

# *Identification and Prevention of Financial Fraud in Listed Companies*

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**Abstract:** Financial fraud, as a vicious behavior affecting the credibility of listed companies and market order, has long been the focus of attention in the fields of economic rule of law and corporate governance. In the rapid development of the market economy, the transparency of financial information and the strengthening of market supervision, financial fraud is increasingly hidden and complex, which not only makes the investor's rights and interests are infringed upon, but also constitutes a hidden danger to the healthy development of the entire capital market. In this paper, starting from the types, factors and means of financial counterfeiting, we study and put forward financial counterfeiting identification methods and prevention strategies.

## **1. Introduction**

With the in-depth development of economic globalization, as the main body of the market economy, the authenticity and accuracy of the company's financial reports play a crucial role in investor decision-making, government supervision and rational allocation of resources. However, the frequent occurrence of corporate financial fraud in recent years has not only seriously harmed the interests of investors, but also shaken the public's confidence in the capital market. Therefore, in-depth study of the identification and prevention mechanism of corporate financial fraud is of great theoretical and practical significance.

## **2. Types of Financial Counterfeiting**

Judging from the nature of counterfeiting behavior, financial counterfeiting is divided into three types. Among them, the direct financial counterfeiting of falsified records or documents is the most direct means, such as fictitious sales contracts, exaggerated amount of revenue, or issuing false purchase invoices, etc.; secondly, the management manipulates the financial information through the change of accounting estimation and policy, or the direct use of control to implement the manipulation of the assets or earnings to maximize personal interests; thirdly, the intentional misreporting or delayed reporting of key financial matters or indicators, resulting in significant investor decision-making. Third, deliberate misstatement or delayed reporting of key financial events or indicators, resulting in significant bias in investor decision-making.

Of all the types of counterfeiting, controlled financial manipulation to conceal true intentions is

particularly difficult to identify effectively. Companies record transactions through special purpose entities or offshore companies to conceal the source, use and flow of funds, and these behaviors increase the concealment and complexity of financial counterfeiting.

### **3. Financial Counterfeiting Factors and Means**

#### **3.1 Financial counterfeiting factors**

##### **3.1.1 Unreasonable shareholding structure**

For many listed companies, unreasonable equity structure has been proved to be one of the core factors inducing financial fraud. If the equity is overly concentrated in the hands of a few major shareholders, the control over the company is too large, which may lead to the failure of management supervision and abuse of the rights of managers, resulting in the company's irregular financial false reports. For example, in the case of financial fraud of Ruixing Coffee, the first major shareholder Lu Zhengyao holds 26%, and there is a close nepotism with other individual shareholders, the company's equity structure is seriously imbalanced, showing a dominant situation, thus providing the company with the opportunity to commit financial fraud and cover up the reality of the weak performance and losses through fictitious transactions and inflated revenues.

In addition, due to the lack of effective mechanisms to protect the rights and interests of minority shareholders, this objectively contributes to the motivation of majority shareholders to utilize financial fraudulent means to maintain and enhance their control position. Major shareholders have the ability to intervene or manipulate the financial decision-making process, making the company's accounting information no longer the true basis for market decisions.

The irrationality of the shareholding structure is not only reflected in the unbalanced distribution of shareholdings, but also in the stability and liquidity of shareholdings. The poor circulation of equity leads to the reduced adaptability of the company to the external financing environment, and its financial situation is vulnerable to the fluctuations of the capital market, which increases the triggering factors of financial fraud.

##### **3.1.2 Deficiencies in internal management**

The laxity of internal management is manifested at several levels. First, the lack of effective internal supervision mechanism provides great space for financial fraud. Especially for companies that have not established a strict internal control mechanism, lack of rigorous review process or internal control failure, the internal flow of funds may be out of control, and the major shareholders are almost unrestricted in transferring funds to the company through various means.

