Analysis of Non-standard Audit Opinions of Chinese Listed Companies’ Financial Statements: Based on the Data of Shanghai and Shenzhen A-share from 2015 to 2016

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Abstract. Based on the data of Chinese Shanghai and Shenzhen A-share listed companies from 2015 to 2016, this paper analyzes the general situation of audit opinion of listed companies’ annual financial statements and the distribution of non-standard audit opinions, and finds that ST companies were more likely to receive non-standard audit opinion than non-ST companies. This article further analyzes the specific matters that lead to the non-standard audit opinion, and summarizes the matters that made it easy for the CPA to issue the non-standard audit opinion. This paper has a certain reference to solve the problems existing in the process of audit, prevent the audit risk and improve the audit quality. Besides, it lays the foundation for the study of the non-standard audit opinion after the implementation of the new auditing standards.

Introduction

The social and economic environment is changing, the company's business activities are increasingly complex. Because of the information asymmetry, the interests of the majority of investors have been damaged. The rational stakeholder has raised the demand for information quality and increased the attention of the audit opinion of the company. The CPA audit the financial statements of enterprises, which will facilitate the transparency of information, protect the legitimate rights and interests of stakeholders, enhance investors’ confidence, help reporting users make right decisions, and help improve the internal management of the firm itself. In December 2016, the Chinese Ministry of Finance issued a newly revised audit guideline. The revised guidelines add up to No.1504—Communicating key audit matters in the audit report, which requires the CPA to identify key audit matters, form an audit opinion on the financial statements, and communicate these matters in the audit report to describe key audit matters. The guidelines stipulate that the financial statements of the listed companies that are traded on the Shanghai and Shenzhen Exchange be executed on January 1, 2018. The implementation of this guideline can improve the information content of the audit report, enhance the transparency of the audit work, strengthen the CPA’s responsibility and improve the audit quality.

So far, how does the quality of the CPA’s audit report? Does the financial statements audit report deliver appropriate information about the financial situation of the business to the investor? What is the overall evaluation of the financial statements of Chinese listed companies by the CPA? What are the factors or events that lead to the emergence of non-standard audit opinions? The above issues are analyzed based on the descriptive statistics of non-standard audit opinions of Chinese Shanghai and Shenzhen a-share listed companies from 2015 to 2016. This paper aims to provide suggestions for improving the quality of financial reports of listed companies, and lay the foundation for the study of the non-standard audit opinion after the implementation of the new auditing standards.

General Situation of Audit Opinion of Chinese Listed Companies’ Financial Statements from 2015 to 2016

The audit opinion types of financial statements of listed companies in China include standard unqualified opinion, unqualified opinion with emphasis, qualified opinion, adverse opinion,
disclaimer of opinion, of which the latter four can be collectively referred to non-standard audited financial statements, they are the focus of this article. The specific conditions of the audit opinion of financial statements can be summarized as follows:

When the CPA considers that the financial statements prepared by the audited entity have been prepared in accordance with the applicable accounting standards and that the auditor's financial position, operating results and cash flows are fairly fair in all material respects, a standard unqualified opinion can be issued. If the CPA considers that the financial statements prepared by the auditors meet the requirements of the relevant accounting standards and fairly reflect the financial condition, operating results and cash flows of the auditors in all material respects, but there are issues that need to be stated, such as the ability to continue as a going concern major doubts and significant uncertainty matters, etc., it shall issue a unqualified opinion with emphasis. The paragraph does not affect the audit opinion on the financial report and is only used to alert the user. When the CPA considers the financial statements as a whole to be fair, but there are significant error reporting, it shall issue a qualified opinion; When the CPA considers that the financial statements as a whole are not fair or not prepared according to the provisions of the applicable accounting standards, the adverse opinion shall be issued; When audit scope has been curbed, and its possible impact is significant and broad, the auditor cannot obtain sufficient audit evidence, shall issue a disclaimer of opinion of audit report.

The statistics of the total amount of audit opinions and various audit opinions of Chinese listed companies from 2015 to 2016 are shown in Table 1. This data is from the CSMAR database.

Table 1. The statistics of audit opinion of listed companies’ financial statements from 2015 to 2016.

