

How to Give Students an Intuitive Impression of Auditing through Four Classes

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Abstract

The course of auditing is very obscure and difficult to understand, and it has been filled with a large number of proprietary terms since the first chapter, leaving students at a loss. I have 25 years of teaching experience in auditing in universities. This article introduces the theoretical framework and practical logic of auditing to students through four classes at the beginning of their learning, so that students can have a clear impression of auditing. Then draw the cocoon and pluck the silk, and narrate it in chapters, making the students enlightened and enlightened.

Keywords

Auditing; Theoretical framework; Practical logic

1. Introduction

"Audit" is a core professional course designed for third year accounting students, relying on national first-class majors in accounting, financial management, and auditing. The course is based on the 12th Five Year Plan textbook "Audit" as the main teaching material, and is supported by platforms such as Wisdom Tree, Learning Platform, and Anhui Provincial Key Laboratory. Combining the forefront of auditing and socio-economic hotspots, we aim to solidify the foundation of auditing for the cultivation of applied accounting talents in Anhui University of Finance and Economics, who aim to practice new humanities and create new management. This course aims to cultivate talent in capital market supervisors - registered accountants. Cultivate professional talents with a sense of audit mission and responsibility, compliance with professional ethics, professional standards, and legal responsibilities, independent, objective, and fair expression of audit opinions, and assurance of the financial condition, operating results, and cash flows of clients. Expose financial fraud, fraud, and fraud, avoid bad currency driving out good currency, maintain the order of the capital market, and protect the normal, orderly, and healthy development of the economy.

2. The Teacher Spends Two Classes Introducing the Theoretical Framework of Auditing

Next, we will introduce each constituent element separately. For example, the first one will introduce that the emergence of auditing stems from the need for supervision, which will be elaborated on from government auditing, internal auditing, and private auditing. Draw a diagram of officials in the Western Zhou Dynasty and a triangular relationship diagram of joint-stock companies to introduce them. Next, we will introduce the audit hypothesis through examples. Firstly, maintaining the relationship of entrusted economic responsibility is a prerequisite for the emergence and development of auditing; Secondly, the audited matters are not trustworthy enough; Thirdly, all audited matters can be verified; Fourthly, authority is based on independence as a prerequisite. Use classic domestic and foreign cases to illustrate.

Such as falsification: Microsoft, GE, Ford, Boeing, IBM, Enron, WorldCom, China: Wanfu Biotech, Shuangkang Pharmaceutical, Luckin Coffee: On April 2, 2020, Luckin Coffee announced that it admitted to false transactions of 2.2 billion yuan. Before that, Kangde Xin had 15 billion yuan in cash on its account and could not pay off 1.5 billion yuan in bond principal and interest; Today, Kangmei Pharmaceutical has reduced its monetary funds by 30 billion yuan due to accounting errors. Truly challenge the regulatory bottom line and refresh the three perspectives of the stock market!

Next, we will introduce the audit objective: to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements caused by fraud or error, so that the certified public accountant can express an audit opinion on whether the financial statements have been prepared in all material respects in accordance with applicable financial reporting standards. And who did it then? Introduce the theory of audit subjects, starting from three types of subjects, and then naturally introduce the professional ethics and legal responsibilities of auditors in the subject theory. The latest regulations on civil, criminal, and administrative responsibilities are introduced. According to the revised Securities Law (hereinafter referred to as the 2020 Securities Law) that came into effect on March 1, 2020, the legal liability borne by false information disclosures can reach up to 10 million yuan. How to do it? Introduce the theory of audit methods, including six audit methods: planning method, inspection method, evaluation method, recording method, reporting method, and management method. Finally, naturally introduce concepts such as audit definition, audit function, audit standards, and so on.