Second, lagging risk management. In the midst of rapid development, the company failed to adjust its risk management strategy in time to accommodate the growth and diversification of its business scale. Information opacity in the decision-making process became commonplace, especially in the lack of necessary transparency in financial planning and major investment decisions, and this ambiguity ultimately masked financial fraud. In addition, the reporting and monitoring of irregular business activities within the company were equally negligent, thus facilitating fictitious revenues and shifting costs[1].

Thirdly, some irregular bookkeeping, such as excessive accruals and inaccurate measurement of inventories, were not detected and corrected by the internal audit department in a timely manner, thus resulting in significant inaccuracies in the financial reports issued to the public.

### **3.1.3 Lack of independence of independent directors**

The independent director system, as a corporate governance mechanism, was originally intended to be an arrangement to provide independent advice to monitor management and protect investor interests, but in some companies, this mechanism has not been able to play its proper role. The existence and activeness of independent directors provide a guarantee for corporate governance at the institutional level, however, the implementation process has revealed various problems, including the opacity of the selection mechanism, the lack of substantive independence, and the insufficient monitoring ability[2].

There is a more complex correlation between independent directors and management and controlling shareholders. In some companies, due to the dominant power of controlling shareholders in selecting independent directors, the independent directors they select have deeper interpersonal network relationships with themselves, making it difficult for them to maintain an independent stance in decision-making. The existence of such independent directors in the company is more of a formal requirement than a substantive monitoring and checking force. Due to the lack of necessary constraints on management and controlling shareholders, in the face of financial fraud, independent directors can easily be reduced to acquiescence and favor the accomplices of inaccurate financial information[3].

### **3.1.4 Third-party institutions are complicit in the fraud**

The role of the auditing organization plays a crucial role in the authenticity of financial information. However, the lack of independence and impartiality of some auditing organizations has led to the lack of truthfulness, completeness and reliability of the company's financial reporting information. Audit firms may turn a blind eye to errors or falsifications in financial statements in order to maintain a long-term relationship with their clients, or because of difficulties in maintaining an objective and impartial stance in the face of undue interference from management. To make matters worse, some firms are responsible for auditing a company while providing advisory services to that company. This practice violates the independence that should be maintained between the two, but is widely practiced in practice due to lax supervision, which ultimately leads to the connivance of financial fraud.

## **3.2 Means of Financial Fraud**

### **3.2.1 Asset-based counterfeiting**

Asset-based counterfeiting occupies an important position in financial counterfeiting, and its means are diverse and hidden. Inflating assets is one of the most common counterfeiting techniques. The company records non-existent assets in the accounts through fictitious transactions or exaggerated transaction amounts to achieve the purpose of inflating the total amount of assets[4].

The overvaluation of assets is achieved by exaggerating the value of existing assets. It is common to overvalue fixed assets and inventories. The company can artificially extend the depreciation life of production equipment so that the annual depreciation expense is reduced, thus inflating the book value of fixed assets. Or, it can increase the value of inventory by raising the cost of inventory.

Asset transfer techniques are used to enhance the financial position of the parent company by transferring poor quality assets to an affiliate or special purpose entity. This technique is particularly common in the financial industry. In order to hide their non-performing loans, companies transfer these loans to special purpose entities they set up and repackage these loans as seemingly high-quality assets through sophisticated financial instruments[5].

The various types of techniques mentioned above not only undermine the authenticity of financial statements and mislead investors and regulators, but may also trigger serious legal consequences and market turmoil. Therefore, identifying and preventing these counterfeiting techniques is of great significance in maintaining market order and investor interests.

### **3.2.2 Profit Manipulation**

In financial statements, profit, as an important indicator of the company's operating results, often becomes the focus of management and investors. Profit manipulation means a variety of means, mainly through revenue recognition, cost and expense adjustment and non-recurring gains and losses and other aspects of the operation[6].

