

Financial Fraud in Indirect Related Party Transactions

--A Case Study of Alcon Pharmaceuticals

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Abstract

In recent years, influenced by various motivations, frequent financial fraud of listed company, losses to investors at the same time, also fairness and transparency of the whole market competition environment, financial fraud has become the enterprise competition between a tumor, financial fraud occurred frequently, such an event has also become a hot issue. Based on the GONE theory and the financial fraud case of erkang pharmaceutical, this paper conducts an example analysis on the use of novel indirect related party transaction means to map and explore the causes of financial fraud in current listed companies in China. Erkang Pharmaceutical Co., Ltd., the full name of Hunan er-kang Pharmaceutical Co., Ltd., is China's Pharmaceutical enterprises in the comprehensive strength of the front, the wider influence of the listed enterprises. And it is such a occupy the leading position in the market of the listed companies, was found to exist if the circumstances are relatively serious financial fraud, cause the whole society wide attention, also makes my eyes once again, the public will focus on the listed companies through indirect means of related party transactions for businesses or individuals seek improper interests of financial fraud. The malign influence of financial fraud on the market needs us to reflect on, and the problems in the operation system of the domestic capital market need us to explore and rectify. In this article, through analysis of er kang pharmaceutical financial fraud, from the greed factor, need factors, opportunity factors, exposure factor, this paper summarizes four aspects in detail elaborated the domestic capital market through indirect means of related party transactions of listed companies, a false investment environment, such as illegal manipulation of the stock market a vicious impact of fraud and its dynamics, summed up the responsibility of financial fraud and the cognition to the indirect related party, and put forward some personal opinions to solve these problems and Suggestions. It is also hoped that financial fraud incidents will be less frequent, so that enterprises can compete and develop in a fair market environment.

Keywords

GONE theory, financial fraud, alcon pharmaceuticals, audit improvement, indirect related party transactions.

1. Introduction

1.1. Research Background and Significance

Financial fraud has always been an important problem that perplexes the fairness of the market competition environment of listed companies. If this problem is not effectively improved and solved, the rights and interests of investors will always be violated and the market competition environment will always be difficult to achieve fairness. In recent years, many cases of financial fraud of listed companies have occurred more and more frequently, and related party transactions are gradually becoming one of the main means of financial fraud, which has had a

bad impact on the healthy and orderly development of China's capital market. Related party transactions can make enterprises "inflate profits and reduce expenses" so as to beautify the annual report of enterprises. In order to obtain improper benefits, more and more listed companies began to use more hidden indirect related party transactions to make financial fraud, in order to escape the supervision of relevant administrative departments. Fraud audit in dealing with related party transactions has always been a thorny issue. Indirect related party transactions are difficult to be identified by conventional audit procedures due to their transaction complexity and information asymmetry. This novel financial fraud is even more difficult to be found. It has now become a major difficulty in financial fraud audit of listed companies in our country and deserves attention and research.

During the related party transactions between the parent company of Erkang Pharmaceutical Enterprise Group and its subsidiaries in 2016, overseas companies were used as the third supplier to cover up the related party relationship and conduct indirect related party transactions, which inflated the profit by more than 200 million yuan. This is quite representative and novel. The society has generated extensive attention and heated discussion on this issue. Based on this, this paper studies the indirect related party transactions of listed companies, taking Erkang Pharmaceutical Financial Fraud Event as a case, combining with GONE theory to analyze and dissect the indirect related party transactions, to explore the causes and development process of financial fraud and its control methods, among which the indirect related party transactions, a novel financial fraud method, is mainly discussed and studied. On the one hand, find out the audit defects of indirect related party transactions and put forward suggestions to improve these audit defects. On the other hand, it is necessary to be able to identify the specific code of fraud in indirect related party transactions and actively improve the corresponding legal policies.

As one of the important means of financial fraud, related party transactions have attracted extensive and in-depth research by scholars. However, most of the existing literatures mainly focus on direct related party transactions, and have achieved rich results. There is little discussion on implicit indirect related party transactions, and there is a certain literature gap. This paper can not only broaden the view of financial fraud through indirect related party transactions, increase the literature analysis of indirect related party transactions, but also accumulate experience in the future research of related party transactions, and provide theoretical reference for the correct identification and effective governance of indirect related party transactions.