3. The Teacher will Spend Two More Classes Introducing the Logic of Auditing Practice

Starting from the accounting elements in the financial statements, introduce the recognition of management authorities, then introduce nine specific audit objectives, and finally achieve the overall objectives. For example, taking inventory as an example, the management authority's determination is that the inventory on the financial statement is 10 million, which means that the management authority's five major determinations are: existence or occurrence; Integrity; Rights or obligations; Accuracy, valuation or allocation; Express or disclose. Auditors need to achieve nine specific audit objectives in order to identify the identification of management authorities: overall rationality; Authenticity; Integrity; Ownership; Classification; Valuation; As of; Mechanical accuracy Report. Then derive the audit process roadmap: accepting business commissions → determining acceptable audit risks → understanding the audited entity and its environment → preliminary determination of importance → risk assessment → assessing significant misstatement risks at the identified level → determining acceptable inspection risks → risk response → designing and implementing further audit procedures → obtaining sufficient information Appropriate audit evidence → discovering and summarizing misstatements → correcting materiality → evaluating the impact of misstatements → communicating significant misstatements → adjusting significant misstatements → evaluating the impact of uncorrected misstatements → issuing audit reports.

4. Teacher Examples

Jinya Technology Co., Ltd. (referred to as "Jinya Technology") was established in November 1999, with its headquarters located at No. 50 Shuxi Road, Chengdu City, Sichuan Province, and a registered capital of RMB 34.6203 million. Jinya Technology successfully landed on the Shenzhen Stock Exchange's ChiNext board in October 2009 and was one of the first 28 listed companies to open the ChiNext board. On June 4th and 5th, 2015, Jinya Technology and its actual controller Zhou Xuhui received an investigation notice from the China Securities

Regulatory Commission. Due to the company and its actual controller's suspected violation of securities laws and regulations, the China Securities Regulatory Commission decided to initiate an investigation into the company and Zhou Xuhui. Jinya Technology released an astonishing announcement on August 31, 2015, stating that the owner's equity attributable to the parent company in the consolidated balance sheet items had been reduced by RMB 314.313 billion. This means that the cumulative inflated net profit of Jinya Technology in 2014 and prior years was as high as 314.3313 million yuan. On January 18, 2016, Jinya Technology released a self inspection report admitting financial fraud. The total adjusted amount of multiple financial indicators in 2014, including monetary funds, accounts receivable, other receivables, other non current assets, undistributed profits, net profits, etc., was nearly 1.2 billion yuan. The adjusted financial statements were completely unrecognizable and dismal.

Summary of fraudulent methods: inflating operating income and net profit; Fictitious prepayment of project funds; Fake accounts receivable and construction in progress; The major shareholder has allocated some of the company's funds for their own use. During the period of 2012-13, the company's operating revenue and operating costs increased by 24. 9% respectively 57% and 42 20%, while net profit decreased by 512%, even showing negative net profit in 2013. The adjusted operating income and net profit in 2014 were 52789 770000 yuan and 6.46 million yuan respectively 160000 yuan, artificially increasing operating income by 3033 170000 yuan, inflated net profit of 1931 110000 yuan.

In 2014, a subsidiary of Jinya Technology, Jinya Intelligence, signed a construction contract with Sichuan Hongshan for a total amount of 775 million yuan. A prepayment of 310 million yuan was required for the project, but in reality, this payment was not actually made, resulting in significant changes in the amount of related items in the cash flow statement. This approach is to transfer out the funding gap caused by inflated income and profits, thereby reducing the pressure of fictitious funds and achieving financial statement balance, A few years ago, Wanfu Biotechnology also used this method for financial fraud.

However, in early 2015, the supplier Sichuan Hongshan Construction Engineering Co., Ltd. was revoked its business license by the Luzhou Administration for Industry and Commerce for failing to participate in annual inspections as required for three consecutive years. The auditing firm, Lixin Certified Public Accountants, had the ability and sufficient time to detect these accounting errors, but still issued an unqualified audit opinion, which was clearly a dereliction of duty by the auditing firm.