Revenue recognition is one of the main means of profit manipulation. The company regulates the profit level of different periods by recognizing revenues in advance or delayed. It enhances the current period's profit by inflating revenue, or utilizes false transactions and connected transactions to inflate revenue. False transactions are common between the company and related parties to achieve the purpose of inflating revenue through fictitious sales or service contracts.

Cost and expense adjustment is also a common means of profit manipulation. By delaying or recognizing costs and expenses in advance, the company regulates the profit level in different periods. The company can influence the level of costs and expenses in the current period by adjusting its inventory valuation methods, such as employing the first-in-first-out (FIFO) or last-in-first-out (LIFO) approaches. Additionally, the company may manipulate the reported level of profits in the current period through the artificial reduction or increase of depreciation expenses, research and development expenses, and other financial strategies. Reason: The revised text enhances clarity and coherence while maintaining an academic tone. It also corrects grammatical issues and improves the overall structure of the sentences.

The manipulation of non-recurring gains and losses is also an important means of profit manipulation. The company regulates current profits by categorizing recurring profit and loss items as non-recurring profit and loss, or through one-time gains. The purpose of beautifying financial statements is achieved by obtaining one-time gains through the disposal of fixed assets and equity investments, or by obtaining non-recurring gains through debt restructuring and government grants.

While profit manipulation can enhance a company's financial performance in the short term, in the long term, such behavior can have a negative impact on a company's reputation and sustainable development. Once exposed, the company will face legal risks and market penalties with incalculable losses.

### **3.2.3 Tampering with cash flow statement**

In financial counterfeiting, cash flow statement tampering is a relatively hidden but far-reaching means. Cash flow statement tampering not only involves fictitious income and expenditure, but may also be operated through complex related transactions and voucher forgery. These means can beautify the company's financial position in the short term, but in the long term, once revealed, they not only lead to damage to the company's credibility, but may also face severe penalties under the law and regulation. In this regard, investors and regulators need to be more cautious in analyzing a company's financial statements, and in particular be alert to unusual changes in the cash flow statement[7].

### **3.2.4 Funds appropriation by major shareholders**

By occupying the company's funds in an unreasonable manner, major shareholders directly affect the real financial status of the listed company, and moreover cause hidden infringement on the

rights and interests of small and medium-sized shareholders. While occupying the funds of listed companies to provide liquidity support for themselves, major shareholders are very likely to set unreasonable conditions in connected transactions and use price manipulation and other means to reach internal conspiracy, which is suspected of constituting misleading to the market. In addition, major shareholders may borrow huge sums of money from listed companies through related parties, and then transfer the funds to other related parties for investment or repayment of principal and interest, resulting in the display of inflow of inflated funds[8].

In short, the behavior of major shareholders taking up funds reflects, to some extent, the lack of governance within the company, which not only damages the credibility of the listed company, but also may lead to a serious loss of trust in the market. This kind of financial counterfeiting behavior brings harm to the capital market should not be underestimated.

### **3.2.5 Implementation of non-fair connected transactions**

Implementation of non-fair connected transactions is also one of the means of counterfeiting. Companies use connected transactions to adjust profits and transfer assets to hide the real financial situation to meet the needs of different purposes. Companies use prices that deviate significantly from the market to engage in connected transactions, or allocate the benefits and costs of related-party transactions to different accounting periods, or avoid taxes and regulations by hiding or exaggerating the size of the transactions.

Unreasonably adjusting the distribution of benefits among related parties through sham transactions not only violates the basic principles of accounting, but also can cause serious damage to the operating order of the entire capital market. The regulatory authorities need to carry out stricter supervision of such transactions and improve relevant laws and regulations to prevent the impact of financial fraud on the capital market. At the same time, it is also necessary for listed companies to internally strengthen the management of connected transactions and improve the internal control system to ensure the authenticity, legality and reasonableness of connected transactions, so as to protect the legitimate rights and interests of investors and other stakeholders[9].

