

Research on Financial Fraud Based on GONE Theory——Taking Kangzhi Pharmaceutical as an Example

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Abstract: The continuous growth of national economy cannot do without the stable development of the capital market. According to the theory of GONE, this paper first explores the causes and motives of financial fraud, and then further proposes the methods of governance fraud, which is conducive to the healthy development of the capital market. This paper takes Kangzhi pharmaceutical company as a typical example, deeply explores the causes of fraud and then puts forward the corresponding countermeasures, and reasonably reduces the possibility of financial fraud in the domestic capital market. The countermeasures are introduced from three aspects: optimizing the ownership structure of the company, improving the quality of the audit report of the intermediary institutions, and increasing the punishment of the government.

1. Introduction

There have been many large-scale financial frauds abroad, and many of them in China. From the administrative punishment letter issued by CSRC in 2011-2017, it can be found that not only financial fraud cases have occurred every year in these six years, but also the number of enterprises investigated has been more than one year. In 2016 alone, the CSRC investigated and dealt with more than ten financial fraud cases, including the Abbott case and the great wisdom case, which had a serious negative effect on the smooth operation of the market.

In order to achieve some goals, enterprises are willing to take risks to whitewash the financial figures and use some loopholes in the market structure to cheat, which will not only damage the interests of related parties, but also disrupt the healthy development of China's economy. Even for the enterprise itself, in the long run, the disadvantages outweigh the advantages, which is not conducive to the sound development of the enterprise. As a whole, financial fraud has many serious negative effects. With the emergence of a series of financial fraud scandals in all walks of life, untrue capital gradually surfaced, China's official supervision and administration departments have issued a series of laws and regulations, and other relevant institutions have also launched targeted regulatory measures, but with little effect. After the relevant national institutions issued various regulatory policies, driven by economic interests, the means of fraud by some enterprises become more novel and more complicated, so it is more difficult to find and identify financial fraud. However, if we allow this situation to continue to develop, it will greatly hinder the development of China's economy. Therefore, it is necessary to improve the supervision and management of listed enterprises, timely identify and investigate financial fraud, and combine prevention and supervision in advance with punishment afterwards.

Based on the theory of GONE, this paper takes Kangzhi pharmaceutical financial fraud case as the research object, discusses the causes of financial fraud, and puts forward targeted measures to prevent, identify and punish corporate fraud around the company level, intermediary level, and administrative supervision level, in order to promote the healthy development of Chinese enterprises.

2. Theory of financial fraud

2.1 Definition of financial fraud

The American Institute of Certified Public Accountants defines the concept of financial fraud as follows: in order to deceive the users of financial statements, senior executives and their financial personnel whitewash the financial statements by means of data tampering, virtual increase, deletion, etc. The Redway committee points out that financial fraud can greatly mislead investors; decisions and whitewash financial statements by various means. The Chinese Institute of Certified Public Accountants (1997) also agreed that corporate fraud makes financial statement information often false. Although scholars at home and abroad have some differences in the definition of financial fraud, they are generally similar. Generally speaking, financial fraud is to conceal the real situation and data by modifying the data in the financial statements. It is a premeditated, prepared and intentional fraud.

2.2 The theoretical basis of financial fraud motivation

Since the 1990s, the relevant research on the motivation theory of financial fraud has been relatively mature. Scholars have mainly introduced four mainstream motivation theories, including iceberg theory, fraud triangle theory, GONE theory and fraud risk factor theory. Specifically, it introduces the theory of GONE.

According to Bologna, there are four reasons for financial fraud: greed, opportunity, need and exposure, which are the core theoretical basis of GONE theory, which has great influence in the academic circle. When the management can not restrain the greed, at the same time, the company needs to invest a lot of money, the defects of the market system give the company opportunities for fraud, and the fraud has a strong concealment after the occurrence, which increases the possibility of executive fraud. The first two are mainly related to individuals, while the latter two are mainly related to the whole enterprise. Greed factor refers to unrealistic thinking, which is related to the professional ethics of executives. Need is the external cause of financial fraud. Opportunity is a favorable condition for enterprises to commit financial fraud. Exposure is the possibility that the fraudulent maintenance of enterprises is found and punished.

