

Reflections on the Concept, Classification and Application of "Assertion" Under the New Standards

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Abstract: Continuing to converge with international auditing standards, China revised auditing standards in 2019. The new standard closely follows ISA 315, which revises the classification of "assertion". In auditing practice, certified public accountants need to correctly understand the concept and classification of "assertion", and use "assertion" reasonably to consider different types of potential misstatements that may exist in the entity, so that they can design and implement more targeted auditing procedures to collect sufficient and appropriate audit evidence. The article sorts out the origin and evolution of the relevant theories of "assertion", combined with the identification and response to the misstatement of "assertion" in the audit practice work of Chinese certified public accountants, summarizes the misunderstanding and application of "assertion", and then from the two levels of theory and practice. Think about the concept, classification and application of "assertion", in order to enlighten the audit practice.

Keywords: Assertion, Classification, Misstatement.

1. Introduction

The general objective of an audit of financial statements requires a certified public accountant to express an audit opinion on whether the financial statements have been prepared, in all material respects, in accordance with the basis for preparation of financial reporting and to achieve a fair representation. Because the overall audit objective of the legality and fairness of financial statements is too broad and lacks operability, it is not conducive to the design and implementation of audit procedures. For this reason, institutions such as the American Institute of Certified Public Accountants (AICPA) and the International Auditing and Assurance Standards Board (IAASB) took the lead in introducing the concept of "assertion". The CPA's responsibility is to re-assert management's "assertion". The proposal of "assertion" makes the general objective of auditing concrete. The application of "assertion" is reflected in the fact that, on the one hand, in the risk assessment process, the certified public accountant can accurately identify and evaluate the risk of material misstatement based on the identification, and on the other hand, it is reflected in the risk response process., the certified public accountant can design and implement audit procedures related to the assessed risk of material misstatement at the assertion level. After several revisions, the Chinese auditing standards have defined the concept of "assertion", explored the scientific classification of "assertion", and aimed to effectively guide the application of "assertion" in auditing practice. However, in auditing practice, there are still many problems in the use of certification by certified public accountants. The purpose of this paper is to explore the origin and evolution of "assertion", elaborate the connotation of the concept and classification of "assertion", and illustrate the specific application of "assertion" through cases, in order to provide some inspiration for auditing practice.

2. The Origin and Evolution of the Concept and Classification of "Assertion"

2.1. The Origin of the Concept and Classification of "Assertion"

In 1980, the American Institute of Certified Public Accountants (AICPA) released SAS 31 Evidential Matter, which first proposed the concept of "assertion", pointing out that "assertion" is the management's expression of each element of the financial statements, which can be explicit or implicit. included. And divide it into Existence or occurrence, Completeness, Valuation or allocation, Rights and obligations, and Presentation and disclosure. From 1995 to 2006, the auditing textbooks of the Chinese Certified Public Accountants Qualification Examination have been following the AICPA's view on the concept and classification of "assertion". In 2003, the International Auditing and Assurance Standards Board (IAASB) issued ISA 500 (Audit Evidence). ISA 500 defines "assertion" as an expression implicitly or explicitly made by management on financial statements, and divides "assertion" into Assertions about classes of transactions and events for the period under audit, Assertions about account balances at the period end, and Assertions about presentation and disclosure three levels. At the same time, ISA 500 Section 16 states that auditors should use transaction categories, account balances, and "assertions" of expression and disclosure to provide a basis for assessing the risk of material misstatement and for designing and implementing further audit procedures. In 2006, in order to achieve substantial convergence with international auditing standards, China revised the auditing standards for the sixth time. In Auditing Standard No. 1301, the concept of "assertion" was defined, and "assertion" is divided into three categories: transactions and events, closing account balances and presentation. This is the first time that the concept of

"assertion" is introduced in China's auditing standards, and the classification and connotation of "assertion" are clearly explained, which lays a system foundation for the application of "assertion" in auditing practice.