### **3.2.6 Failure to Disclose Material Matters**

Failure to disclose material matters not only directly violates investors' right to know, but also constitutes a serious impact on the fairness and transparency of the capital market. The essence of financial information disclosure is to reduce information asymmetry and protect investors' interests, and the completeness of disclosure directly affects the realization of this goal. Deliberate non-disclosure of material matters reflects contempt for the rules of the information disclosure system and management's tendency to deliberately manipulate and mislead the market.

Undisclosed matters can take various forms, including but not limited to financial fraud, significant debt risks, changes in internal decision-making or strategic adjustments related to the company's prospects, etc. Their common characteristic is that such information, once released, has the potential to have an immediate impact on the company's share price. The company can mislead the market by deliberately concealing the relevant risk factors, investors investment decisions of and creditors.

The company's failure to disclose material matters not only brought about the infringement of investors' rights and interests, but also weakened the market's trust in the listed company, which had a great negative impact on the stability and healthy development of the capital market, and seriously affected the transparency and efficiency of the market. Therefore, both the regulatory authorities and the investor community need to be more alert to such behavior of undisclosed material matters

and take active measures to deal with it in order to maintain the fairness and order of the market.

## **4. Identification of financial fraud**

### **4.1 Financial ratio analysis**

The use of financial ratio analysis as a means of detecting the company's financial misconduct, mainly through the company's financial data to carry out detailed calculations and analysis, and then infer whether the company is suspected of financial fraud. In this process, analysts will refer to various types of financial indicators for comprehensive comparison and evaluation.

In terms of debt repayment ability: it covers indicators such as current ratio, quick ratio and cash flow ratio. The analysis of these indicators helps to make a judgment on the company's solvency. If the company's solvency index is low, it may imply that the company is in poor financial condition and suspected of financial fraud.

In terms of profitability: it involves indicators such as net profit margin, gross profit margin, and operating profit margin. Through the calculation of these ratios, the company's profitability can be evaluated. If the company's profitability indicators are not satisfactory, it may mean that the company is suspected of profit manipulation or financial misrepresentation.

As for operational efficiency: it contains indicators such as asset turnover ratio, inventory turnover ratio, accounts receivable turnover ratio and so on. Ratio analysis of the company's operational efficiency helps to understand the efficiency of asset utilization and business status. If these ratios are on the low side, it may indicate that the company's use of funds is inefficient or that it is experiencing difficulties in its operations, which may lead to suspicions of financial fraud.

Aspects of the company's growth potential: These include the growth rate of operating income, net profit, asset growth rate and other indicators. By analyzing these growth capacity ratios, the company's development prospects and growth rate can be assessed. If a company's growth capacity ratios are abnormally high and inconsistent with other indicators, this may indicate that the company has inflated revenues or other financial misbehavior.

Cash flow aspects: These include cash flow from operating activities ratio, cash flow from investing activities ratio, and cash flow from financing activities ratio. Calculation of these ratios assesses a company's cash liquidity and solvency. If the cash flow ratios are low or inconsistent with industry norms, this may indicate that the company has misrepresented its profits or other financial misbehavior.

Financial ratio analysis is an all-encompassing and fair means of identifying financial misbehavior, but in practical application, one should not rely on a single indicator to determine whether a company has financial inaccuracies, but rather should comprehensively consider the trends of multiple indicators and combine them with other financial information to make a comprehensive study. At the same time, financial ratio analysis should be used in conjunction with other screening tools to enhance the accuracy and credibility of the judgment results through cross-validation.

### **4.2 Cash flow analysis**

One of the means of assessing financial health is the cash flow analysis technique, which centers on examining the specifics of a company's cash flow. Cash flow analysis covers a wide range of techniques and assessment indicators, and this article will focus on a few key analytical tools.

