

Research on Audit Risk of E-commerce Enterprises: A case Analysis of Alibaba Group

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Abstract: Compared with traditional enterprises, e-commerce enterprises have the characteristics of open Internet, paperless, and electronic payment. With the increasing applications of Internet, the scope of e-commerce is gradually expanding, and developing rapidly. Different from traditional enterprises, e-commerce enterprises will inevitably bring new impact on the original audit theory and technology. At the same time, there is a relative lack of auditors with e-commerce audit experience and capabilities in China's local accounting firms, which leads to the risk in conducting audits of e-commerce companies. This paper selects Alibaba Group, a leading enterprise in China's e-commerce field, as a case study object to conduct an in-depth exploration of the audit risks and countermeasures of e-commerce enterprises in China.

1. Introduction

E-commerce has entered into our sights gradually since the 1990s. Nowadays, Internet information technology is becoming more and more mature as well as the application of cloud services and big data technology, e-commerce is not only a transaction based on the Internet, but also a trade process that integrates information flow, capital and logistics with the support of the Internet. E-commerce has developed B2B, B2C, O2O and other modes meanwhile moving towards diversification step by step. E-commerce is characterized that all transaction data electronize and automated risk control relying on the network and advanced computer information systems, which determines it must include both financial auditing and a review of the reliability of the e-commerce system. Since 2010, seven e-commerce companies including Dangdang, Jingdong and Ali have been listed in the US, and Ali has an absolute dominant position in China's e-commerce industry. Therefore, this paper chooses Alibaba Group as the case study and analyze the impact of e-commerce enterprise on audit and audit risk.

2. A case analysis of e-commerce audit risk of Alibaba group

2.1 Company overview

Alibaba Group was founded in Hangzhou, China in 1999 with 18 founders including Jack Ma and the Group mainly operate e-commerce business.

The business composition of Alibaba Group is as follows:

In order to explore Ali's related audit risks, it is also important to understand the specific sources and calculation methods of income. According to the Ali's annual report, its incomes are mainly from online marketing services and commissions based on the amount of Alipay transactions.

The amounts of each source of revenue are shown in the following table:



Fig. 1 Business composition of Alibaba Group

Table 1 Source of operating income Unit: Million

	2016	2017
Online marketing		
P4P	53185	83581
Other	3963	5706
Total	57148	89287
Commision	27793	37848
Membership	7627	10638
Cloud computing	3019	6663
Other	5556	13837
Total	10143	158273

According to the above income analysis, Alibaba Group has a complex source of incomes. The transaction model is so diversified that processing core transaction informations requires strong technology. Thus, the risk of internal control is higher.

2.2 Audit risks of Alibaba group

2.2.1 Operation risk

(1) E-commerce trading policies cause risk of revenue policy

The Ali e-commerce platform widely adopts the 7-day no-reason return policy, and the revenue recognition policy affects the overall audit risk assessment of Ali's financial report. According to a survey conducted by SCE on Alibaba in 2016, the “Double Eleven” turnover was overstated due to unappropriated transaction confirmation. That is, the transactions that had been placed but not completed were also counted.

(2) uncertainty of business in the industry causes operation risk

The market share of the e-commerce industry is highly uncertain while the disclosure data is in a special way. Faced with the pressure to maintain business operations, there may increase fraud and significant audit risk. Ali's business is facing increasingly fierce competition, including the development of Chinese Internet companies and some offline retailers. If Alipay is restricted in the markets, it will have a wide adverse impact on its ongoing operations

2.2.2 Inherent risk

The revenue recognition of e-commerce platform is complicated, and it is difficult to find misstatement under the information environment. Auditors can only use electronic data to perform relevant audits. Due to the large amount of data, the destruction of data is not easy to leave traces and recovery. The auditor needs to ensure that all the electronic information obtained is reliable in order to provide reliable audit evidence. (Lingyun, 2018)

2.2.3 Internal control risk

(1) Lack of control in the online access process

Alibaba was revealed by the media due to Fraud incidents recently. In two years, 2,326 member businesses of Ali were suspected of fraud and nearly one hundred internal staff participated in it. This is related to the strategic adjustment of Ali to reduce the membership entry threshold for expanding business, even invalid business license can also be approved. Due to the dependence of auditors on the internal control of information systems in the e-commerce environment, it certainly influences the authenticity of the assertion.