In recent years, the operating profit of Jinya Technology has been decreasing year by year, and there is a risk of delisting, so the company has a strong motivation to inflate profits. In this situation, accounting firms should maintain professional skepticism. For large-scale transactions conducted in special forms such as the Nanchong project, accounting firms should pay more attention to the essence of economic transactions during auditing. In addition to formal review, they should also conduct necessary reviews of the reasonableness of contract terms. From the perspective of audit methods, auditors should use more analytical and comparative methods to compare and analyze the amounts of the audited enterprise with similar enterprises, check for any abnormal situations or suspicious issues, in order to track and trace clues and obtain audit evidence.

In fact, as long as auditors analyze and understand the payment period and return rate of the contract, they can find that the maximum payment period for revenue sharing cannot exceed 5 years. Revenue after 5 years can only be considered as contingent income and should not be recognized as current income. However, the sales payment recovery period of the Nanchong project is as long as 12 years, far longer than the normal collection period, and the financing return rate of the project is as high as 17.34%, far higher than the bank's loan interest rate, and even higher than the contract price itself, which is truly unbelievable. In general, for the audit of accounts receivable, auditors only need to follow the prescribed audit procedures for letter

verification, and on-site visits can generally verify the authenticity. Even if there are cases where the enterprise intentionally forges original vouchers or colludes with the other party's enterprise for related transactions, although it is difficult for auditors to see the clues from the book, combined with the cash flow inspection of the enterprise, some clues can still be found. In 2013, the cash flow from operating activities of Jinya Technology was approximately -40 million yuan, while in 2014, the cash flow from operating activities was approximately 200 million yuan, an increase of 611.00%. The total cash flow in 2013 was 13.66 million yuan, while in 2014 it was -27 billion yuan, a decrease of -209.59%. These can indirectly reflect the financial fraud of the enterprise. When these indicators are problematic, it is even more necessary for auditors to conduct further audit procedures, Carefully examine the authenticity and existence of its sales contract.

In the self inspection report of Jinya Technology, the most puzzling item is the inflation of monetary funds. As is well known, the audit of bank deposits is conducted by an accounting firm sending a confirmation letter directly to the counterparty bank, and the bank directly responds to the accounting firm, obtaining independent external evidence. Moreover, the possibility of collusion between the bank and the enterprise in financial fraud is extremely low, making it a highly reliable audit procedure. Even if a company falsifies bank documents and account statements, as long as the accounting firm maintains basic professional attention, such as checking electronic receipts or sending confirmation letters to the bank, it can definitely be discovered. However, such a low-level mistake has yet to be discovered by the accounting firm. From the perspective of audit procedures, accounting firms should evaluate the risks and internal controls of the enterprise at the initial stage of the audit to determine the risk of material misstatement. Compared to companies listed on the main board and small and medium-sized board, companies listed on the ChiNext board have lower entry barriers and less reliable internal controls compared to the first two. However, in the process of understanding internal control and internal control testing, Lixin Certified Public Accountants was perfunctory and superficial, failing to discover the problem of major shareholders encroaching on company funds and inflating monetary funds, which resulted in the actual controller surpassing internal control and causing the special risk of complete failure of internal control not being discovered, leading to issuing incorrect audit opinions. It can be found from the problems exposed by the entrusted construction project between Jinya Intelligence and Sichuan Hongshan that Lixin Certified Public Accountants did not implement the necessary audit procedures for the project. Firstly, the total assets of Jinya Technology are 1.3 billion yuan, but the investment amount is as high as 775 million yuan. Auditors should require the company to provide and inspect relevant records and documents. For large-scale engineering projects with an investment amount exceeding half of the total assets, public bidding should be conducted. However, Jinya Technology does not have any documents for public bidding, relevant board resolutions, or project feasibility reports. For the lack of these documents, Auditors should provide risk warnings in the audit report. Secondly, for the verification of the main transaction objects, auditors should verify the qualifications of the engineering contractor. In fact, Sichuan Hongshan not only has mismatched qualifications with the project, but its business license has also been revoked. Thirdly, the accounting firm blindly trusts the accounting data of the enterprise regarding the rationality of the contract terms of the project, the price of the project, the completion status of the project, and the payment status of the advance payment. Auditors should appropriately seek the opinions of experts, but the prepayment ratio stipulated in the project contract is as high as 40%, which should be of concern. Enterprises use the method of borrowing funds and forge cash flows in the form of prepayments. In addition, the project cannot be completed in the short term, and the value of the project has great liquidity, which can slowly digest this bad debt. Auditors can use the indicator of free cash flow to analyze and identify issues within it. The net profit and free cash flow of Jinya Technology have shown a

