

Corporate Governance, Inquiry Letters and Audit Response Studies

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Abstract: With the rapid development of China's economy and the change of supervision mode, the inquiry letter has become one of the important ways of non-penalty supervision. Many problems in the inquiry letter involve corporate governance, which is closely related to the audit work of CPA. This paper collects the annual report inquiry letter issued by Shenzhen Stock Exchange from January 2017 to December 2019 to sort out the parts related to corporate governance. According to the proportion, the 15 most concerned categories of corporate governance problems are counted, and how to improve audit quality and reduce audit when CPA performs audit business is given Suggested measures for risk.

1. Introduction

At present, with the progress of society and the development of economy, various types of companies and enterprises have been spawned. With the growth of the enterprise, in addition to the initial sponsor investment, the company also needs to obtain funds from new shareholders, banks or other stakeholders, and the various power relations within the company will be gradually complicated. Corporate governance is actually a process in which power owners compete to protect their maximum rights and establish rules for the allocation of corporate resources. In addition to the role of internal audit in the supervision and prevention of corporate governance, the inquiry mechanism acts as a front-line supervision of stock exchanges. One of the main ways is to pay attention to and supervise the problems existing in the information disclosure of listed companies in time, and also play an active role in promoting the problems of corporate governance.

However, did CPA really pay attention to the problems of corporate governance in the implementation of audit business? What is its impact on audit quality? Therefore, based on the modern risk-oriented audit theory, this paper aims to study and discuss whether and how to deal with the inquiry letter and corporate governance.

2. Corporate Governance Issues and Inquiry Letters

With the development of capital market, the problems of corporate fraud and financial fraud also come out. In addition to the self-supervision and restriction balance within the company, the first-line supervision mode guided by investor demand occupies a more and more important position. In order to further strengthen the main responsibility consciousness of information disclosure of listed companies, the Shanghai Stock Exchange and the Shenzhen Stock Exchange fully implemented the through train system of information disclosure in 2013 and 2014, respectively. At the same time in 2014 in its official website gradually public inquiry letter and listed companies reply letter. Full disclosure can be made before investment. Reasonable judgment of capital object is also beneficial to investors to supervise management after investment. The information disadvantage position of the investors makes it difficult for the general investors to master the full and true information within the company or to pay the cost of understanding the information so as to realize the effective supervision of the agency problem. Ease information asymmetry through transparent information disclosure, investors will require a lower risk premium when buying

securities, thus reducing corporate governance costs.

I collected from the "annual report inquiry letter" in the "regulatory information disclosure" of the national small and medium-sized enterprises' stock transfer system, and found that the national stock transfer system in 2019 A total of 453 annual report inquiries were issued, an increase of 122.06% compared with 204 in 2018. I carried on the statistical analysis to it, found that in these 453 listed companies, the inquiry letter content and the corporate governance related proportion reached 66.74.

From the general category of inquiry related to corporate governance, the proportion of financial and accounting related inquiry points is 64.21, the proportion of internal control and audit system problems is 47.9, and the proportion of related party transaction inquiry points is 15.6.

In view of the financial and accounting problems, it is divided into seven sub-categories, which are accounts receivable and preparation for collection, abnormal gross margin, inventory issues, corporate expenses, prepayments or accounts payable, revenue recognition issues are frequently questioned. I have made the following analysis of why it has become the focus of inquiry.

(1) In recent years, the market has been depressed, the number of enterprise accounts receivable has increased significantly, there is a risk of customer debt, so this issue has become the focus of attention. The basic inquiry contents include the recovery of accounts receivable, the reasons for long time unrecovered, whether the bad debts are sufficient and so on.

(2) Preparation is the embodiment of accounting prudence. Prepare for bad debts, inventory, etc. to improve the quality of statements High, more can reflect the authenticity of the report. For report users to better make more informed decisions based on reports. Therefore, the preparation of the question has always been the focus of the annual inquiry letter. The basic inquiry content is the preparation and extraction of important financial indicators, such as accurate collection of accounts receivable, inventory price reduction, preparation and collection of prepaid accounts, etc.

(3) A significant change in the gross profit margin of an enterprise will be the focus of attention on the reasons for the higher or lower gross profit margin fluctuations. The basic inquiry contents include the abnormal fluctuation of gross margin too high and too low.

(4) Because the inventory is closely related to the company's main business, it is to the enterprise the impact of financial statements is not small. Whether it is a sharp increase in inventory, inventory impairment or inventory decline, should be specific reasons. The basic inquiry contents include the reasons for the large increase of inventory, the unsalable situation, the calculation of inventory falling price, the composition of raw materials of inventory, the main types and so on.

(5) Enterprise expenses include many aspects, such as the cost of developing new products, new technologies, sales promotion fees, management fees, etc.

(6) The requirements for disclosure of annual reports require a clear description of the changing financial indicators. As an important part of the balance sheet, accounts payable and prepayments also naturally become the main part of the annual report inquiry Capacity, including many aspects, such as the specific content of accounts, the reasonableness of the amount, the nature of the money, the reasons for the large increase, the actual use and whether there is a risk of recovery;

As the focus of regulatory inquiries, these areas are bound to be closely related to whether there are significant risks to financial reporting. Implementation of auditing by CPA This is undoubtedly a revelation. Whether CPA really pays attention to these problems and how to take effective measures to reduce audit risk.

3. CPA Response

Audit is an important means to ensure the quality of accounting information of listed companies, but because the audited units do not set up correct business values, there are illegal and illegal, fraud and other governance problems in daily operation, which will directly lead to the increase of audit risk. In addition to the limitations inherent in the audit work itself, CPA should take appropriate measures to deal with the potential problems of corporate governance in order to find out the potential misstatement of the enterprise and then improve the audit quality.

The risk of material misstatement at the reporting level is often more than that of the enterprise

For example, management is affected by personal financial situation or operating environment to implement fraud, enterprises engaged in complex related party transactions and so on. Therefore, it is difficult for CPA to identify and evaluate the risk of material misstatement at the level of financial statements.

The scope of further audit procedures mainly includes the financial data that need to be randomly selected in the implementation of audit procedures,

Observe the number of business activities, that is, the number of further audit procedures required. Relevance to the scope of the further audit process due to the level of importance determined, the risk of material misstatement assessed and the level of assurance planned. Therefore, CPA should focus on the influence of these three factors in the process of determining the scope. First, if the level of importance of the enterprise is low, then the scope of further audit procedures is larger; second, the risk of material misstatement is assessed. If the risk assessment result of material misstatement of the audited unit is high, it is necessary to improve the requirement of audit evidence, and the scope of further audit procedure designed is large; third, the degree of assurance obtained by the plan. If the CPA needs to obtain the fairness of the relevant financial statements through the audit procedure, if the degree of assurance obtained by the plan is higher, the scope of the further audit procedure designed is higher .

In auditing related party transactions, CPAs need to be alert to related party information when checking records or documents, and for major related party transactions beyond the normal business process, The CPA shall ask the management about the nature of these transactions and whether they involve related parties. The CPA shall, in accordance with the relevant audit standards, identify and evaluate the risk of material misstatement caused by the related party relationship and its transactions, and determine whether these risks are special risks, and consider the dominant influence of the related party.

4. Conclusions

In view of the listed companies receiving the inquiry letter, this paper studies several aspects related to the risk of material misstatement in the corporate governance, and puts forward how the CPA can reduce the audit risk through the audit procedure. It is hoped that the conclusion of this paper can enrich the theoretical knowledge of inquiry letter, corporate governance and audit response.

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