

Research on Teaching Methods for Improving the Professional Ability of Master's Degree in Auditing

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Abstract: The cultivation of professional master's degree is different from the cultivation of academic master's degree. The cultivation goal of professional master's degree is to improve the professional ability of professional master's degree as much as possible. This article takes "Chinese Certified Public Accountants Auditing Standard No. 1323- Related Parties" as an example to introduce how mentors guide students from multiple perspectives, cultivate students to be guided by professional needs, focus on practical ability cultivation, possess the professional qualities required for engaging in the auditing profession, possess knowledge and skills in systematic auditing and related fields, have good comprehensive qualities and adaptability, strong professional judgment ability and problem-solving ability.

Keywords: Master's Degree in Auditing; Professional Competence; Teaching Method.

1. Introduction

The academic master's degree in auditing cultivates high-level talents who have a systematic understanding of the theoretical foundations of management, economics, and accounting (finance, auditing), are good at applying relevant theories and methods to analyze, research, and solve theoretical or practical problems in the field of auditing, and have good comprehensive qualities to engage in auditing theory research and related work. The cultivation of professional master's degrees does not require students to have high theoretical literacy, but to improve their professional abilities. The author of this article has many years of experience in cultivating a Master's degree in auditing. Using related party transactions as an example, this article explains how to improve the ability of a Master's degree in auditing.

I will first have the master's degree students majoring in auditing study the auditing standards of China Certified Public Accountants Auditing Standard No. 1323- Related Parties, in order to summarize the methods for identifying related party transactions. Everyone has summarized seven guidelines that tell us: review previous annual work papers and confirm the names of identified related parties; Review the procedures for identifying related parties by the audited entity; Inquire whether governance and key management personnel have affiliations with other units; Review investor records to determine the names of major investors and, where appropriate, obtain a list of major investors from equity registration institutions; Review the minutes of shareholder meetings and board meetings, as well as other relevant statutory records; Inquire with other registered accountants or other related parties known to former registered accountants; Review the income tax declaration form and other information submitted by the audited entity to regulatory authorities.

After reading it, the students were still confused and didn't know how to proceed. The author proposes to study the audit of related party transactions from the following seven aspects: how to identify related party fraud when listed companies do not disclose related parties; Difficulties in identifying and

identifying overseas related parties; The procedure for identifying fraud among overseas related parties; Identification methods for overseas related party fraud; Summary of methods and paths for identifying related party fraud; Statistics on cases of domestic listed companies using related party fraud; The reference of domestic related party fraud identification to foreign related party fraud identification. Then divide the students into seven small groups, each studying a topic, using case studies, and reporting to the group.

2. The Current Situation of Domestic Related Party Fraud

2.1. Current Situation of Domestic Related Party Fraud

With the globalization of the economy, domestic economic development also needs to adapt to the trend of global changes. Various types of enterprises are rapidly emerging in the market, and the market competition situation is becoming increasingly severe. In order to gain an advantage and seize opportunities in the fierce competition, enterprises use various means to seek benefits, and related party transactions are one of the means. Related party transactions themselves are a normal matter, and many related party transactions occur in the normal course of business activities. But some companies deliberately conceal their related parties with ulterior motives, making it difficult for auditors to identify them based on the information provided by the companies. Therefore, our group collected data for a total of 14 years from November 30, 2002 to November 30, 2016. 1197 cases related to related parties were searched out from 4104 cases of violations, and effective data of 670 cases were obtained, namely 670 domestic listed companies that used related party fraud. We classified and statistically analyzed these 670 pieces of data from three aspects: time, industry, and fraud methods.

2.2. Classification Results of 670 Domestic Companies Using Related Party Fraud

(1) According to the published annual statistics. The number of domestic listed companies using related party fraud announced by the China Securities Regulatory Commission, Shanghai Stock Exchange, Shenzhen Stock Exchange, etc.: 71 in 202-04, 63 in 04-06, 41 in 06-08, 70 in 08-10, 118 in 10-12, 182 in 12-14, and 125 in 14-16. The overall quantity showed an upward trend, reaching its peak between the end of 2012 and the end of 2014, followed by a slight decline in quantity.