2.2. Evolution of The Concept and Classification of "Assertion" In China

Since 2006, the auditing standards for Chinese certified public accountants have been continuously revised and improved, and continued to maintain comprehensive international convergence. Since the introduction of the concept of "assertion" in Auditing Standard No. 1301, the auditing standards and application guidelines related to "assertion" have undergone two revisions. In 2008, the IAASB revised ISA 500 Audit Evidence and moved the "assertion" related content to ISA 315 Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment. In 2010, China revised 38 auditing standards and issued 38 application guidelines to guide CPAs in the correct understanding and application of practice standards. Among them, the concept of "assertion" was moved from Auditing Standard No. 1301 to "China Auditing Standards for Certified Public Accountants No. 1211 - Identifying and Assessing Risks of Material Misstatement by Understanding the Auditee and its Environment", and the "assertion" The classification and application of auditing standards have been moved to the Guidance on the Application of Auditing Standard No. 1211. This revision, although not substantive, expands the role of "assertion" in the concept of "assertion", noting that auditors use it to consider the different types of potential misstatements that may occur, emphasizing "assertion" "The role of material misstatement risk assessment.

In 2017, the IAASB revised ISA 315, revised the classification of "assertion", and revised the three categories of "assertion" into two categories. Among them, the first category "Assertions about classes of transactions and events for the period under audit" contains 6 specific identifications: Occurrence, Completeness, Accuracy, Cutoff, Classification and Presentation; the second category "Assertions about account balances at the period end and related disclosure", which contains six specific determinations: Occurrence, Rights and obligations, Completeness, Accuracy, Valuation and allocation, Classification, and Presentation. In 2019, China revised 18 auditing standards and 24 application guidelines. In Guidance on the Application of Auditing Standards No. 1211, the classification of "assertions" has been revised. In the new standard and application guide, "assertions" are divided into two categories: Assertions about classes of transactions and events for the period under audit and related disclosure, Assertions about account balances at the period end and related disclosure. The specific 12 determinations are consistent with the provisions of ISA 315, the International Standard on Auditing. In this revision, the original third category "assertions related to presentation and disclosure" was split into the first two categories of "assertions", and "category" was added to "assertions on account balances and related disclosures at the end of the period" identified.

3. Understanding of The Concept and Classification of "Assertion"

3.1. Understanding of The Concept of "Assertion"

After China's auditing standards clearly define the concept of "assertion", the industry has reached a consensus on the concept of "assertion". An "assertion" is an explicit or implicit expression by management on the financial statements that the auditor uses to consider the different types of potential misstatements that may occur. Management expresses that there may be a risk of non-compliance with the established standards. From the perspective of the company's preparation of financial statements, it is the risk that management determines that there is a violation of the established reporting basis. From the perspective of the auditor's audit, that is, the different types of potential misstatements that may occur in the financial statements. For example, there are significant uncertainties in the measurement of the net realizable value of an enterprise's inventories. From the enterprise's perspective, management's determination of the accuracy, valuation and allocation of inventories may be wrong. From the perspective of a certified public accountant, it is the risk of material misstatement at the identification level that may exist in the provision for inventory depreciation reserves, which affects the specific audit objectives of inventory accuracy, valuation and apportionment.

3.2. Understanding of "Assertion" Classification

3.2.1. Differences in The Understanding of "Assertion" Classification

For the understanding of the "assertion" classification, there are three main mainstream views in the industry: one is the classification view that is consistent with the classification of the guidelines. Wang Xiaolei (2007), Chen Yanqiu (2009), Liu Minghui and Shi Degang (2019) Layer identification is divided into three categories: Assertions about classes of transactions and events for the period under audit, Assertions about account balances at the period end, and assertions related to presentation. Two scholars, Wang Xiaolei and Chen Yanqiu, believe that Assertions about classes of transactions and events for the period under audit are expressions at the sub-ledger level, and Assertions about account balances at the period end are expressions at the general ledger level. However, the correctness of the first two categories only lays a necessary foundation for the correct presentation, and the financial statements may also be misreported due to misunderstanding of the relevant presentation regulations or fraud by the audited entity. In addition, misstatements in financial statements may also be caused by the failure of the audited entity to comply with some specific disclosure requirements. The second is to correspond to different viewpoints on the classification of statements. Qin Rongsheng and Lu Chunquan (2019) pointed out in the textbook of auditing that based on the auditing standards revised in 2010, the management's identification reflects the whole process of accounting treatment confirmation, measurement and presentation, and the auditing practice work is also It focuses on the three links of accounting treatment confirmation, measurement and presentation. The three aspects of transactions and events, account balances and presentation as determined by the management correspond to