At present, financial frauds of listed companies are frequently prohibited in China's capital market, especially the increasing cases of financial frauds through the non-correlation of related party transactions, which is a "roadblock" in the healthy, long-term and stable development of China's securities market and also causes huge losses to investors. Therefore, by studying the financial fraud cases of indirect related party transactions of listed companies, we can find out the causes of fraud, find out audit defects and put forward improvement measures, which will help to improve the ability of investors to avoid investment risks, improve the audit quality of accounting firms, improve the corporate governance system of listed companies and promote the healthy and normal development of capital markets. At the same time, this paper can also give other listed companies some assistance on how to effectively prevent related party transactions and the relevant regulatory authorities to identify indirect related party transactions in a timely manner, which has far-reaching practical significance.

1.2. Research ideas and methods

Firstly, this paper states the definition and harmfulness of financial fraud, and on this basis leads to the case of financial fraud of Erkang Pharmaceuticals for example analysis. It briefly describes a series of behavior processes that Erkang Pharmaceuticals, as a leading enterprise

of a well-known listed company in China, has carried out, which undermine the fairness of the market and infringe the rights and interests of investors. Through the exploration of this case, it maps out several representative problems existing in the current listed companies. Through the perspective of GONE theory, this paper analyzes these problems, finds out the causes of audit failures, sensitively identifies the signals of financial fraud, further sums up the causes of financial fraud, then traces back to the relevant responsible parties, and puts forward personal opinions and suggestions on the influence of each party, and analyzes and summarizes various influencing factors of internal conditions and external environment of the enterprise. In the end, it puts forward the most ardent expectation for the effective management of the enterprises, the healthy development of the market and the implementation of the policies, hoping that all enterprises can supervise each other and jointly create a fair and clear market competition environment.

This paper mainly uses the methods of literature retrieval and induction to organize the structure of the article. Through the search of network resources and the search of paper documents, the general law of the development of China's capital market is understood in detail. Through the retrieval and comparison of a large number of documents, the information closely related to this article is extracted, and the relevant concepts needed in the article are derived. The case study is also used to analyze the situation step by step. This paper mainly analyzes the motives and conditions of listed companies using indirect related party transactions from the four factors of GONE's theory, and finally uses induction and summary to sort out and summarize the research issues, draw conclusions, cause thinking and put forward suggestions.

1.3. The innovation of this article

The innovation of this paper is mainly in indirect related party transactions and analysis of a single case. In the past fraud cases, most cases were financial fraud of direct related party transactions, and it was a unified analysis of a series of cases. However, Er Kang Pharmaceutical's fraud method was indirect related party transactions, which was seldom seen in the past fraud cases. Therefore, this paper can be used as a supplement to the previous literature and analyze and study the cases.

2. Definition of concepts and theoretical basis

2.1. Conceptual Definition

Financial fraud refers to a series of purposeful, planned and deceptive behaviors to bring benefits to the fraudster. Financial fraud often brings false market information, corporate statements and income equity to investors, resulting in the infringement of investors' rights and interests and damaging the healthy and normal development of the market competition environment, thus causing losses at the national level. Financial fraud is a kind of long-term market problem with typical fraudulence and purposiveness. With the rapid development of the national economy in recent years, financial fraud events frequently appear in listed companies and have gradually developed into a cancer threatening the health of the market. Based on the above summary and analysis of financial fraud cases, it is concluded that financial fraud is basically an audit of the management personnel, management personnel, employees and third parties of the audited entity. This paper mainly aims at the analysis of the false financial statements by using the related methods of financial fraud formed by indirect related party transactions. It also focuses on identifying audit deficiencies and improving the corresponding policies, as well as identifying fraud signals quickly and sensitively.

The internal organization management of an enterprise is crucial to the operation of the whole enterprise. The unique organizational culture of each enterprise will affect every member of the organization from top to bottom. The occurrence of financial fraud within a company is

often due to the imperfect management within the organization. The loopholes in the internal management of the organization are the basis for the occurrence of financial fraud. If the internal management of a company cannot be strictly controlled, many problems will often arise, and internal personnel will commit malpractices against professional ethics for their own interests. Therefore, the effective functioning of the internal organizational structure of the company plays a vital role in curbing the occurrence of financial fraud.

