

Some Thoughts on the Strange Disappearance of Scallops

Li Yirong

School of Economics and Management, Qujing Normal University, Qujing 655000, China

Keywords: Zhangzi island, Audit, Biological assets

Abstract: In 2014, the incident of the crop of Zhangzi Island was full of excitement. It was thought that the company would be rehabilitated and practiced in a down-to-earth manner. As a result, the old tricks of Zhangzi Island reappeared on November 11, 2019. The announcement said that a large proportion of scallops had died recently. The loss is up to 300 million yuan. This article analyzes the reasons for the time in Zhangzi Island from different aspects and gives relevant suggestions.

1. Introduction

On October 30, 2014, Zhangzi Island announced that due to the abnormal cold water mass of the North Yellow Sea, the company invested 3 million years ago and harvested millions of acres of marine pastures in the autumn of that year. As a result, the first three quarters of the results “Big face change”, from the forecast profit to a loss of about 800 million yuan, a large loss is expected throughout the year. Zhangzidao has changed from a continuously profitable outstanding stock to a black hole with huge losses of 800 million yuan, and investors will face huge losses. It was thought that Zhangzi Island would be rehabilitated. Who knew that it would only take 5 years and the trick would repeat itself.

On the evening of November 11, 2019, the listed company Zhangzidao issued an announcement saying that according to the company's summary of the acre production data of the company's spot testing points from November 8 to 9, the average acre yield of oyster scallops in the bottom of the sampled area in 2017 was insufficient. In 2018, the average acre yield of bottom-seeded oyster scallops in 2018 was less than 3.5 kg, and the yield per mu was significantly lower than the average yield of 25.61 kg per acre in the previous October. The company's preliminary judgment has constituted a significant risk of inventory depreciation of oyster scallops. “Bottom-seeded scallops have recently suffered a large proportion of deaths, with scallops dying in more than 80% in some areas.” “The scallop may have just died because the soft tissue is still attached to the scallop shell,” said Wu Hougang, the head of Zhangzi Island. As of the end of October 2019, the company had lost a total of RMB 300 million in book value alone. In this way, after 2014, precipitation, water temperature anomalies, expansion of farming scale, marine disasters and cold water masses caused scallops to escape or even be injured, the drama of “Bazi Island Scallop Life and Death” has a sequel. The following day, Zhangzidao's stock price fell to a daily limit. The investors and netizens couldn't sit still about the “Fantastic” incidents in Zhangzi Island repeatedly, and said directly, “You can lie to me, but pay attention to the number of times.”

2. Cause Analysis

2.1 High Inventory

As the seafood breeding enterprise of Zhangzi Island, the largest asset is inventory. The 2012 annual report shows that inventory accounts for 55% of total assets. After the events in 2014, the inventory ratio declined, but it also remained at 32%. Before listing at the end of June 2006, the area of the breeding area of Zhangzi Island was 656,300 mu, and the inventory of consumable biological assets was 217 million yuan. At the end of 2011, the breeding area increased to 2.85 million mu, the inventory of consumable biological assets rose to 1.798 billion yuan, and the amount of inventory per unit area increased by 91%. Relevant information shows that since the listing of Zhangzi Island, the prices of oyster scallops and sea cucumbers have increased by about

10-20%. If the breeding density does not change, the amount of inventory per unit area will increase by 10-20%. The inventory amount per unit area increased by 91%, and after deducting the price factor, the planting density per acre should increase by at least 70%, which has exceeded the limit of seafood sowing.

There are serious loopholes in the relationship between Zhangzidao's financial statements, and the increase in book inventories far exceeds the theoretical increase in current inventories calculated from the financial statements. The source of large inventories cannot be explained. Show related reporter investigation: A crew member dressed in the uniform of the fishing team of Zhangzidao Company revealed that the so-called "cold water mass" in Zhangzidao's claimed external area. When seedlings were planted between 2009 and 2011, a large amount of sand and tiles were mixed. At the same time, the number of seed was falsely reported, there were only one or two hundred of 1,000 seed. This explains that the abnormally high inventory of earnings may be a sign of financial fraud in Zhangzidao.