(2) Classified by industry. We can see that the manufacturing industry has the most companies using related party fraud, significantly more than other industries. We can understand that China is a major manufacturing country, and the manufacturing industry is already more numerous than other industries. Therefore, it is understandable that the number of manufacturing companies using related party fraud is far ahead of other industries.

(3) Classified by fraudulent means. From the above table, we found that related party fraud in listed companies mainly uses the method of concealing related party transactions for fraud. Over the past 14 years, there were a total of 438 cases of fraud in related party transactions by listed companies, accounting for 65.37% of the total related party transaction fraud.

In fact, based on the specific violations we have screened in the violation database, concealing related party transactions is one of the easiest, least likely to be detected, and least risky financial fraud methods for enterprises. Specifically, it manifests as not disclosing or timely disclosing related party relationships or transactions, concealing related party transactions from investors and market regulators to achieve corporate goals. Therefore, the most common means of related party fraud is to conceal related party transactions.

2.3. Summary

It can be seen that with the development of the economy, the current market competition is fierce, and various types of enterprises are rapidly emerging in the market. The market competition situation is becoming increasingly severe. In order to gain an advantage and seize opportunities in the fierce competition, enterprises use various means to seek benefits. Some enterprises use related party fraud to cover up their accounts by increasing income, reducing fees, collecting capital occupation fees, abnormal guarantees and mortgages. Using methods such as entrustment or cooperative investment to embellish accounts.

3. Identification of Domestic Related Party Fraud

3.1. Verification based on Disclosed Related Parties

3.1.1. Identifying Unfair Related Party Transactions

Non fair related party transactions: Transactions between listed companies and related parties that violate the basic principle of market economy - the principle of equivalent exchange. Unfair related party transactions are generally related to fraud. Therefore, for financial reporting errors or omissions caused by unfair related party transactions, the standard opinions in audit reports contain reasonable guarantees for the fairness of related party transactions in

enterprises.

3.1.2. Forms of Unfair Related Party Transactions

(1) Increase income and reduce expenses. When a listed company faces losses, the parent company can adjust its profits by buying high and selling low, or directly transfer expenses to the parent company, thereby reducing expenses.

(2) Collect fund occupancy fees. If collecting capital occupation fees from the parent company, this form has a variety of names and a huge amount. On the book, it may reflect as a significant amount of non operating income.

(3) Abnormal guarantees and mortgages. It is feasible for related parties to provide normal guarantees or mortgages to each other, but if the company is aware of the poor operating conditions of its related parties but still needs to provide guarantees or mortgages, it will need to bear significant risks.

(4) Entrusted or cooperative investment. When listed companies face long investment project cycles and high risks, it is possible to transfer a portion of cash to the parent company through related party transactions and invest in the name of the parent company, thereby transferring investment risks to the parent company and determining investment returns as the profit of the listed company for the year.

(5) Custody operation. If the parent company entrusts stable and highly profitable assets to the listed company for operation, it is agreed in the agreement to keep the operating income in the listed company at a higher proportion, directly increasing the profits of the listed company.

(6) Asset transfer and exchange. Listed companies often engage in unequal exchanges through asset transfers and exchanges to preserve or utilize their shell resources for further equity financing, in order to obtain excess profits. Asset transfer and exchange are commonly used methods to turn losses and increase profits, and improve economic efficiency.

3.1.3. Identification of Unfair Related Party Transactions

(1) Identify from the overall operational status of the company. Edge companies and loss making companies are the two most likely types of listed companies to engage in financial fraud. Edge companies refer to companies that are on the edge of the rights issue line or near being delisted or suspended. According to regulations, if a listed company experiences losses for two consecutive years, it will be given special punishment; For three consecutive years of losses, its stock will be terminated from trading on the stock exchange. Therefore, in the face of special treatment and delisting, listed companies that have been losing money for one or two years can only find ways to change their financial data to avoid entering the ranks of losses and achieve the goal of being classified. Due to the unique nature of related party transactions (non market, non competitive), peripheral companies have a strong motivation to use related party transactions for financial fraud. Losing companies refer to those that suffer significant losses. Faced with pressure such as special treatment and delisting penalties, many companies that had no hope of turning losses around in the past often artificially increased their losses, preparing to turn losses around the next year to escape the misfortune of being delisted. Therefore, loss making companies are also very likely to use related party transactions to embellish financial data in order to manipulate profits.