As the basic information for cash flow analysis, the cash flow statement plays an indispensable role. It is the core part of the company's accounting statement system, covering the three major cash flow links of operating activities, investment activities and financing activities. Through in-depth



analysis of the cash flow statement, we can make a comprehensive evaluation of the company's cash flow activities.

In the process of cash flow analysis, cash flow ratio is a frequently used evaluation index. These ratios are categorized into operating activities, investing activities and financing activities, of which the cash flow ratio of operating activities reveals the relationship between the company's operating income and cash flow, and becomes a key factor in measuring the company's operating efficiency. The cash flow ratios of investing activities and financing activities, on the other hand, show the linkage between the company's cash flows in these two areas and the corresponding indicators. A detailed analysis of these ratios helps us to gain a deeper understanding of the company's cash flow position.

Comparative analysis of cash flows is also a commonly used method of cash flow analysis. This method is used to identify whether there is any abnormality in the company's cash flow by comparing the company's cash flow data with past records or industry averages. If the company's cash flow data is found to be far from historical data or industry standards, it may indicate that there are problems with the company's financial condition and further in-depth investigation is required.

In addition, building a cash flow analysis model is also a way of cash flow analysis. Cash flow analysis model is a customized analysis tool based on the actual situation of the company, through the comprehensive consideration of the company's cash flow indicators, to make an assessment of the company's financial health. According to the specific needs of the company, different cash flow analysis models can be designed in order to more accurately judge the company's financial situation.

In conclusion, cash flow analysis is an important tool for detecting financial fraud, and it judges the financial health of a company by examining its cash flow situation. The technique consists of cash flow statement analysis, cash flow ratio analysis, cash flow comparison analysis, and customized cash flow analysis models. The comprehensive use of these means provides us with a comprehensive understanding of the company's financial situation, and is of great significance for the prevention and identification of corporate financial fraud.

### 4.3 Application of Data Mining Technology

Data mining technology refers to a technique that aims to reveal hidden patterns, rules, correlations, and movements by exploring vast data sets. In the process of detecting corporate financial fraud, data mining techniques become a powerful tool for identifying and analyzing unusual changes in financial data, providing technical support for exposing fraud.

The use of data mining techniques to analyze numerous financial data in depth can reveal specific signs and paradigms of possible financial fraud. For example, by comparing the financial ratios of different companies, it is possible to observe that certain companies show unusual movements in key financial ratios, or that certain companies show significant deviations from their peers' financial ratios. These anomalous signs may be signals of fraudulent behavior, which can be revealed through in-depth analysis of data mining techniques, and more in-depth verification and identification.

Data discovery techniques are able to pre-speculate and evaluate a company's financial data by constructing models. Arms, for example, can create financial forecasting models that use historical financial data to predict the future financial direction of the company and compare the forecast results with the real situation. If the predicted results are far from the actual situation, it may indicate tampering or manipulation of financial data. The modeling analysis of data mining techniques can reveal such discrepancies and make further identification.

In addition, data mining technology can also explore the intrinsic links and dependencies

between financial data through classification analysis and association rule exploration of financial data. For example, by classifying and analyzing company financial data, similar companies are grouped into the same category, and then the financial data in similar companies are compared in order to discover anomalies. At the same time, frequent correlations between certain indicators in financial data may also suggest financial fraud. These connections and patterns can be uncovered and analyzed and identified in detail through classification analysis and correlation rule exploration by data mining techniques.

In identifying corporate financial fraud, data mining technology plays a crucial role in revealing the characteristics and paradigms of fraud through the analysis of a large amount of financial data; predicting and evaluating financial data through the construction of models; and discovering the anomalies and intrinsic connections of financial data through classification analysis and association rule exploration. These applications significantly improve the accuracy and efficiency of identifying corporate financial fraud, which is crucial to ensuring market order and investor rights.

