets.

(4) The Impact of the New Standards on the Audit Reports of CITIC Securities. Firstly, confirmation of key issues. In the expression of each key item in the audit report, it is indexed to specific clauses in the notes. Because the numbers on the financial statements are only highly summarized final results, the detailed information related to them requires more attention and consideration.

Secondly, the audit response to key issues. From the statements related to the audit confirmation and response of key issues in this audit report, it can be seen that auditors pay attention to the background of the entire securities industry, grasp the unique risk points of CITIC Securities, and their audit ideas and strategies for conducting control testing and substantive procedures for each issue.

Thirdly, transparency of audit procedures. By expressing key issues, providing more information to the public can help audit report users identify key points in a large amount of financial information, and thus have a clearer understanding of the risks they face.

Fourthly, audit costs have increased. The preparation of audit reports under the new audit reporting standards poses a new challenge to the written expression ability and comprehensive summarization ability of auditors in handling matters. Auditors need to invest more energy in changing their perspectives and ways of expressing themselves. At the same time, there may be disagreements with the audited entity regarding the confirmation and disclosure of key matters, and communication costs may also increase.

5. TEACHER SUMMARY

Teachers summarize the advantages and disadvantages of adopting the new guidelines.

Any audit business will involve tripartite stakeholders, who have close connections with each other. For the analysis of the first related party -- the accounting firm: (1) Advantages: increased transparency in audit work and enhanced the communication value of audit reports; Enhancing the credibility of accounting firms is conducive to establishing a good image among the public; Increasing audit revenue is beneficial for accounting firms to generate more revenue. (2)

Disadvantage: The requirement for CPA's ability is higher, and more accurate audit judgments need to be made. The audit process is too transparent, which is not conducive to safeguarding the rights and interests of the accounting firm itself.

For the analysis of the second related party - the audited entity: (1) Benefit: it is beneficial for the audited entity to establish a good corporate image and attract more investors; The disclosure of key audit matters can provide good information, enhance investor confidence, and increase corporate value. (2) Disadvantage: The disclosure of key audit matters may expose weaknesses in enterprise management and affect the sustainable development of the enterprise; Due to the more open audit process, it is difficult for the audited entity to collude with the CPA in order to achieve special objectives.

For the analysis of the third party - the general public: (1) Advantages: more comprehensive information, which is conducive to the general public making correct investment decisions; Beneficial for the public to better understand audit work and increase their correct understanding of auditing. (2) Disadvantage: Large amount of information, difficult selection, and difficulty in making optimal decisions; It is difficult to distinguish the authenticity of information.

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