With the rapid development of the national economy, all types of enterprises are trying their best to seize the initiative in the market. The pressure of market competition is increasing day by day. The listed companies, in particular, are forced to cope with the pressure of their own survival and development, especially the financing difficulties and other issues. In order to obtain investment to maintain the company's operation, decision makers often make a series of deceptive and wrong decisions. The implementation of these wrong decisions also results in financial fraud. The pressure brought by the fierce competition in the market to the survival of enterprises is one of the important inducements of financial fraud.

At present, China's existing laws and regulations on financial fraud cases are not strong enough to punish some enterprises that commit fraud, which also makes the whole market environment vulnerable and provides a hotbed for the implementation of corporate fraud such as tax evasion and false statements. A rigorous and perfect market constitution and supervision system is an important line of defense to curb financial fraud. In other words, if there is no effective supervision and examination system, it is doomed to fail to ensure the fairness of market competition, thus leading to an opportunity for corporate fraud. Therefore, a perfect and effective supervision system is of great significance to safeguard market fairness and curb financial fraud.

The normal operation of an enterprise requires every on-the-job worker to have the basic ethics and correct professional ethics of the industry. It should form a system of industry responsibility consciousness that is commonly recognized and consciously observed by decision makers, managers and executives, and form self-regulatory control from top to bottom. An organization that can have a correct professional ethics view from top to bottom will always walk on the right path of development and will consciously abide by the market competition rules in its field, thus fundamentally eliminating the occurrence of financial fraud.

Financial fraud can be divided into two types according to the main behavior patterns. One is the embezzlement of corporate money. The main means is to embezzle the money that is not legally permitted or available outside the scope of the function permission by illegal means, in order to achieve fraud that brings direct or indirect benefits to the fraudster. The second is to intentionally falsify and falsify all kinds of report data that reflect the operating conditions of the enterprise for the purposes of attracting investment, maintaining the stability of the stock market, tax evasion, etc. This type is also a type that accounts for a large proportion of financial fraud events. A series of fraud acts that an enterprise makes to maintain the stability of the Company's stock market or to muddle through the relevant laws and regulations of a listed company, such as tampering with the company's statements, falsifying the financial statements, presenting false operating conditions of the company and other means, in order to achieve certain illegal purposes. Listed companies often take advantage of loopholes in certain rules of the market and use some means in violation of relevant laws and regulations to cause fraud, which seriously undermines the fairness of market competition and the healthy and normal development of the market.

Indirect related party transactions are transactions between subsidiaries, parent companies and third parties, in which a series of sales chains occur to bring corresponding "profits" to the parent company. In the case of Erkang Pharmaceutical, for the same batch of goods, the parent company and the third party reach an agreement, first the subsidiary company sells the goods to the third party, and then the third party sells the goods to the parent company. In this way of

transaction, the direct transaction is between the subsidiary and the parent company. This transaction method is called direct related party, and the third party is the intermediate method to deceive the market and the auditing unit. Therefore, this method is indirect related party transaction.

2.2. Theoretical Basis

The theory of information asymmetry refers to that in the analysis of market transactions, the relevant information held by each participant is different from each other. In an enterprise, the information held by managers is more sufficient than that held by shareholders. Creditors, as well as the government and other investors, have less information within the enterprise and are at a relative disadvantage. Therefore, in the process of investment, for listed companies, when investors exchange information, management will often choose to sacrifice the interests of investors, in order to seek greater benefits for themselves, so in this process management will often hide the bad information of the enterprise and give investors the illusion of enterprise perfection. We should also find the defects in this aspect in the process of audit, so as to further improve the information and reduce the information asymmetry to provide a fair investment platform for investors.

In the case of Erkang Pharmaceutical, GONE also exists in the behavior of the main participants represented by Shuai Fangwen and others. The "GONE" theory is very popular in the United States. It is a well-known theory of corporate accounting fraud and anti-accounting fraud. The theory holds that corporate accounting fraud consists of G, O, N and E4 factors, which interact with each other and are inseparable, and jointly determine the extent of corporate fraud risk. GONE is composed of the first letter of four English words, among which: g is Greedy, which represents greed; Everyone has a greed factor in his body. The key is to see how he controls and grasps it. Shuai Fangwen and others have shown laissez-faire and helped him "grow" in their greed. O is an Opportunity, which refers to an opportunity; In this case, the relevant third parties and subsidiaries just provided them with a good opportunity and place to commit crimes, and used the same auditing company for a long time, so that the usual thinking and mode when actually publicizing the audit of them were all "good hotbeds for growth" of their opportunities. N for Need, refers to the need, in our country, for the listed company's performance every year has a clear target review system, so that is to say, listed companies want to expand the scale of development, must bear the corresponding degree of performance target responsibility, however, such a goal is not easy to achieve, so there is the motivation and cause of this situation; E for Exposure, refers to the exposure, long-term cooperation with the same audit company, make it appear certain inertia thinking in the audit, as well as the state in the legal level of punishment and benefit strength after convicted cannot reach the corresponding proportion, but also make the event to another top. The above-mentioned four factors actually represent the four conditions for fraud, that is to say, when a person has a greedy heart and needs money and self-esteem very much, he will surely commit fraud as long as he has the opportunity and feels that fraud will not be discovered.