## **5. Financial Fraud Prevention**

### **5.1 Investing in improving the effectiveness of government supervision**

In order to deepen the fight against financial fraud in the market and ensure the healthy development of market order, strengthening the rule of law is particularly necessary at the national level. This move requires close collaboration among relevant departments such as the public security department, the Securities and Futures Commission, the finance department, the central bank, the financial supervision department and the State-owned Assets Supervision and Administration Commission to improve key laws and regulations such as the Company Law and the Securities Law, in order to establish a strict rule of law tone and effectively curb attempts by companies to violate the rule of law by counterfeiting. At the same time, a multi-dimensional joint governance system was constructed to implement strong control and intervention against financial counterfeiting. In addition, optimize the enforcement mechanism and system of regulation to ensure the efficiency and precision of its operation. Increase all-round and three-of-responsibilities to ensure that offenders bear the corresponding legal responsibility. At the same time, establish a regularized prevention and control mechanism, strengthen the ability of clue discovery, enhance the effectiveness of penetrating supervision, promote interdepartmental information sharing, and increase the cost of violating the law in order to strike a heavy blow against financial counterfeiting in the capital market and maintain a healthy market order.

### **5.2 Continuously improve the level of corporate governance**

Reinforcing the company's internal regulatory system is the core means of preventing financial misconduct. The system involves numerous rules and operational guidelines formulated by the company to ensure the accuracy, comprehensiveness and trustworthiness of financial information. Efficient internal control not only helps to prevent and reveal financial misconduct, but also promotes the upgrading of the company's management and enhances market competitiveness.

The company should set clear internal control objectives, which should include safeguarding the credibility of financial reporting, improving operational efficiency and effectiveness, complying with legal requirements, and protecting the safety of the company's assets. The company needs to ensure that internal control measures are carried out in a uniform and standardized manner across all departments. At the same time, the company should strive to create a sound internal control environment, formulate its own rules and regulations, optimize its governance structure, and ensure the independence of the board of directors and management, as well as effective supervision. The



company should also conduct internal audits on a regular basis to monitor the effectiveness of regulatory measures and ensure the independence of the audit department, which reports directly to the board of directors or the audit committee to maintain independence and impartiality. The auditing mechanism should adopt scientific auditing steps and methods, clarify the synergistic responsibilities of each department, and ensure that auditors perform their tasks objectively and impartially in all aspects of the auditing process, such as preparation, execution, reporting, and follow-up improvement, and that problems are resolved in a timely manner when they are detected. In addition, the company should establish a rigorous accounting record system to ensure the authenticity and completeness of each transaction record and to safeguard the accuracy and timeliness of financial information.

When conducting internal control activities, the Company shall ensure the effectiveness of control measures and develop detailed control processes and procedures. Control activities should include separation of incompatible duties in business, authorization and approval, asset protection, and accounting system control. The company needs to ensure that all business activities have clear approval authority and procedures to prevent excessive concentration of power. The company should reasonably allocate duties to achieve mutual checks and balances and supervision to avoid fraudulent behavior caused by concentration of power.

Company executives and financial accounting personnel play an important role in internal control, and their professionalism directly affects the accuracy and credibility of the company's financial reports. Enhancing the professionalism of these personnel is one of the important measures to prevent financial fraud.

The company should focus on the professionalism of financial personnel training and education. Regular training on professionalism is conducted to improve financial personnel's understanding of professionalism and to establish an upright professional concept and value orientation. For example, industry experts or researchers can be invited to hold seminars to teach advanced concepts of professionalism at home and abroad, analyze the serious consequences of financial fraud in conjunction with actual cases, and enhance the sense of professional responsibility and awareness of the rule of law among financial personnel. The Company also needs to build and improve the evaluation system of professionalism, by setting reasonable evaluation standards, incorporating the performance of professionalism into the performance evaluation of senior management and financial accounting personnel, rewarding and encouraging those with outstanding performance, and seriously dealing with behaviors that are contrary to professionalism. The Company should create a positive cultural environment for professional ethics. Promote the cultural concept of integrity as the core and professional ethics as the most important thing within the company, and create an atmosphere in which all staff comply with professional ethics. Management needs to practise what they preach and set an example for employees to follow. At the same time, the company's internal bulletin boards, publications, online media and other means to widely disseminate the norms of professional conduct and classic cases, to strengthen the financial staff's knowledge of professional conduct and sense of belonging.