2.3 Governance of financial fraud

The Treadway Committee put forward suggestions on the governance of fraud, including improving the internal governance system of the enterprise, improving the professional quality of audit institutions, and strengthening the supervision and management of relevant departments. COSO committee members also put forward corresponding improvement measures on the prevention and control of financial fraud: enhance the anti risk ability of enterprises, pay attention to the rigor of audit work, pay attention to other materials and information besides financial data, etc. Mr. Decaux and others believe that avoiding executives controlling the board of directors can reduce the possibility of fraud. There are also many studies in China. Li Ruoshan proposed to make the internal control system work effectively and improve the audit institution system. Chen Na and others believe that the structure of the board of directors should be optimized to minimize the possibility of the connection between directors'; interests and the company's performance. Sun Hongxia proposed to improve the laws and regulations, establish the corresponding compensation policy and other measures. Chen Jiasheng believes that the supervision institutions should strengthen the punishment of the perpetrators of fraud and improve the governance mechanism to reduce fraud. Bologna and Lindquist (1995) believe that in addition to auditing, the existence of legal accounting is also very important for the governance of financial fraud of listed companies. Legal accounting can obtain the real financial information and data of listed companies through various ways and channels, and this part of information can serve as litigation evidence, so as to achieve the containment of fraud.

Zhao Ying (2015) believes that using related parties to manipulate the profitability of enterprises is a common financial fraud way for listed enterprises. Regulating related party transactions through

external policies or internal systems helps reduce the possibility of corporate fraud. Wu cansen (2014) believed that a thorough understanding of the characteristics of corporate financial fraud and the establishment of a targeted audit program could speed up the detection of fraud and improve the efficiency of audit. Zheng Sufen (2015) believes that the establishment of a fair high-level incentive system and the strengthening of professional ethics education of accountants are conducive to corporate governance of fraud. According to Xia Yan (2015), the countermeasures to curb financial fraud include regulating related party transactions, improving the legal system and optimizing the internal control system of enterprises. To sum up, financial fraud governance can be carried out from three aspects: improving the internal system of enterprises, optimizing the internal management mechanism; paying attention to the professional quality of external audit institutions; strengthening the punishment of fraud by regulatory agencies.

3. Analysis of financial fraud causes of Kangzhi based on GONE theory

Hainan Kangzhi Pharmaceutical Co., Ltd. (hereinafter referred to as Kangzhi pharmaceutical) carried out the joint-stock reform in 2007. It is a leading enterprise in the pharmaceutical industry in Hainan Province. Its main business is the research and development and sales of pharmaceutical products. In mid-2010, the company was successfully listed on the Shenzhen Stock Exchange. The company is the largest nimesulide preparation manufacturer in China, with sales of its main drug, Ruizhiqing, over 80%.

In the equity structure of the enterprise, the main shareholders are Hong Jiangyou and its relatives. Kangzhi pharmaceutical's largest shareholder is Hongshi investment, holding 77.59% of the company's shares. However, 84% of the company's shares are held by Hong Jiangyou itself, and the remaining 16% are also held by Hong Jiangyou's relatives.

2011According to relevant research, when children under 12 years old take the main product of Kangzhi pharmaceutical, Ruizhiqing, they will have adverse reactions. As soon as the results were released, the total sales volume of Ruizhiqing fell sharply, which had a huge impact on the economic benefits of Kangzhi pharmaceutical company.

2013In, the former head of the company's audit department reported the financial fraud of Kangzhi Pharmaceutical Co., Ltd. by means of fictitious earnings, concealing related parties, forging trading projects, etc.

In the following year, Hainan supervision and Administration Bureau of the Securities Regulatory Commission imposed corresponding administrative penalties on the enterprise after investigation. First of all, the CSRC acknowledged the following illegal facts reported by the whistleblower: in 2011, the total amount of the company's virtual increase in profits reached 2.3 million yuan, of which the total amount of the virtual increase in profits by means of pre recognition of income reached 1.57 million yuan, and the virtual increase in profits in the next year also reached 2 million. Secondly, in response to the above-mentioned acts, the Securities Regulatory Commission imposed administrative penalties on Kangzhi pharmaceutical company, including a fine of 350000 yuan, a warning and a fine of 100000 yuan to Hong Jiangyou, the chairman of the board of directors of the enterprise, and a fine to other senior managers of the enterprise.

3.1 "G" (greed) factor analysis

The greedy factor can be regarded as the root of the financial fraud of the enterprise. Specifically, the high-level enterprise or the enterprise as a whole has no legitimate pursuit for the economic benefits and the overall value of the enterprise. Within one year after the listing of Kangzhi pharmaceutical, Ruizhiqing was investigated, which greatly reduced the main product income of Kangzhi pharmaceutical. In order to reverse the adverse situation, Kangzhi pharmaceutical company chose to cheat. Although the internal organizational structure of Kangzhi pharmaceutical company is relatively sound, from the perspective of equity distribution, the main shareholders are Hong Jiangyou and his relatives. The power of the enterprise is relatively centralized, so it is difficult to supervise and restrict the power holders through the conventional internal control mechanism. Therefore, there is a certain vacuum zone for the Hong family to carry out more

concealed financial fraud.