<table>
<thead>
<tr>
<th>Year</th>
<th>Plate</th>
<th>Standard unqualified opinion</th>
<th>The number of non-standard opinion of financial statements</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>The number of audit report</td>
<td>Unqualified opinion with emphasis</td>
</tr>
<tr>
<td>2015</td>
<td>Shanghai A shares</td>
<td>1077</td>
<td>1026</td>
</tr>
<tr>
<td></td>
<td>Shenzhen motherboard</td>
<td>468</td>
<td>441</td>
</tr>
<tr>
<td></td>
<td>Small and medium enterprise</td>
<td>783</td>
<td>768</td>
</tr>
<tr>
<td></td>
<td>Growth enterprises market</td>
<td>497</td>
<td>488</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>2825</td>
<td>2723</td>
</tr>
<tr>
<td>2016</td>
<td>Shanghai A shares</td>
<td>1219</td>
<td>1168</td>
</tr>
<tr>
<td></td>
<td>Shenzhen motherboard</td>
<td>465</td>
<td>440</td>
</tr>
<tr>
<td></td>
<td>Small and medium enterprise</td>
<td>834</td>
<td>815</td>
</tr>
<tr>
<td></td>
<td>Growth enterprises market</td>
<td>603</td>
<td>593</td>
</tr>
<tr>
<td></td>
<td>Subtotal</td>
<td>3121</td>
<td>3016</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>5946</td>
<td>5739</td>
</tr>
<tr>
<td></td>
<td>Proportion</td>
<td>100%</td>
<td>96.52%</td>
</tr>
</tbody>
</table>
In 2016, a total of 3121 listed companies disclosed financial report audit report, accounting for 93.3% of the number of listed companies. The disclosure of financial report in 2015 accounted for the proportion of all listed companies is 84.45%. The number of Shanghai and Shenzhen A-share listed companies to disclose financial reports audit report has increased.

The increase was directly attributable to the rise in the number of financial reporting audits reported by the main board in Shanghai and in the small and medium-sized boards and gem companies, while the number of Shenzhen motherboards remained the same. In addition, it can be seen from Table 1 that the audit opinion of the financial report of the listed company from 2015 to 2016 is mainly based on the standard audit opinion, and the non-standard audit opinion is relatively small.

The number of audit reports of financial reports in Shanghai and Shenzhen A-share markets has increased in 2016, but the number of companies disclosing the auditor report has not reached 100%, which shows that there are still a small number of companies failed to complete the disclosure of audit reports, the implementation of relevant laws and regulations still need to be strengthened.

The Distribution of Non—Standard Audit Opinions on Financial Statements of Listed Companies from 2015 to 2016

The Number and Proportion of Non-Standard Audit Opinion of Financial Statements

As shown in Table 1, Chinese listed companies disclosed a total of 5946 financial report audit reports in the past two years, in which the standard unqualified opinion accounts for 96.52% and non-standard audit opinion accounts for 3.48%. In the non-standard audit opinion, unqualified opinion with emphasis accounts for 2.62%, qualified opinion accounts for 0.57%, disclaimer of opinion accounts for 0.29%, and there is no adverse opinion. From the statistical results, the standard unqualified opinion takes the absolute advantage over the non-standard audit opinion.

Overall, the number of companies reporting the financial statements audit report increased in 2016, and the number of companies that issued non-standard audited opinions also increased. However, the proportion of non-standard auditors was 7.02% in 2016, which is lower than the 7.66% in 2015.

In particular, the number of companies that have been issued with unqualified opinion with emphasis has decreased, and the number of companies that have been issued with qualified opinion and disclaimer of opinion has increased.

It is important to note that in the five companies that were issued with disclaimer of opinion in 2016, four of them were issued with standard unqualified opinion in 2015, one was issued with unqualified opinion with emphasis. *ST Hairun, *ST Jean, *ST Dakong, *ST Zhongan, *ST Kunji, the five companies were issued disclaimer of opinion, only *ST Zhongan changed the firm. We can see that the CPA is more cautious about ST companies when they audit. According to statistics, A total of 56 companies have been issued non-standard audit opinions for two consecutive years, lower than the total number of non-standard opinion of the past two years. From this value, we can see that the listed companies attach importance to the audit opinions of certified public accountants.