2.2 Tight Funds, Crazy Debts

Zhangzidao has been obsessed with issuing short-term financing bonds since 2010. The company's cash is mainly supported by fund-raising activities. Taking the first quarter of 2012 as an example, 900 million yuan was raised in just a few months. The first short-term financing bonds of the year were issued on March 27, 2012, raising 500 million yuan. The first quarter report of that year showed that the fund on the account was 644 million yuan, and the first 500 million yuan short-term debt and debt registration date was March 29 (that is, the 500 million yuan raised was credited to the account on the same day), so the account was on March 28. There should be only 144 million yuan of funds. In order to make the statements look good, the short-term financing was issued before March 31st, and it seems that the monetary funds are relatively abundant. The second phase of short-term financing bonds was issued on May 11, 2012, raising 400 million yuan. Zhangzi Island decided on March 26 to pay dividends for 2011, and officially issued a dividend payment announcement on June 8. A total of cash was required to be paid. The bonus is 248 million yuan. In order to lend money to shareholders to distribute dividends, the second phase of the short-term financing was issued on May 11 to raise 400 million yuan.

The structure of the loan term of Zhangzidao is unreasonable, and the funding pressure is huge. If the company is optimistic about the future and has a strong investment, it should be matched to obtain long-term loans, but in fact the company's debt period is constantly falling, short-term borrowing and long-term use can easily cause cash flow breaks, and high interest expenses will bring funds to Zhangzidao. Huge stress. The 2018 annual report shows that there are 1.5 billion short-term loans, accounting for 42.94% of total assets, an increase of 6.38% year-on-year. From the 18-year statement, it can be seen that these 1.5 billion short-term loans are all pledges and mortgages. Once the capital chain breaks, it faces the sea the right to use was transferred to other uses, and the business situation was worrying.

2.3 Dominance

Zhangzi Island was restructured from the collective enterprise affiliated to Zhangzidao Town and formed after more than ten years of development. [2] According to the company's latest annual report for 2018, the controlling shareholder of Zhangzidao is Changhai County Zizidao Investment Development Center, with a share of 30.76%. From the analysis of the composition of shareholders, Zhangzidao Town is a collective enterprise of villages and towns. Village and township enterprises are collective asset management. Most town-level and village-level cadres have become corporate management. If the government and enterprise are not separated, it may seriously affect the efficiency of enterprise resource allocation and even the overall operating efficiency.

2.4 Audit Deficiencies

As of 2018, Dehua Certified Public Accountants (Special General Partnership) has audited Zhangzi Island for 8 consecutive years. Even after 14 years of incidents, Dahua Certified Public Accountants audited, which is also worth pondering. Of course, not only that, the Zhangzi Island

incident has triggered us to conduct relevant accounting treatments of corporate inventories under current corporate standards in China, and how CPAs should obtain adequate and appropriate audits of corporate inventories, especially biological asset inventories. Thinking of evidence to produce a reliable assurance report. The inventory supervision of the aquaculture industry has always been a major problem for internal and external audits. It is difficult to account for the actual number of seedlings in the bottom sowing scallops. Therefore, it is generally recorded according to the purchase list. After the bottom sowing, the inventory Supervision has become more difficult to control. The extensive breeding method of bottom-seeding breeding combined with the high professionalism and complexity of agriculture makes it difficult for specific inventory quantities to achieve third-party audit testing. Auditors conduct field inspections and use sampling samples to infer overall samples. Auditing difficulties are difficult to achieve in the true sense of accuracy.

2.5 Internal Control Failure

Throughout the entire event, it is not difficult to find that the main risk comes from the customer's internal control that cannot be prevented or found, that is, the possibility of controlling risk comes from internal control. As a large-scale aquaculture listed company, the sudden outbreak of the cold water group incident caused such a significant loss, which more or less revealed the following significant aspects of Zhangzi Island's internal control of its biological asset inventory Defects:

Blind expansion of expendable biological asset inventory. Since the listing of Zhangzi Island in Shenzhen Stock Exchange in 2006, as of the end of 2018, the breeding sea area has increased from 656,300 mu to more than 5 million mu, and since 2010, Zhangzi Island has started bottom-seeding in the deep sea above 45 meters, but according to the “ The introduction of oyster scallop breeding technology in marine waters, oyster scallops “are naturally distributed in coastal areas with high salinity, hard substrate without freshwater injection, less silt and water depth not exceeding 40 meters”. The risk of aquaculture at a depth of 45 meters is much higher than that of general aquaculture enterprises. However, no risk prompt disclosure has been made in its financial report on this risk.