(2) Identify from the perspective of corporate governance structure and control environment. The separation of ownership and management rights in joint-stock companies has brought about corporate governance issues. In recent

years, the phenomenon of major shareholders of listed companies seizing the wealth of small and medium-sized shareholders through various means has attracted people's attention, and transferring company assets through unfair related party transactions is one of its main means. When there are obvious deficiencies in the internal governance and control of the audited company, certified public accountants should pay attention to whether there are weak links or ineffective operations in their internal control, and during this period, there is a possibility of significant misstatement in their financial reports.

(3) Identify from the perspective of financial reporting. The performance generated by related party exchanges generally manifests in accounting treatment as an increase in investment income, non operating income, other business income, cash flow, and offsetting of management expenses and financial expenses, resulting in an increase in total profit. Generally speaking, the main purpose of conducting non fair related party transactions is to adjust the profit of accounting statements through related party transaction gains and losses. If a certified public accountant is familiar with the common methods of conducting unfair related party transactions, they can achieve targeted auditing of related party transactions and more easily identify fraudulent related party transactions of the audited listed company.

3.1.4. Consider the Appropriateness of Control Activities Related to Authorization and Recording of Related Party Transactions

The complexity of related party transactions and other internal control deficiencies undoubtedly provide opportunities for exploiting related party transaction fraud. When understanding the internal control of the audited entity and conducting internal control testing, certified public accountants should consider the appropriateness of control activities related to authorization and recording of related party transactions. For example, whether there are established codes of conduct for related party transactions, and whether relevant personnel generally understand and strictly implement these codes of conduct; Are there any relevant policies and procedures in place to identify and disclose the benefits obtained by management and governance in related party transactions; Is there a clear guidance plan and solution for related party transactions with conflicting interests; Has the governance established relevant policies and procedures to mitigate the risks of management override internal controls related to related parties and related party transactions. In the identification process of related party transactions, certified public accountants should use their own audit experience to select corresponding audit procedures based on the audited entity's situation, while fully understanding the audited entity and its environment.

3.1.5. Procedures for Identifying Alternative Options for Related Party Transactions

Audit objectives. Obtain sufficient and appropriate audit evidence to determine whether management has identified and disclosed related parties and related party transactions in accordance with the provisions of the Enterprise Accounting Standards.

Optional audit procedures. (1) Inquire with the governance, management, and other personnel of the audited entity to obtain a list of related parties and related party transactions. (2) Implement audit procedures to determine the completeness of inventory information. (3) Implement audit

procedures to identify related party transactions. 1) Pay attention to situations that may lead to related party transactions. 2) During the audit process, be vigilant about certain transactions and consider the existence of previously unidentified related parties. Attention may indicate that the governance and management have not identified the situation of related party transactions. (4) Pay attention to related party transactions when executing routine procedures. (5) If previously unidentified or undisclosed related party transactions are identified, additional audit procedures should be considered. (6) Implement audit procedures for identified related party transactions. (7) Understand the internal controls related to transactions between the audited entity and related parties. (8) If there is limited access to audit evidence related to related party transactions, consider implementing relevant audit procedures. (9) If there are special circumstances, consider obtaining related party confirmation letters from the governance and key management personnel. (10) Consider the impact of related party transactions on the expected tax amount of the audited entity, and inform the tax business project team of these transactions for review of taxes and tax declaration forms. (11) Evaluate whether off balance sheet arrangements and transactions involving special purpose entities (SPEs) are related party transactions and implement audit procedures. (12) Considering the impact of related parties and related party transactions on fraud risk assessment, is it necessary to implement relevant audit procedures. (13) Obtain a written statement from management regarding the completeness of the information provided by the audited entity regarding the identification of related parties, as well as the adequacy of disclosure of related party and related party transactions in the financial statements. (14) Implement audit procedures to evaluate whether management's disclosure of related party transactions is fair and appropriate. (15) Audit procedures added based on factors such as assessed fraud risks. (16) Determine whether the audited entity has disclosed related parties and related party transactions in accordance with the requirements of the Enterprise Accounting Standards.