(2) Supervision and management are highly coincident

For most companies, there are various overridden risk. Auditors need to pay attention to the situation that executive manager are indifference to problems in order to maintain operations. According to Ali's partner terms, partners have director nomination rights, which exceeds the shareholders' meeting can ultimately decide the appointment and dismissal of directors. These provisions made Ali's partners have excessive authority and controlled the company's business decisions.

2.2.4 Detection risk

(1) Transnational regulatory risk

Ali's auditor is PwC's Hong Kong office. It also leads to the transnational regulatory risk because most of China's large-scale e-commerce companies are listed abroad. Since the documents such as audit papers are considered as secret information by Chinese government, it is forbidden to submit to foreign institutions. Therefore, the US PCAOB is unable to conduct an audit check, and the auditor may not be fully in accordance with the US Securities and Exchange Commission standards. Thus, audit risk increases accordingly. (Zhen, 2018)

(2) Higher requirement of accounting ability

Auditors need to control the detection risk to reduce the audit risk, such as appointing appropriate auditors, establishing a reasonable audit plan, obtaining sufficient and appropriate audit evidence, and performing reasonable audit procedures. In the e-commerce environment, audit procedures have accordingly changed. The auditors must have related knowledge of e-commerce audit and perfect audit accounting expertise.

3. Causes of audit risk of e-commerce enterprises

3.1 Security risk of e-commerce system

Since e-commerce platforms are based on websites and mobile applications, and all transactions are through the Internet, the network security is very important. Besides, the openness of Internet platforms leads to inherent risks such as information systems being attacked by viruses. These problems may cause documents to be tampered with damage.

The development of business activities is guaranteed by the credits of all parties, especially Internet transactions. Transaction between two parties and from the beginning to the completion is not at the same time, which needs to be secured by credit. At the same time, the entire process of e-commerce transactions involves multiple parties and departments, each of which has to bear the corresponding credit responsibility. In the case that the e-commerce enterprise internal control is not effective, if the credit review system is not sound enough, there would be high risk of e-commerce transactions.

3.2 High risk in trading mode

As a whole, the e-commerce industry has a low barrier to entry. It is mainly for small and medium-sized enterprises. Even if the scale is expanded, the overall internal control of the industry is weak, and there are even big defects. The e-commerce enterprise is mainly based on computer control, so the control of computer hardware and software problems needs to pay attention. At

present, lack of professional talents, and control programs are not enough to achieve the expected result. A series of income from commodity trading can only be confirmed at a reasonable time.(Zhen, 2017)

3.3 Ambiguity of e-commerce auditing standards

The China Ministry of Finance has only required that auditors need to pay attention to the impact of e-commerce on audit work when performing the audit. The lack of relevant laws in supervision of e-commerce will make the substantial audit work more difficult. (Zhenyu, 2015)

3.4 Shortage of specified e-commerce auditor

The e-commerce auditing is not a simple financial statement auditing. It is a comprehensive auditing work combined with auditing, information management and professional computer operations. Now China lacks this kind of auditors, while has not paid enough attention to the cultivation. The traditional causes of trade accounting and auditing are more common, but few informatization-related auditing courses are offered.

4. Conclusion

Since e-commerce enterprises have their own characteristics compared with traditional enterprises, this leads to some limitations on the audit of e-commerce enterprises. Therefore, auditors should fully consider the impact of e-commerce environment on auditing when conducting audit work, not only need to audit the authenticity of e-commerce transactions and the accuracy of accounting data, but also auditing the hardware and software of e-commerce systems and the security and reliability. Under this background, the research related to e-commerce has gradually matured. The establishment of a set of standards about e-commerce audit risk analysis and preventive measures has become a hot topic of discussion. With the expansion of the scope of e-commerce applications, auditors increasingly focus on e-commerce auditing. Therefore, it is of great theoretical and practical significance to explore the audit practice in this field, combined with the actual situation of China's e-commerce.

This paper selects Alibaba as case study object, comprehensively explores the audit risk factors of E-commerce enterprises and gives some counter measures according to the causes of audit risk. The auditors can fully assess the risk of material misstatement from the operation status of the e-commerce enterprise, the inherent risks of the information system, the internal control system, and the effectiveness of the e-commerce transaction to strengthen the corresponding audit work ability and reduce the detection risk expected extent. This research can provide advice for future e-commerce audit work.

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