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presenting false operating conditions of the company and other means, in order to achieve certain illegal purposes. Listed companies often take advantage of loopholes in certain rules of the market and use some means in violation of relevant laws and regulations to cause fraud, which seriously undermines the fairness of market competition and the healthy and normal development of the market.

Related party transactions are a frequently seen form of fraud in listed companies at home and abroad, which are mentioned in many documents in the world, and whether they will have an impact on financial performance is studied accordingly. However, many scholars believe that the related party transactions only regulate the profits of enterprises and have no impact on their profits. It is a very reasonable and efficient operation and communication.

However, from 2000 to 2001, Gordon, Henry and others conducted research on the way of direct related party transactions of listed companies in the United States, and found that this kind of transaction mode is not without the enterprise management, and even many scholars believe that this is an important opportunity for enterprises to conduct fraud and profit adjustment. In these studies, the audit case of Zixin Pharmaceutical by Zhang Xuefeng and the research on financial fraud discovered by Chu Qinghai in the case are all concrete manifestations of financial fraud such as related party transactions.

3. Description of Erkang Pharmaceutical Financial Fraud Case

3.1. Introduction of Erkang Pharmaceutical Company

Erkang Pharmaceutical, named Hunan Erkang Pharmaceutical Co., Ltd., was established in October 2003 and officially listed on the Shenzhen Stock Exchange in September 2011. Since its establishment, the Company has been engaged in the research and development, production and sales of pharmaceutical products. After years of development and growth, the Company has now registered 44 varieties of raw materials, 129 varieties of auxiliary materials, 241 raw and auxiliary materials, 149 approvals for finished pharmaceutical products and 168 authorized patents. Since its establishment, it has won many high-level honors in the field of pharmaceutical production. It is a well-known listed enterprise with normal and large-scale production capacity in the domestic pharmaceutical field, and is also the main maker of pharmaceutical excipients standards in China.

3.2. Review of Erkang Pharmaceutical Financial Fraud Cases

As Shuai Fangwen has repeatedly reduced his cash holdings by as much as RMB1.2 billion, which has attracted high attention from the media and public regulators, the Hunan Securities Regulatory Commission issued a "Notice of Investigation" to conduct a thorough investigation into the incident. On April 18, 2018, Hunan Erkang Pharmaceutical Co., Ltd. received the advance notice of administrative penalty issued by Hunan Securities Regulatory Bureau. After investigation, the facts of Erkang Pharmaceutical's financial fraud include: in 2015, the Company inflated its operating income by approximately RMB18,058,800; Inflated profits, amounting to approximately 15,859,700 yuan; In 2016, the Company inflated its operating income by approximately RMB255 million and inflated its net profit by approximately RMB232 million. However, Chairman Shuai Fangwen has significantly reduced his holdings of assets after the announcement of the 2016 annual report. On April 28, 2017, the Company reduced its corresponding shares by more than 86 million shares, accounting for 4.17% of the total shares of the Head Office, and set aside a capital of RMB1,025 million. On May 5, 2017, the Company held 1,671,000 corresponding shares, accounting for 0.0810% of the total shares of the Head Office, representing a cash dividend of RMB1,930,000. Once the incident was exposed, it aroused widespread concern in the whole society, and the public's doubts about several financial data of Erkang Pharmaceuticals also became louder and louder.