The Distribution of Various Non-standard Audit Opinions of Financial Reports

Specific Type Analysis of Non-Standard Audit. From the statistical results of Table 1, in the non-standard audit opinion, The number of unqualified opinion with emphasis is the largest. In 2015 - 2016, the listed companies in China were issued with a total of 156 unqualified opinion with emphasis, accounting for 75.36% of all non-standard audit opinions. However, in terms of quantity and proportion, the audit opinion did not rise as the number of audit reports on financial reports increased, but decreased. The number of qualified opinion and disclaimer of opinion in 2016 has increased by six and three respectively compared with 2015. These two kinds of audit opinions are more serious in the non-standard audit opinion. The increase of the number reflects that the CPA's audit work became more strict in the process of audit. The audit ability and audit quality were improved.
The Distribution of Non-standard Audit Opinions between the ST&*ST and Non-ST Listed Companies. ST shares are listed companies that are particularly treated due to financial conditions or other conditions. ST stands for losses during two consecutive years and was specially treated, *ST stands for losses during three consecutive years and was delisting early warning.

The operating conditions and financial conditions of such companies are generally poor. Table 2 shows the distribution of non-standard auditor opinions between ST&*ST and non-ST in Shanghai and Shenzhen A-share listed companies from 2015 to 2016.

Table 2. The distribution of non-standard audit opinions between the ST&*ST and non-ST listed companies.

<table>
<thead>
<tr>
<th>Year</th>
<th>Type of company</th>
<th>The number of audit report</th>
<th>Unqualified opinion with emphasis</th>
<th>Qualified opinion</th>
<th>Adverse opinion</th>
<th>Disclaimer of opinion</th>
<th>Non-standard opinion total</th>
<th>The total proportion of non-standard opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>ST&amp;*ST</td>
<td>76</td>
<td>22</td>
<td>4</td>
<td>0</td>
<td>2</td>
<td>28</td>
<td>36.8%</td>
</tr>
<tr>
<td></td>
<td>Non-ST</td>
<td>2751</td>
<td>59</td>
<td>10</td>
<td>0</td>
<td>5</td>
<td>74</td>
<td>2.69%</td>
</tr>
<tr>
<td>2016</td>
<td>ST&amp;*ST</td>
<td>74</td>
<td>25</td>
<td>6</td>
<td>0</td>
<td>8</td>
<td>39</td>
<td>52.70%</td>
</tr>
<tr>
<td></td>
<td>Non-ST</td>
<td>3045</td>
<td>50</td>
<td>14</td>
<td>0</td>
<td>2</td>
<td>66</td>
<td>2.17%</td>
</tr>
</tbody>
</table>

At the end of 2016, there were 119 ST&*ST companies in the Shanghai and Shenzhen stock exchange A-share market. In 2015 and 2016, these companies disclosed financial report audit reports were 76 and 74 respectively.

Experience has shown that companies with poor operating conditions and serious financial problems are easily issue non-standard audit opinions. The statistical results in Table 2 reaffirm this point.

In terms of quantity, the number of ST&*ST companies issued non-standard audit opinions was significantly lower than that of non-ST companies. However, the proportion of non-standard audit opinions of ST&*ST is significantly higher than that of non-st companies., The overall proportion of non-standard audit opinions of ST&*ST companies was 14 and 24 times that of non-ST companies in 2015 and 2016. Compared with 2015, the total amount of non-standard audit opinions issued by ST&ST companies increased in 2016, and the number of various non-standard audit opinions increased. We can see that the CPA issued more stringent audit opinions. It can be seen that ST&*ST companies are more likely to disclose false financial information due to poor financial status, and the CPA should maintain full professional suspicion and professional caution during the audit to control the risks effectively.

Analysis of Specific Issues Leading to Non-Standard Audit Opinions of Financial Statements

From the above analysis and the statistics, it can be seen that in the non-standard audit opinions from 2015 to 2016, unqualified opinion with emphasis, qualified opinion and disclaimer of opinion have been issued, but there is no adverse opinion. The following are specific analysis for the reason of the non-standard audit opinions issued or not often issued.

Analysis of the Reasons for the Formation of Unqualified Opinion with Emphasis

As shown in Table 2, there are 81 and 75 listed companies with unqualified opinions from 2015 to 2016. The statistics shows that the reasons for this audit opinion are mainly focused on five aspects: (1) there is uncertainty about the ability of continue operation; (2) the investigation and the existence of major litigation matters have not yet been adjudicated; (3) there is uncertainty about the recoverable of accounts receivable; (4) there are guarantees and related transactions; (5) asset restructuring is not completed.

By analyzing the reasons for the issuance of unqualified opinions with emphasis, it is found that the commonalities of these matters are uncertainty and may have a significant impact on the company in
the future. This type of audit opinion reflects the fact that these matters are not yet serious enough to enable the CPA to make a qualified opinion or disclaimer of opinion. However, it can be seen from Table 2 that the number of companies disclosing audit report increased in 2016, but the overall number of unqualified opinions with emphasis in the 2015 and 2016 has not changed much. It is not possible to exclude the CPA from the pressure to publish more stringent audit opinions.