the income statement, balance sheet and notes to the financial statements in the financial statements. The assertion of transactions and events corresponds to the income statement, the assertion of account balances corresponds to the balance sheet, and the assertion related to presentation corresponds to the notes to the accounting statements. Therefore, Qin Rongsheng and Lu Chunquan divided management's assertions into three categories: assertions related to the balance sheet, assertions related to the income statement, and assertions related to presentation and disclosure. The views of two scholars, Qin Rongsheng and Lu Chunquan, were also confirmed in the "Guidelines for the Preparation of Auditing Working Papers for Financial Statements" revised by the Chinese Institute of Certified Public Accountants in 2011. In the Guidelines for the Preparation of Auditing Working Papers for Financial Statements, in the working papers on substantive procedures of the balance sheet related statement items, the relevant determinations correspond to the four specific determinations and presentations related to the ending account balance. In the substantive procedure working papers of the relevant statement items of the income statement, the relevant determinations correspond to the 5 specific determinations and presentations related to transactions and events. The third is a classification view centered on transactions and events. Gao Qiang, Li Xiulian, and Wang Zhiyong (2009) believe that a transaction is a value transfer between two different accounting entities. Transactions and events are basic economic data or input data into accounting information systems. It is pointed out that the connotation of transactions in auditing should be consistent with the connotation of transactions in accounting, and it is suggested that management assertion should be divided into transaction, event and account assertion in the income statement, transaction, event and account assertion in the balance sheet, transaction, event and account assertion in the notes to the accounting statement. There are three aspects of matters and account identification.

Scholars in the existing literature are mostly based on heated discussions on the classification of "assertion" based on the old auditing standards (revised in 2010). The author believes that the management identification in the old auditing standards is divided into three categories, which are divided from the perspective of the accounting process. Two scholars, Qin Rongsheng and Lu Chunquan, proposed the correspondence between the three categories identified by management and the financial statements, making the categories identified by management easier to understand. For example, if an enterprise records a credit sales transaction that has not occurred, it violates the recognition of the occurrence of the operating income item in the income statement, and also violates the recognition of the existence of accounts receivable in the balance sheet. However, two scholars, Qin Rongsheng and Lu Chunquan, believe that the assertions related to presentation and disclosure correspond to the notes to the accounting statements, which seems unreasonable. The presentation assertion occurs during the preparation of the financial statements and the disclosure of the notes to the financial statements. Presentation assertions include not only disclosures in the notes to the statements, but also the preparation of the financial statements. For example, in the preparation of statements, failing to reclassify the credit balance of accounts receivable to accounts received in advance violates the "presentation" determination. It can be seen that in the old auditing standards, the management

identified the third major category of presentation identification corresponding to the various links in the preparation of statements and the disclosure of notes to the accounting statements.

In addition, as the three scholars Gao Qiang, Li Xiulian and Wang Zhiyong said, not only the income statement items have transactions and events, but the balance sheet items also have transactions and events. For example, credit sales transactions involve not only the operating income of the income statement item, but also the accounts receivable of the balance sheet item. In the credit purchase transaction, only the inventory of the balance sheet items, taxes payable and accounts payable are involved. In auditing practice, the CPA performs cut-off tests on inventories, mainly to check whether the transactions and events involved in inventories have inter-period phenomenon. However, there is no "cut-off" determination for asset statement items such as inventories. It can be seen that it seems unreasonable to only correspond the determinations related to transactions and events to the income statement.

3.2.2. Understanding of The "Assertion" Classification in The New Auditing Standards

Under the new auditing standards, "assertion" is divided into two categories and 12 specific assertions. Comparing and analyzing the classification of old and new auditing standards, the latest classification of "assertion" has three major changes: the perspective of "assertion" classification has been changed, the connotation of specific recognition has been changed, and the recognition of "classification" has been added to the recognition of account balances at the end of the period.

First, the new auditing standards divide "assertion" from the perspective of audit practice workflow. The current financial statement audit is organized by multiple business cycle audits. The certified public accountant uses the principle of business cycle to understand, review and evaluate the internal control system and implementation of the business cycle of the audited entity, and then audit the statement items involved in the business cycle. When implementing substantive procedures for a specific statement item, the certified public accountant needs to pay attention to the confirmation, measurement, presentation and disclosure of the item at the same time, instead of being divided into three links of confirmation, measurement, presentation and disclosure as in the accounting process. Take the audit of fixed assets in the purchase and payment cycle audit as an example: the certified public accountant recalculates the depreciation of fixed assets, while paying attention to the amount of fixed assets and whether the depreciation policy for fixed assets is properly disclosed.