3.2 "O" (opportunity) factor analysis

Hongshi investment, the largest shareholder of Kangzhi pharmaceutical, holds 77.59% of the shares of Kangzhi pharmaceutical, and Hong Jiangyou family controls the absolute right of operation. Other shareholders and small and medium-sized investors are basically unable to play a binding role. Hong Jiang you and his relatives can easily pursue their own interests through improper fraud. After the joint-stock reform and successful listing of Kangzhi Pharmaceutical Co., Ltd., the general meeting of shareholders, the board of directors, the board of supervisors and other regular organizations of listed companies were established. However, most of the members of the board of supervisors came from the Hong family, which led to the dereliction of the group's board of supervisors. Generally speaking, the quality of external supervision directly affects the quality and reliability of financial data. But for Kangzhi pharmaceutical company, external audit and institutional investors did not play a supervisory role in its financial data and management.

First, the comprehensive quality of certified public accountants employed by enterprises is not high. Second, institutional investors have not conducted a comprehensive survey. In the past three years, the false increase in profits exceeded six million yuan, and Hongjiang tour and its relatives made a lot of profits. However, after the disclosure of the above facts, the punishment of the Securities Regulatory Commission is light, and for those who commit fraud, the fines and warnings are insignificant compared with the profits.

3.3 "N" (need) factor analysis

From a personal point of view, Hong Jiangyou and his relatives run Kangzhi pharmaceutical company together. After the company's gem was listed in 2010, its value rose. However, the investigation on the main product of Kangzhi pharmaceutical, Ruizhiqing, has made the company's business situation worrying. Until the end of 2011, the business situation has not improved. If Kangzhi pharmaceutical company does not make financial fraud, it will present a huge loss situation just after listing, the stock price and corporate image will be negatively affected, resulting in a significant reduction in the value of "Hong Jiangyou family". In order to protect individual interests, the "Hong Jiangyou family" took the risk to cause the financial fraud of Kangzhi pharmaceutical.

2010 In, the net profit of Kangzhi pharmaceutical company was close to 140 million yuan, indicating that the company's revenue in the year of listing was in good condition. In the next year after listing, the main product, Ruizhiqing, was reported with negative news, and the company's net profit decreased significantly, with the actual profit of about -1.14 million yuan. If the company continues to lose money for two years after listing, it will be st according to the market rules, and the development and Prospect of the company are not clear. The pressure of face and loss stimulated the fraud demand of Kangzhi pharmaceutical company, so its management chose to use financial fraud and other means to tide over the difficulties.

3.4 "E" (exposure) factor analysis

The exposure factors will be cut into from two aspects: one is that the probability of the company's financial fraud being detected is low; the other is the punishment measures that should be accepted when the financial fraud is disclosed.

First of all, from the audit of the main body, that is, accounting firms. During the year-end audit period, China Audit Asia Pacific hired large-scale interns to fill in, prepare and spot check the audit manuscript. Because interns are generally lack of work experience, it is difficult to ensure the quality of audit, and it is even more difficult to find corporate fraud. Secondly, the accounting firm has a strong mobility. Firms lack the ability to retain talents, lack of high-quality talents who can serve for a long time, and it is difficult to find fraud. No matter to Kangzhi pharmaceutical company itself or to its main person in charge, the punishment of the Securities Regulatory Commission is relatively light. The Securities Regulatory Commission imposed a fine of 350000 yuan on Kangzhi pharmaceutical, and a warning and punishment of 100000 yuan on Hong Jiangyou, the chairman

and President of Kangzhi pharmaceutical, which did not act as a deterrent. However, the intermediary organization of the China Audit Asia Pacific has not been punished by the CSRC. The price paid by Kangzhi pharmaceutical after the fraud was exposed is too low. In addition, the financial fraud disclosed by China's Securities Regulatory Commission often has a large time difference with the occurrence time of the behavior. For example, the financial fraud of Kangzhi pharmaceutical company took place two years later, and the Securities Regulatory Commission launched an investigation, with weak supervision.