serious deviation trend, as shown in the table below. In 2013 and 2014, there were even huge deficits in free cash flow, which is the best evidence of the company's inflated profits.

Characteristics of the communication industry: Firstly, after 10 years of digitization and bi-directional rectification, the entire digital TV industry has shifted from "high-speed growth" to "medium to low-speed growth", which puts extra pressure on Jinya Technology Company, which needs performance growth; Secondly, Jinya Technology's main customers are small and medium-sized cable TV operators. With the completion of the integration of the national and provincial radio and television networks, traditional radio and television businesses have been affected by policies, emerging products, and service forms. Hardware equipment has become saturated, the industry market has severely shrunk, and hardware profits have declined significantly. The maturity of the digital TV equipment market, coupled with a sharp decrease in the cost of digitalization and bidirectional transformation, has made it unnecessary for operators to cooperate with manufacturers through operation sharing, and they tend to purchase directly, which has had an impact on the original model of Jinya Technology; The changes in the third industry and market environment have brought severe challenges to Jinya Technology. The most obvious reflection is that Jinya Technology's operating revenue in 2014 has decreased compared to 2013, and its profitability is also very unstable. Roughly calculated, the total adjustment amount of the nine financial indicators disclosed in the 2014 self inspection report of Jinya Technology, including monetary funds, accounts receivable, other receivables, other non current assets, undistributed profits, and net profit, is close to 1.2 billion yuan. The false information disclosure incident of Jinya Technology reflects that with the development of the securities market, the quality requirements for accounting information disclosure are becoming increasingly high. The operating status, profit level, and risk assessment of listed companies are crucial for investors or stakeholders to use, and then identify and analyze the company's investability and sustainability, and make correct investment decisions.

Conclusion: Firstly, excessive profit seeking and deviation from professional development direction. Using professional competence as a benchmark for evaluating certified public accountants, and bundling competence and professional competence as a reference for evaluating the professional ethics of certified public accountants, leads to biased evaluation results. Secondly, there is a weak sense of responsibility and a serious problem of selling information. The connotation and significance of credit standards have been diluted by the temptation of money and no longer play their rightful value. Certified public accountants place greater emphasis on the benefits provided by enterprises, while neglecting their original starting point of objectively and impartially expressing audit opinions from a societal perspective, and failing to take corresponding responsibilities towards the users of financial statements. Thirdly, the practicing ability of certified public accountants is weak, and their comprehensive quality needs to be improved. It is imperative to address the current situation of continuously lowering professional standards for the sake of immediate benefits, and strengthening the cultivation of the professional ability and comprehensive quality of registered accountants has become a top priority. Fourthly, the handling mechanism is incomplete and the punishment is weak. At present, China's punishment for non honest behavior of registered accountants is insufficient and has not played a corresponding deterrent role. This is also the fundamental reason for the serious problem of distortion in the registered accounting industry and the repeated prohibition of fraudulent behavior.

5. Summary

When teaching each concept, teachers use vivid examples from the capital market to introduce basic audit concepts such as audit assumptions, professional ethics, and legal responsibility.

This will naturally introduce them to students, and a large number of obscure and difficult to understand concepts will naturally be understood. Through the four lessons, students will have a clear impression of auditing as a whole, and will easily proceed with the next learning.

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