Second, from the perspective of content, the latest classification of management's assertion has changed the connotation of the specific assertion. For example, in the new standard, the "occurrence" assertion is not only concerned with whether the recorded transactions and events actually occurred, but also whether the disclosed transactions and events actually occurred. For example, when auditing income items, auditors should not only pay attention to whether the income actually occurred and whether there is supporting evidence, but also pay attention to the disclosure of the income recognition policy. "Accuracy" assertions focus not only on that amounts and other data relating to transactions and events have been properly recorded, but also that disclosures about transactions and events have been properly measured and described. For example, in the audit of asset

impairment loss projects, auditors should not only pay attention to whether the amount of asset impairment loss is accrued correctly, but also pay attention to the policy for the recognition of asset impairment loss. In this way, the work of presentation and disclosure of specific statement items from the perspective of accounting processing process is split into specific identification. Although, it is more in line with the audit practice workflow to combine the identifications involved in the processing of economic business activities of the same statement item with the identifications involved in the disclosure. However, the author believes that this undoubtedly increases the difficulty of the CPA in understanding and distinguishing the 12 specific assertions. Including the assertions related to presentation and disclosure as a whole in the first two categories of "presentation" assertions may more systematically and clearly reflect the CPA's concerns about the preparation of statements and disclosure of notes.

Third, the assertion of "classification" has been added to the assertion of account balances and related disclosures at the end of the period. In the old auditing standards, there was no "classification" assertion in assertions related to closing account balances. Or because the standard setter considers the risk from the perspective of risk, the misstatement of the "classification" of the statement items on the balance sheet, such as the misrepresentation of raw materials as inventory commodities, will not seriously affect the authenticity and fairness of the overall statement. However, in fact, misstatement of the "classification" of statement items on the balance sheet can seriously affect the financial statements. For example, misstatement of accounts receivable "classification" or concealment of illegal acts of large shareholders occupying corporate funds. In addition, the recording of cash sales as credit sales is often used to illustrate misstatements of "classification" assertions. However, the statement items whose cash sales are recorded as the impact of credit sales are monetary funds and accounts receivable, which belong to the items of the balance sheet. In the old auditing standards, there is no "classification" assertion in the assertion of the account balance at the end of the period. Another example, capitalized borrowing interest expense, not only affects the financial expenses of the income statement, but also affects the construction projects in the balance sheet. This matter affects the "classification" assertion of financial expenses, but what kind of assertion does it affect the construction in progress under the classification of the old auditing standards? Therefore, the new auditing standards add a "classification" designation to the designation of ending account balances and related disclosures, which effectively resolves unexplainable matters like the above, and emphasizes that certified public accountants are concerned about the misstatement of "classification" of balance sheet items.

4. The Use of Assertion

The basic responsibility of the certified public accountant is to re-assert the management's assertion. Certified public accountants obtain management "assertions", determine whether there is a risk of non-compliance with established standards, and implement audit procedures to address the risk. In other words, the rational use of "assertion" requires certified public accountants to accurately identify and assess the risk of material misstatement at the assertion level on the basis of understanding the concepts and classifications of assertion, and design and implement audit procedures related

to the risk of material misstatement at the assertion level. . Through a systematic analysis of 45 administrative penalty decisions issued by the China Securities Regulatory Commission and its subordinate CSRC bureaus to accounting firms and certified public accountants in the past ten years, the author found that certified accountants did not pay enough attention to the use of "assertion" and major misstatements at the level of assertion. There are two major problems: risk and the risk of material misstatement at the level of inaccurate judgment and determination. The use of "assertion" has seriously affected the quality of CPA's audit. In the following, the author selects typical audit failure cases from 45 administrative penalty decisions to illustrate the problems existing in the use of "assertion" by certified public accountants in auditing practice.