4. Strategies to prevent financial fraud

4.1 Countermeasures against "greed" factor

After China's share reform, the major shareholders of the enterprise can trade in the secondary market, which provides an opportunity for them to seek improper profits by means of fraud and internal transactions. Therefore, it is necessary to establish a transparent and efficient legal system to restrain the major shareholders. In addition, we should establish a good faith file system. Once fraud is found, it is strictly prohibited to continue to engage in relevant work, so as to play a role in restricting its behavior. From 2010 to 2012, Asia Pacific issued an unqualified audit result on the improper behavior of Kangzhi pharmaceutical company, but the audit institution has not been punished by the Securities Regulatory Commission. The CSRC's action did not serve as a warning.

4.2 Countermeasures against the "opportunity" factor

It can be seen from the financial fraud of Kangzhi pharmaceutical that the actual controller of the company is Hong Jiangyou. A number of internal personnel made fake under his instruction. It took more than two years for the report to be found. It can be said that Hong Jiangyou has absolute control in the company. Even if he makes a wrong decision, it is easy to have a "one word" situation. The situation that the company is controlled by "Hong Jiangyou family" makes the rights and responsibilities of each functional organization unclear. If we want to change this situation, we can decentralize the control right of the major shareholders, separate the ownership from the management right, recruit professional managers to take charge of the company's operation, optimize the ownership structure, realize mutual checks and balances, and try to avoid the occurrence of ultra vires management. The company should firmly follow the internal control system and strictly implement each control link, so that the internal control system of the enterprise can be effective. Only by optimizing the internal control system, can we improve the management, improve the efficiency of enterprises and protect the interests of investors.

4.3 Countermeasures against the "need" factor

At present, the permanence of equity financing, that is, no need to return, is the reason why enterprises are keen on listing. When enterprises need a large amount of funds to maintain business operation, some enterprises will obtain the required funds by whitewashing the financial statements to meet the listing requirements and issuing shares. However, in this process, the company is likely to commit financial fraud. In order to eliminate this fraud motivation, we can expand the financing channels to ensure that the funds of the companies to be listed are sufficient and that their good development does not go astray.

4.4 Countermeasures against "exposure" factors

One reason is that the punishment of the supervision department is not enough. If the punishment is light, the cost of fraud will be low, and some enterprises will be desperate for their interests. Therefore, for the "exposure factors", the relevant departments should improve the supervision and management mechanism, and resolutely investigate and punish the fraudsters once major illegal acts such as financial fraud are found. Only let the main responsible person pay a heavy price, can play a deterrent role to others in the industry, let them see that the consequences of fraud are serious, and can effectively govern fraud.

5. Conclusion

This paper studies the financial fraud cases of Kangzhi pharmaceutical company, analyzes the causes of Kangzhi pharmaceutical company fraud based on the relevant knowledge principle of GONE theory, and then gives the corresponding prevention strategies for the fraud causes one by one, in order to achieve the effect of reducing the frequency of financial fraud.

In my opinion, the financial fraud of domestic listed companies is driven by greed, need, opportunity and exposure. The company's financial fraud must be originated from the internal greed, followed by the motivation of fraud for the maximum benefit of the company, then there are some vacuum zones for fraud in the internal and external environment, and the domestic punishment for financial fraud needs to be strengthened, which has little deterrent to the enterprise and its decision-making level.

Therefore, the company's stakeholders and regulators can analyze the possibility of financial fraud through the GONE theory, so as to find out the problems in time. When dealing with financial fraud, we can still put forward corresponding countermeasures based on the theory of GONE and promote the sound development of enterprises.

By analyzing the fraud cases of the enterprise, it is not difficult to find some common problems of listed enterprises in China, such as the increasingly complex and specialized means used in the fraud. Based on the analysis of cases and the theory of GONE, this paper puts forward corresponding governance suggestions, including strengthening the supervision of major shareholders, improving the internal control mechanism, broadening financing channels, strengthening external supervision, etc. The prevention and control of financial fraud is a project that needs the concerted efforts of the government, enterprises and the public.

This study enriches the research on financial fraud of enterprises, and to some extent proves the views of some experts. At the same time, the article also has some shortcomings, for example, when analyzing the fraud of Kangzhi pharmaceutical company, as an undergraduate, the research conditions are limited, the analysis is always incomplete, and even some important factors may be ignored. Moreover, the single case of financial fraud in Kangzhi pharmaceutical company can not fully reflect the current situation of financial fraud in China's listed companies. Therefore, in order to further explore the status quo and improve the feasibility of the proposal, the author still needs to further study and enrich his knowledge reserve.

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