In this case, financial fraud was mainly caused by the sales of a subsidiary of Erkang Pharmaceutical to a food company in Guangzhou and an industrial company in Shanghai and then to the parent company of Erkang Pharmaceutical, thus avoiding the audit of the related transactions of the direct related parties and turning the related transactions into non-related transactions. At the same time, Tianjian Certified Public Accountants, which is responsible for the audit and supervision of Hunan Erkang Pharmaceutical Co., Ltd., and the western securities guaranteed by it, as intermediaries, they all suspected of dereliction of duty and assisting in fraud. The relevant supervisory departments of Hunan Province have given corresponding punishment to the relevant units and relevant responsible persons in accordance with the law for the financial fraud case of Erkang Pharmaceutical. Hunan Erkang Pharmaceutical Co., Ltd. as a well-known large domestic enterprise, this fraud case has caused significant damage to the corporate image, but also as a typical case of financial fraud by domestic listed companies, which has drawn attention from all sectors of the society to the practicality of listed companies and the fairness of relevant audit and supervision departments.

After a series of audit and analysis, on June 13, 2018, Hunan Supervision and Certification Bureau issued the "Decision on Administrative Punishment" to Erkang Pharmaceutical, ordering Erkang Pharmaceutical to correct its wrong behavior in a timely manner, giving it a warning and a fine of 600,000 yuan. At the same time, the principal officials, Shuai Fangwen and Liu Aijun, were given disciplinary warning and fined 300,000 yuan. Shuai Fangwen, the chief person in charge of the incident, said that he would actively compensate the investors for their loss of interests and pointed out that the cash out of RMB1.2 billion was pre-tax and after-tax was over 900 million yuan. However, this novel financial fraud method still brings great influence and hidden danger to investors and the society.

First of all, it is stated in the Accounting Standards for Business Enterprises that the economic benefits and corresponding costs generated by the parent and subsidiary companies should be offset against each other. In the fraud analysis of Erkang Pharmaceutical, the subsidiary company uses a third party to sell its own products to its own parent company. Although the cost of products has not increased or decreased, it has brought huge "economic benefits" to the company. This is a novel way to change direct related party transactions into indirect related party transactions without related party transactions. It not only blinds the auditor's eyes but also identifies loopholes in the legal standard. In 2016, the parent company of Erkang Pharmaceutical indirectly purchased modified starch for hollow capsules from its subsidiaries. It was suspected that the operating amount was RMB229,359,900, the operating cost was RMB20,334,700, and the net profit inflated by RMB208,981,100. However, the parent company of Erkang Pharmaceuticals did not carry out a corresponding merger to offset the inflated amount. The transaction turned a form without a substantive transaction into a transaction with a substantive transaction. The most important point about the fraudulent means is that the parent company of Erkang Pharmaceuticals concealed the information of related suppliers. In the 2016 annual corporate report, Erkang Pharmaceuticals used asterisks instead of the information of the top suppliers, among which only the accurate data of the purchase amount and the ratio of the purchase amount to the total annual purchase amount were given. It is precisely this that has brought greater difficulties and obstacles to the audit. However, after the strict examination by the audit department, the financial fraud method of indirect related party transactions has gradually become clear.

4. Analysis of financial fraud motivation of Erkang Pharmaceutical by GONE theory

4.1. Greed factor analysis

Erkang Pharmaceuticals is a representative member of the listed companies in our country, and its fraud behavior to a certain extent also reflects the commonality of such behavior of the listed companies in our country, and the entire market environment therefore presents an atmosphere of indifference to financial fraud. The most direct cause of Erkang Pharmaceutical's financial fraud is the derailment of the subjective consciousness of the top management represented by Shuai Fangwen and Liu Aijun. The sense of responsibility for the market environment and the position in which they are located cannot be effectively observed and fulfilled, and the sense of professional ethics is therefore neglected. The operation of an enterprise depends on the joint maintenance of every manager in the enterprise. If the members of the enterprise cannot establish a correct view of right and wrong, and cannot make a sensitive response to the fraud that has occurred or may occur, then it will cause the direct cause of the financial fraud of the enterprise. In other words, Shuai Fangwen and others, as the staff members of the operating body of the enterprise, have insufficient binding force and self-control over their own desires, which is the direct cause of Erkang Pharmaceutical's financial fraud, i.e. the composition of its greed factor.