Risk monitoring of consumable biological assets inventory is useless. As early as 2012, former executives of Zhangzi Island reported on the internal management of Zhangzi Island, claiming that “Zizi Island has” confused corporate governance, salespersons violated regulations “and insufficient seedlings, and there are even salespersons and individual seedlings. Collusion, the phenomenon of mixing bricks inside the shell seedlings, although the case has been resolved, but it shows that the monitoring of the production phase of the consumable biological assets of Zhangzi Island is lacking. The 18-year annual report shows that according to expert guidance and recommendations, the company revised and perfected the trial operation plan of the “Eco-environment Monitoring and Management System for Bottom Sowing Scallops” in March 2018. The plan clearly stipulated the monitoring of meteorology, water temperature, water quality, and phytoplankton. Indicators; clarified the monitoring station layout of the proliferation zone and the monitoring frequency, sampling monitoring methods, and evaluation standards of various monitoring indicators; emphasized the warning indicator standards and the action mechanism at the time of warning, and increased the combination of production site information feedback and monitoring data Joint early warning mechanism. However, there are repeated appearances of oyster scallops, can it be considered that the internal control is invalid?

The possibility of fictional biological biological assets is not excluded. Because biological assets are inherently peculiar, it is difficult for even an audit to verify their authenticity, so this also facilitates the company's financial fraud, and unknown natural disasters provide a natural barrier for corporate fraud. Therefore, it is reasonable to suspect that Zhangzi Island used this to conduct financial fraud and deceive the trust of the market.

3. Suggestion

3.1 Auditors Should Pay Attention to the Supervision of Inventory

Auditors often walked the scene when conducting inventory supervision. Due to their own auditing difficulties, biological assets also provided auditors with speeches. According to data, in 2014, Dahua Certified Public Accountants' drawing of the submarine ranch in Zhangzidao The area ratio is very small. The company's inventory investigation of the submarine pasture took 28 days, while the supervision of Dahua Institute took only 3 days. [1] Regardless of area or time, this supervision is unqualified. Auditors must attach great importance to the supervision of inventory. Inventory is an important asset of an enterprise, and supervision is also an essential link in the audit process. This is of great significance for obtaining authenticity and integrity of the inventory. Of course, if supervision is true Difficulties also need to be reflected in the audit report. Don't "audit" for audit, this will mislead most investors.

3.2 Emphasis on the Use of Expert Work

Professional matters are left to professional people. Auditors cannot be proficient in everything. For this particular inventory, you should consult with experts if you need help. Due to the economic downturn, many accounting firms often ignore the importance of expert work in order to reduce costs and complete audits within a prescribed time, as is the case in Zhangzidao.

3.3 Strengthening Internal Control

As a large aquaculture listed company, internal control of biological asset inventory should be established to prevent blind expansion of expendable biological asset inventory. The cultivation of oyster scallops in the sea area is also limited. We cannot blindly pursue benefits and ignore the risks involved; Strengthen the risk monitoring of consumable biological assets from the start-up phase, production phase and supervision phase; reduce the possibility of fictional biological assets. In view of the inventory characteristics of aquaculture listed agricultural companies, the company should pay attention to the construction of internal control of biological assets, which is of vital importance to the company's asset safety. The construction of internal control can also promote audit-related work to a certain extent of completion.

3.4 Strengthening the Supervision of Disclosure of Biological Assets

For inventories of a special nature, the supervisory authority should oblige them to disclose biological assets, if conditions permit, they should be disclosed separately in the notes to the statements, and require a multi-level review of major consumable biological assets and their changes in accordance with the principle of materiality. Detailed disclosure will undoubtedly provide investors with comprehensive, relevant, reliable and timely information. [3]

References

- [1] Li Keliang. Audit(2015), please let the "black swan" go away [J]. Finance and Accounting Monthly, no.5.
- [2] Zhang Hongmei(2018). Financial Problems of Zhangzidao Company and Suggestions [J]. National Circulation Economy, no. (24): 18-22.
- [3] Wang Sheng(2018). Case Study on the Failure of Internal Control of Agricultural Listed Companies--Taking Zhangzi Island as an Example [J]. Times Economics and Trade, no. (25): 15-17.