Study on Key Audit Matters—Take the Case of Fuyao Glass
Zheng-peng MIAO
School of Nanjing, University of Science and Technology, Nanjing 210049, China

Keywords: Key audit matters, Case analysis, Fuyao Glass.

Abstract. The content of audit information has always been a major issue in the field of audit research. However, most of the studies did not specify the information content of the standard unqualified audit opinion. At the end of 2016, following the international trend, MOF approved the issuance of 12 guidelines such as "CSA No. 1504 - Communicating Key Audit Matters in the Audit Report". The implementation of this new CSA No. 1504 standard has, to some extent, improved the poorness of the original audit information. This article explores the audit information content under the new guidelines through case studies. From the content point of view, the new guidelines improve the audit information content and enhance the transparency of audit information.

Introduction
In today's increasingly fierce market economy competition, information is an important guarantee for the effective operation of the market. However, due to the existence of asymmetric information, business stakeholders have different understanding of the information. The fair and impartial transmission of financial information has always been an important aspect of the concern of all stakeholders. In the financial statements, the audit opinion is an important means of the verification of financial information, which, to a certain extent, plays a role in both audit and early warning. It reflects the overall financial situation of enterprises and has a certain degree of fairness.

However, the reality is that financial malpractices emerge every year, and accounting firms that have been criticized by the SFC have found themselves everywhere. This shows a very serious problem from the side, that the audit opinion does not play too much role of proofing financial information. Auditors do not disclose their own audit process and only give a result, making the business stakeholders have to believe the auditor's judgment, which has led to another situation of asymmetric information.

In order to cope with this situation and to be in line with international standards, CICPA had drawn up 12 guidelines such as "CSA No. 1504 - Communicating Key Audit Matters in Audit Reports". At the end of 2016, MOF approved the document and issue these new guidelines. For those A + H share companies (both listed on the Shanghai Stock Exchange or the Shenzhen Stock Exchange and listed on the Hong Kong Stock Exchange), these new rules need to be implemented immediately starting from 2017. From January 1, 2018, all audited entities must implement these new rules. Among these new rules, CSA No. 1504 is a tentative solution to the above information asymmetry situation. Therefore, this article mainly analyzes and illustrates the role of the new auditing standards in enhancing audit information content through the case of Fuyao Glass.

Key Audit Matters
The key audit matters refer to the matter that auditors think is of crucial importance in the audit of the current financial statements based on professional judgment. These events reflect the incremental information of auditing projects such as the key and difficult issues of CPA's annual report audit, and help listed company stakeholders gain a thorough understanding of important areas in which audited entities and major management judgments are involved. This makes it very important for the reporting user to better evaluate the audited entity's financial statements and to help them understand the auditor's work and evaluate the audit process.
In determining the key audit matters, the certified public accountants need to actively communicate with the management. They also need to determine the matters that have a significant impact on the audit of the company's financial statements, through a large number of audit experience and professional judgment. Under normal circumstances, the key audit items come from the following four parts: (1) the audited unit’s material misstatement risk areas (2) the choice of significant accounting policies (3) significant determination of accounting estimates (4) the current major transactions. On this basis, CPA should further explain how they deal with these key audit matters.

Case Analysis
This section compares the audit report of Fuyao Glass in 2015 and 2016 to specifically introduce how "CSA1504 - Communication of key audit matters in the audit report" enhances the audit information content. The reason for choosing Fuyao Glass is because it was the one of the first companies to adopt the new auditing standards and has certain pioneering role and reference value.

Fuyao Glass’s 2015 Audit Report
First look at Fuyao Glass’s 2015 audit report, the announcement is divided into four parts:

Part I: The auditor explains to all shareholders the scope of the audit, which statements have been audited.
Part II: Describes the company's management's responsibility for the financial statements.
Part III: Explains the CPA’s responsibility.
Part IV: Certified Public Accountants audit opinion. If the standard unqualified opinion is issued, the format is the same, that is, "We believe that the financial statements of XX are prepared in accordance with the requirements of the Accounting Standards for Business Enterprises in all material aspects and the fair reflection of XX". Only when they issue non-standard audit opinion and Standard unqualified opinion with emphasis paragraph, the paragraph will give some brief description of the specific circumstances.

As can be seen from the above, much of the audit reports are devoted to the presentation of information that is of no real value, namely the lack of information content. The most important sections of the audit opinion, are often very simple, which results in serious information asymmetry. Stakeholders are very concerned about how such audit opinions are issued, but auditors cannot provide the appropriate specific evidence. So many audit failed cases illustrate the problem that the issued standard unqualified opinion does not mean that the company has no problems, which to some extent caused the disorder of the capital market order. Too much false information influences the stakeholders to make decisions, which urgently needs improvement.