3.2. Verification based on Undisclosed Related Parties

3.2.1. Significant and Abnormal Transactions

(1) A transaction that is clearly unreasonable and does not conform to commercial logic. (2) The amount involved in a transaction or matter is usually large and occurs less frequently, or there are large transactions or fund transactions with natural persons. (3) The transaction is not settled through bank transfer, but is settled through cash or multi-party debt offset methods.

3.2.2. Verify Important Customers and Suppliers

In the process of verifying important customers and suppliers, emphasis should be placed on the principles of importance and risk orientation. The verification sample can refer to the transaction amount and the proportion of exchanges to select customers and suppliers that meet the importance level.

(1) The counterparty is an important customer or supplier newly added in the current year. (2) The transactions between the counterparty and the company are not related to their business scope. (3) The registered address or office address of the counterparty is located in the same location or close to the company or its group members. (4) The registered address or office address of the counterparty is located in the same

location or close to the company or its group members. (5) The name structure of the main controllers, key management personnel, or employees in key stages such as purchase and sales of the counterparty is similar to that of the company's management.

3.2.3. Analyze and Verify the Equity Structure

For continuous audits after going public, the related party relationships that the company can conceal should be newly established related party relationships in the current or recent period. Certified public accountants can inspect document records to understand changes in the company's equity structure, major investments, and asset restructuring. They can also identify potential related parties by asking key management personnel or major shareholders about changes in current shareholding and related party relationships. For the hidden related party relationships during the IPO process, it is necessary to conduct due diligence on the background of major shareholders and key management personnel.

4. Difficulty in Identifying Fraud among Overseas Related Parties

4.1. Imperfect Internal Control System of Overseas Enterprises

The internal control system of overseas enterprises is not perfect and the implementation is not strong enough. Certified public accountants are unable to obtain reliable information. The main manifestations are: firstly, many overseas enterprises do not have a dedicated finance department, let alone a dedicated audit and supervision department, nor have they established a scientific investment, finance, supervision and assessment system. The phenomenon of enterprises without rules to follow and without rules to follow is very serious. Secondly, without establishing a reasonable decision-making process and department, some major issues related to investment and business policies, or risky businesses, are often subjectively judged by individual leaders or a few parties, resulting in significant errors in business decision-making. Therefore, certified public accountants are unable to obtain reliable information

4.2. Overseas Enterprises have Significantly Different Internal and External Environments Compared to Domestic Enterprises

Overseas enterprises need to consider factors such as equity structure, corporate articles of association (or contracts), the legal environment of the host country, and international practices. The audit procedures, methods, and methods adopted are completely the same as those of domestic enterprises, and it is definitely not feasible. There must be a certain degree of flexibility.

4.3. Uselessness of Commonly Used Audit Methods

Certified public accountants often use the results of customs visits or correspondence as strong evidence, but in reality, the issuer uses inflated data when declaring and paying taxes. Certified public accountants not only fail to detect problems, but also are misled by them.

5. Reference for Identifying Domestic Related Party Fraud and Identifying Foreign Related Party Fraud

5.1. Conduct Pre-Audit Work

Familiarize oneself with the relevant legal environment, categories, content, and local laws and regulations regarding the industry scope, equity structure, taxation, finance, capital, finance, accounting, and other aspects of the audited overseas enterprise. Master international accounting standards and auditing standards, understand relevant international cases, and adapt to the international characteristics of overseas enterprises. The audit of overseas enterprises cannot completely copy the audit standards of domestic enterprises. The accounting vouchers and business records of overseas enterprises are generally expressed in both local language and English, so English is widely used. In overseas enterprises and their business units, many original documents such as financial accounting data, contracts, and bills of lading are stored in computers and must be checked and verified using specialized computer software. Therefore, auditors should have a high level of foreign language proficiency and computer skills.