In addition, the company should improve the internal reporting and protection mechanism. Encourage employees to report perceived financial fraud, and provide necessary safeguards for whistleblowers to ensure that their legitimate rights are not jeopardized. For instance, the company has established an anonymous reporting box and opened a dedicated reporting hotline, while also ensuring the protection of whistle-blowers' privacy. Furthermore, the creation of comprehensive report processing procedures guarantees timely investigation and resolution of reports. Reason: The original text contained grammatical errors, such as incorrect verb forms and punctuation issues. The revised version corrects these errors and enhances clarity while maintaining an academic tone.

### 5.3 Strengthen the independence of third-party practice

Strengthening the audit supervision function is an important countermeasure to prevent corporate financial fraud. In order to effectively perform this function, the independence of the auditing organization must be comprehensively reviewed to ensure that the auditing activities are not interfered by external factors. Audit independence is the key to guaranteeing audit quality and the reliability of audit results, and needs to be reinforced through both legislative and regulatory dimensions. At the legislative level, the CPA Law and other relevant laws and regulations should be improved to clearly define the independent relationship to be maintained between the auditor and the audited entity and the code of practice behavior. The regulatory level includes the establishment and improvement of a professional discipline system for CPA, a mechanism for monitoring the quality of financial reports, and a system for sampling and reviewing audit projects.

Regarding the appointment and evaluation of CPA, the establishment of a market-oriented and professionalized appointment mechanism should be advocated to prevent the lack of audit independence due to relationships. At the same time, the professional ethics and professional skills of auditors should be used as key indicators for evaluating audit quality, and their professionalism and sense of professional responsibility should be enhanced through regular continuing education and professional assessment. It is also necessary to enhance the credibility of the audit results, so that the public, including investors, can make objective evaluations of the audit results through transparent and open audit reports and audit accountability mechanisms, and initiate litigation proceedings against the CPA involved in counterfeiting when necessary.

The audit oversight function can be further strengthened through the improvement of the information disclosure mechanism. An improved information disclosure mechanism requires companies to publish more and more detailed financial and non-financial information. For example, there should be clear disclosure specifications for areas that need to be focused on, such as large connected transactions, asset impairment, and revenue recognition, and they need to be audited and certified by an independent CPA firm. Plus, for accounting estimates with large changes, timely explanations and disclosures should be made to prevent behavior that causes misrepresentation or concealment of the true situation.

Preventing and combating financial counterfeiting is a systematic project, which requires comprehensive measures in many aspects in order to effectively prevent and reduce the occurrence of corporate financial counterfeiting, and then promote the development of the entire capital market in the direction of healthier and more transparent.

## 6. Conclusion

Through the analysis of the deep-rooted causes of corporate financial fraud and its means of implementation, research and put forward financial fraud identification methods and prevention strategies, in response to this problem, to build a set of targeted prevention system, committed to curbing financial fraud from the source. The system includes: strengthening the construction of the company's internal control system; improving the legal and regulatory system to increase the cost of illegal behavior; enhancing the effectiveness of the regulatory agencies' law enforcement, and implementing regular supervision and investigation. This series of measures is of great significance in enhancing the level of corporate governance and financial transparency, which can not only effectively curb the occurrence of financial fraud, but also effectively protect the legitimate rights and interests of investors, and promote the fairness, justice and transparency of the capital market. In addition, this system can also provide a certain support base for the construction and improvement of the integrity system under the conditions of China's market economy, which has far-reaching practical and strategic significance for maintaining social stability and promoting the

high-quality development of the economy.

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