Analysis of the Reasons for the Formation of Qualified Opinion

The major issues related to operational activities that result in the formation of qualified opinion are mainly focused on the following: (1) there was significant uncertainty in the ability of continue operation; (2) the inability to obtain sufficient and appropriate audit evidence; (3) Unable to judge the accuracy and appropriateness of impairment preparation, bad debt preparation, and the provision of intangible assets; (4) Facing the risk of liquidation; (5) Receivables are overdue; (6) There is a significant difference in the internal control of non-financial reporting.

There are 14 qualified opinion for listed companies in 2015 and 20 in 2016. These companies have both ST&*ST companies and non-ST companies. It can be found that the reasons for the formation of these qualified opinion focused on the significant uncertainty of continuous operation ability and the inability to obtain sufficient appropriate audit evidence. The statistics found that 13 of the 34 qualified opinion in the past two years involved the issue of continuing operational capacity, 19 of which were related to the lack of adequate and appropriate audit evidence.

Analysis of the Reasons for the Formation of Disclaimer of Opinion

In 2015 and 2016, companies that are issued disclaimer of opinion include both ST&*ST and non-ST companies. The disclaimer of opinion mainly concentrate in ST&*ST companies in 2016. These reasons are mainly focused on: (1) Failure to obtain sufficient and appropriate audit evidence; (2) Failure to prove that there is a continuing operational capacity; (3) there is a significant impact on the internal control of financial report; (4) the scope of the audit is limited.

The number of disclaimer of opinion is relatively small relative to the unqualified opinion with emphasis.

Analysis of the Reasons for not Issuing Adverse Opinion

There are five audit opinions, but the CPA rarely expresses the adverse opinion. In the past five years, the audit opinion of the listed companies in Chinese Shanghai and Shenzhen stock market has not been found that some firm had been issued adverse opinion. When companies’ report exists major deviation compared with generally accepted accounting principles, not fair to response to the financial position, operating results and cash flow status, the CPA will express adverse opinion. Listed companies rarely issued a negative opinion to a certain extent reflects the financial statements of enterprises are not significant deviations from the requirements of GAAP. But in practice, sometimes the false report is higher than the importance level, and the CPA may issue no reservations or other non-standard opinions. The CPA will be subject to judgments based on whether the misstatement will affect the decision-making of the reporting user, which also leads to doubt whether the CPA is under pressure from the auditor's manager to fail to produce a real and more severe audit opinion.

Conclusions

This paper analyzes the distribution of various non-standard opinion in the financial report of Shanghai and Shenzhen A-share listed companies from 2015 to 2016, and analyzes the distribution of non-standard opinion between ST&*ST and non-ST companies. Beside, the reasons for the formation of non-standard audit opinions are further analyzed and the following conclusions are drawn: (1) The number of companies disclosing financial statements audit reports increases, but the proportion of non-standard audit opinions overall has reduced, and not all of the listed companies disclosed financial statements audit report; (2) In the non-standard audit opinion, the proportion of unqualified
opinion with emphasis is the largest, and it is expected that after the implementation of the new audit criteria, the key audit matters need to be described separately. Therefore, the proportion of the audit opinion is expected to decline; (3) ST&*ST companies are more likely to be issued non-standard audit opinions; (4) The ability of continuous operation and the ability to obtain adequate and appropriate audit evidence are important factors that influence the audit opinions. (5) the CPA rarely issue adverse opinion on the financial statements of listed companies. It is concluded that the CPA may have been under management pressure and failed to produce a more stringent audit opinion.

In view of the audit opinion issued by the CPA, the quality of financial reports of listed companies in China is generally high, and the CPA tends to publish standard unqualified opinion and unqualified opinion with emphasis. ST&*ST companies are more likely to receive non-standard audit opinions, but it can not be ruled out that non-ST companies do not have the impact of the standard unqualified opinion matters. The quality of the financial report will affect the interests of stakeholders and the correctness of the decision-making of the reporting users, and therefore it is important to continue to improve the quality of financial information disclosed by listed companies. Improving the quality of financial information requires government to strengthen supervision, improve laws and regulations, and increase penalties for enterprises that provide false information. The company itself should enhance the sense of responsibility, abide by laws and regulations consciously. Furthermore, the independence of the CPA should be maintained and the professional competence should be improved to avoid the occurrence of audit failure.

References