5.2. Determine the Focus of the Audit

Assess the authenticity of the value of overseas assets. Assess the authenticity and legality of assets, liabilities, and profits and losses of overseas enterprises. For enterprises with operating losses, it is necessary to help them analyze the reasons for the losses and propose improvement measures and suggestions. Check whether the internal systems of overseas enterprises are sound and effective, including the establishment, compliance, and implementation of internal management systems in finance, accounting, cost accounting, material supply and marketing, economic contracts, and investment. Has a scientific and effective business decision-making system been established.

5.3. Adopt Practical and Feasible Audit Methods

(1) Adhere to lawful auditing. We need to rely on domestic laws and regulations, and cannot simply extend domestic laws and regulations overseas. Instead, we need to rely on international and local laws and regulations.

(2) Combining audit with investigation and research. Foreign enterprises engaged in business dealings with units. When auditing its transactions, it is difficult to obtain the cooperation of the other party's units or individuals. Some overseas enterprises operate "two books" or "off book accounts". Some overseas enterprises suffer serious losses, and in order to investigate these issues, detailed investigation and research work is needed.

5.4. Related Party Analysis Method

Nowadays, many companies engage in unfair related party transactions, which often involve fraud. If a listed company's main business is overseas related party transactions, its performance is often unreliable; Asset restructuring and overseas related party transactions must also be careful when creating investment returns. If the accounts receivable and payable increase, it often contains fraud. If a company's operating income and profits mainly come from overseas related enterprises, accounting information users should pay

special attention to the pricing policy of overseas related transactions, analyze whether the company has engaged in transactions with overseas related transactions in a non price exchange manner for accounting statement decoration. If the total profit of the parent company's consolidated accounting statements (excluding the total profit of the listed company) is significantly lower than the total profit of the listed company, it may mean that the parent company injects profits into the listed company through overseas related party transactions.

5.5. Inventory Analysis Method

The company is concerned that a sharp decline in accounts receivable turnover and inventory turnover may raise suspicions from investors and professional analysts. Therefore, it transfers accounts receivable to other accounts receivable and prepayments. The method is for listed companies to first transfer funds out, and then ask customers to transfer the funds back. When transferring funds out, they are linked to other accounts receivable or prepayments and used as payment to confirm revenue. Therefore, it is important to note that other accounts receivable and prepayments often do not match their names; In order to improve inventory turnover, listed companies intentionally delay the processing of inventory entry procedures, and the inventory is listed on prepaid accounts, with less cost carried over to ensure that the inventory accounts match the actual situation. As a result, the inflated profit of listed companies is listed on prepaid accounts. Therefore, for listed companies with large accounts receivable, regardless of which account these accounts are listed in, they should be cautious of the possibility of fictitious or non-performing assets. Some listed companies, in order to avoid making huge bad debt provisions, have written articles on account aging. One listed company received a huge receivable with an account age of more than five years, which was used to reduce the huge impairment provision. However, this money was fundamentally replaced by a listed company, in order to manipulate account aging and whitewash performance.

5.6. Audit Opinion Analysis Method

When identifying overseas related party fraud, attention should be paid to non-standard audit reports and the explanations given by management. Non standard and unqualified audit reports often contain serious financial problems of the company. Accountants are often not unaware of the company's fraud, but they generally do not directly

point out the company's fraud. When using wording, they often avoid the importance and use explanatory paragraphs to imply that the company has serious financial problems. When accountants emphasize that the amount of accounts receivable is huge, investors should be aware that these accounts receivable may be difficult to recover or fictitious. When accountants emphasize that "the main source of revenue comes from a certain company, especially overseas companies," investors should be aware that these revenues may be fictitious.

6. Summary

Related party transactions themselves are a normal matter, but some companies deliberately conceal related parties with ulterior motives, making it difficult for auditors to identify them based on the information provided by the companies. The increase in foreign investment business by Chinese enterprises has also generated many related parties of domestic enterprises overseas. Due to factors such as geographical location, different cultures, languages, social customs, politics, etc., the physical and non physical distance between related parties overseas poses greater audit risks and difficulties for audit operations. The author uses seven perspectives to enable students to conduct in-depth analysis and research on the audit of related party transactions, using data to increase persuasiveness, broaden their horizons, broaden their thinking, guide them to conduct in-depth research, and not be bound by the inherent limitations of standards, greatly enhancing the professional ability of the Master of Audit major.

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