4.1. Insufficient Attention to The Risk of Material Misstatement at The Assertion Level

Certified public accountants need to use professional judgment to assess whether the risk of misstatement at the assertion level is significant. Under the old auditing standards, there is no "classification" assertion for assets, liabilities and equity statement items. Certified public accountants generally believe that the "classification" assertion of assets does not have a significant impact on the financial statements in nature, and even if the amount is significant, it does not constitute a major error. report risk. Insufficient attention was paid to the annual report audit. For example, in the audit case of Wuyang Construction Group, Wuyang Construction Group "offsets" accounts receivable and accounts payable of different units to reduce the ending balance of accounts receivable, thereby reducing the provision for bad debts and false increases. profit. At the scene of the second instance, WUYIGE Certified Public Accountants argued that the accounting treatment of Wuyang Construction Group's accounts receivable and accounts payable was based on accounting rationality and standards. Not accepted. It is precisely because WUYIGE Certified Public Accountants did not pay enough attention to the risk of material misstatement in the "classification" of accounts receivable, which eventually led to the failure of the audit.

The assertion of "completeness" of presentation is also often overlooked by CPAs. In the Taihua Co., Ltd. audit case, Because Grant Thornton did not pay enough attention to the fact that Taihua Co., Ltd. did not disclose the specific method of recognition of trading business income in the notes to the statement, that is, it did not pay enough attention to the risk of material misstatement of the "completeness" of the income presentation. Grant Thornton mistakenly used the specific method of self-produced sales business revenue to recognize the trading business income of Taihua Co., Ltd., so that the audit procedures implemented, inspection of sales contracts, value-added tax invoices and warehouse receipts, were unable to deal with trade income” Risk of material misstatement identified by the deadline.

4.2. Failure to Accurately Determine the Cause of the Risk of Material Misstatement at The Identification Level

Looking at the audit failure cases over the years, it is not that the certified public accountant has not implemented audit procedures to deal with the risk of material misstatement at

the assertion level, but that the certified public accountant has failed to accurately judge the cause of the risk of material misstatement at the assertion level, and specifically which one of the assertions has a significant risk of misstatement. Risk of misstatement, resulting in untargeted audit procedures designed and implemented. For example, in the audit case of Chengdu Huaze Cobalt&nickel Material Co.,Ltd., the closing balance of notes receivable at the end of the year of Chengdu Huaze Cobalt&nickel Material Co.,Ltd. Ruihua Certified Public Accountants implemented an audit procedure to count bills after the period and backtrack to calculate the closing balance of the bills to confirm the accuracy of the closing bills receivable balance, ie the "accuracy, valuation and apportionment" assertion of bills receivable. For the major abnormal situation where the bill balance surged and decreased sharply before and after the audit base date, the reason why Ruihua Certified Public Accountants failed to define the risk of material misstatement of bills receivable was not whether the amount records were accurate, but whether the bills receivable was on the audit base date. If it exists, it fails to fully identify the risk of material misstatement of the "existence" of bills receivable, and fails to pay attention to the abnormality of the confirmation reply during the audit process, and the final audit fails. For another example, in the audit case of Liaoning Zhenlong Specialties Co., Ltd., Liaoning Zhenlong Specialties Co., Ltd. inflated profits by inflating the unit price of export sales, and Ruihua Certified Public Accountants checked the sales contracts and other original documents to verify the income authenticity, that is, the "occurrence" determination. However, the fraudulent method of Liaoning Zhenlong Specialties Co., Ltd. is to inflate profits by means of real contracts and fictitious sales unit prices, which means that the fraud risk of Liaoning Zhenlong Specialties Co., Ltd.'s income is the risk of material misstatement determined by "accuracy".

Although Ruihua Certified Public Accountants designed and implemented audit procedures related to the determination of revenue "occurrence", it was unable to adequately address the risk of material misstatement in the determination of "accuracy".

5. Conclusion

The changes in the "assertion" classification under the new standards have resolved some confusions in the "assertion" classification of the old auditing standards, and are conducive to advocating certified public accountants to pay attention to "classification" misstatements of assets, liabilities and equity and misstatements in the presentation process. At the same time, the classification of "assertion" under the new standard has changed the connotation of specific "assertion", making the classification of "assertion" more in line with the perspective of audit workflow. In auditing practice, certified public accountants should clearly identify the reasons for the risk of material misstatement at different levels, and accurately judge what kind of "assertion" has the risk of material misstatement, and then design and implement targeted audit procedures to improve audit quality.

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