Fuyao Glass’s 2016 Audit Report
Then look at Fuyao Glass’s 2016 audit report, the announcement is divided into six parts:

Part I: Auditors explain the scope of the audit to all shareholders and give the audit opinion.
Part II: Describe the basis for the formation of audit opinion.
Part III: Key audit matters. This section explains the important issues of the period report that certified by the certified public accountants in details through the table. In addition, the certified public accountants also give the coping style. From the case of Fuyao Glass, the certified public accountants specifically show how to do revenue-related audit work from revenue policies to revenue recognition. For example, "We reviewed and evaluated Fuyao Group's revenue recognition policy by reviewing sales contracts and interviews with management.", "We conducted a sample test on the sales revenue of domestic car manufacturers and checked supporting documents such as the risk and reward terms in the relevant sales contracts and the documents that were accepted and confirmed by the auto manufacturers. In addition, we select sample execution certification procedures to confirm the accounts receivable balance and sales revenue amount based on the characteristics and nature of the client transactions. " Compared with the previous audit report, the transparency of auditing information has been greatly improved. It has provided more effective basis for the decision-making of
stakeholders and to some extent, the true and reasonable nature of the statements can be explained fairly.

Part IV: Describes the financial and non-financial information other than the financial statements and audit reports. However, the statements of Fuyao Glass do not specify the meaning of other information. However, other information in the international auditing standards includes corporate governance, future planning and risk, etc. Research on this part of the study urgently needs to be supported by more company audit reports that use the new guidelines.

Part V: Describes the company's management's responsibility for the financial statements.

Part VI: Explains the CPA's responsibility. Compared with the previous, this section adds the audit procedures of the certified public accountants, to further improve the transparency of audit information.

In general, the use of the new standard does improve the content of audit information, which is a great improvement over the previous audit report.

Comparison of New and Old Audit Reports

It can be seen from the above explanation that under the new audit criteria, the auditor's report issued by the certified public accountant is more concrete and complete and more details of the audit are disclosed. The comparison between the new and the old audit reports can be seen in the following table.

Table 1. Difference between new and old auditing standards.

<table>
<thead>
<tr>
<th>New auditing standards</th>
<th>Old auditing standards</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Audit scope and audit opinion</td>
<td>Audit scope</td>
<td>Merge the original two parts, focus on the key point</td>
</tr>
<tr>
<td>Management responsibility and governance responsibility</td>
<td>Management responsibility</td>
<td>Distinguish between management responsibility and governance responsibility</td>
</tr>
<tr>
<td>Responsibility of CPA</td>
<td>Responsibility of CPA</td>
<td>Added audit details and communication with governance</td>
</tr>
<tr>
<td>The basis of audit opinion (new)</td>
<td>Responsibility of CPA</td>
<td>Affirm the auditor's audit basis</td>
</tr>
<tr>
<td>Key audit matters (new)</td>
<td>Responsibility of CPA</td>
<td>Provide important audit details considered by the auditors</td>
</tr>
<tr>
<td>Other matters section (new)</td>
<td>Responsibility of CPA</td>
<td>Provide assurance of other non-financial information</td>
</tr>
</tbody>
</table>

The audit report is the main way for the CPA to transmit the audited enterprise information to the report user. The content and quality of the information depend on the format and content of the report. In the past, the audit report lacks personalized information disclosure and has less information content. The PricewaterhouseCoopers Zhongtian issued a standard unqualified opinion on Fuyao Glass in accordance with the new auditing standards and highlighted the key information based on the optimized audit format. Users of audit reports also have more information to rely on for analysis when making decisions using audit reports.

The new audit report has increased the transparency of the audit process and helped to improve the past blind spot on the evaluation of audit quality. CPA is expected to disclose major issues and their response procedures, which will inevitably improve the quality of the audit. This will help rebuild the public's confidence in the value of the audit work. The CPAs provide a clear and concise description of the audit procedures and audit responsibilities to help users clearly understand the responsibilities of the CPA and the audited entity's management and reduce the public's risk to the auditors of fraud expected.
There is a certain difference between what the report user needs and understands and what the CPA communicates, which is related to the effectiveness of communication. The advantages of the old reporting format are that they are developed in the order of conclusion and are logically strong. However, the most obvious drawback is that it is not easy to grasp the key information quickly. PricewaterhouseCoopers Zhongtian placed its audit opinion in the light of the new audit reporting standards and highlighted the core of the audit report so that the report users could quickly grasp the key information.

Conclusion

This article shows that the newly revised audit standards significantly improves the audit information content through the interpretation of Fuyao Glass audit report. The new audit standards deepen the bilateral management and CPA responsibilities, help to enhance the transparency of the audit work, and enhance the overall value of the audit report. It reduces information asymmetry, enables stakeholders to have greater recognition and confidence in financial statements, and provides more usable information for decision-making.

However, this article only illustrates the issue through the interpretation of earnings reports. More empirical support is needed for the effectiveness of the new revision guidelines. And because there are too few cases, there is no way to carry out relevant empirical research. I believe in the near future, as listed companies generally adopt new auditing standards, the research on auditing information content under the new standard will inevitably be more and more ,which can further explain changes in audit information content brought about by new audit standards.

References