4.2. Opportunity Factor Analysis

Financial fraud violates both moral and legal constraints. Therefore, the implementation of financial fraud necessarily requires the existence of both moral and legal exceptions, the so-called opportunity factor. In a nutshell, the opportunity factors that constitute the implementation of financial fraud include both moral and legal conditions. In this case, the implementation of Erkang Pharmaceutical's financial fraud has been successful. Then, morally, there will inevitably be a lack of professional ethics among Erkang Pharmaceutical's senior management represented by Shuai Fangwen, and the employees of Tianjian Office and the securities receiver in the west who have formed indirect transactions with it. This is related to the greedy factor of financial fraud, that is, the employees of the enterprise will, because of the acquisition of certain benefits, choose to ignore the possible harmfulness of financial fraud subjectively, which also creates an opportunity for financial fraud in the ethical level. On the other hand, the existing laws and regulations on corporate financial fraud in our country are not strong enough to punish financial fraud and cannot have significant binding force and sanction on the enterprise. This is also due to the lack of reverence of Shuai Fangwen, Liu Aijun and others for the relevant legal binding force in the Erkang Pharmaceutical Financial Fraud Case, which indirectly promotes the occurrence of financial fraud. In other words, there are certain loopholes in both moral and legal aspects, which together constitute the opportunity factor of financial fraud.

4.3. Factor analysis is required

The so-called need factor is also the motivation of financial fraud. After reviewing and studying the development process of Erkang Pharmaceutical Company at the beginning of its establishment, it is found that Erkang Pharmaceutical has shown good operating conditions to the outside world for many years, and the stock market has always maintained a steady upward trend. Since the development of Erkang Pharmaceutical, it has become a well-known enterprise in the domestic pharmaceutical field. Its strong market competitiveness has won a very considerable market share for the enterprise, and has obtained a huge profit. At the same time, it has greatly stimulated Shuai Fangwen's ambition and desire for continuous expansion. In our country, there is a clear target review system for the performance of listed companies every year. In other words, if listed companies want to expand the scale of development, they must

assume a corresponding degree of performance target responsibility. And often this kind of continuous expansion, the need for a large number of resources consumption is the enterprise can't afford in the short term, this time Erkang pharmaceutical represented by ShuaiFangWen senior management expected purpose cannot be achieved, desire and the actual situation cannot be synchronized, which will lead to fraud. With the development of the company, the expansion needs of Erkang Pharmaceutical did not match with the actual conditions, which eventually led Shuai Fangwen and others to decide to take risks and adopt fraud to operate. The purpose of Erkang Pharmaceutical to expand its market rapidly is to create the necessary factors for its financial fraud.

4.4. Exposure factor analysis

The composition of the exposure factors of fraud also includes two meanings, one is the possibility that the fraud will be disclosed, and the other is the psychological expectation that the fraud may have consequences [10]. This is closely related to the aforementioned opportunity factors. The implementation and disclosure process of Erkang Pharmaceutical's financial fraud case lasts for a long time. After analysis, the reasons why its fraud behavior can last for such a long time include two points: First, the investigation found that Western Securities and Tianjian Certified Public Accountants, which is responsible for Erkang Pharmaceutical's guarantee and audit work, has a direct and long-term interest relationship with Erkang Pharmaceutical, which also leads to the inevitable damage to its fairness in the audit and supervision of Erkang Pharmaceutical, and for Erkang Pharmaceutical, the possibility of exposing its fraud behavior is minimized. On the other hand, as mentioned in the analysis of the opportunity factors that cause the financial fraud, the neglect of financial fraud on the moral level and the insufficient punishment on the fraud on the legal level make the enterprises have lower psychological expectations on the costs and risks of financial fraud subjectively. In conclusion, Erkang Pharmaceutical's low-cost and low-risk subjective psychological expectations for its fraud have promoted and completed the implementation of its fraud, which is also the exposure factor that leads to financial fraud.

5. Reflections and Suggestions Caused by Erkang Pharmaceutical's Financial Fraud

5.1. Reflections on Financial Fraud

Through the analysis and research of Erkang Pharmaceutical's financial fraud case, it is found that the cause of financial fraud is affected by various factors to varying degrees, and is the result of multiple factors, which has also caused widespread attention to financial fraud in the whole society. The formation of multi-level motivation also leads to the problem of frequent financial fraud, which requires many targets and complicated methods. Through the analysis of the financial fraud cases of Erkang Pharmaceutical, it is found that there is no fact of indirect related party transactions in the audit process of Erkang Pharmaceutical. On the one hand, it is possible that as a mature auditor, generally, there is a set of audit programs that give priority to elimination based on experience. Therefore, the implementation of the audit procedures is not in place. Under the premise of considering the audit cost, if the audit procedures do not place the third party in a position that must be implemented, the auditor will generally not conduct on-site investigations on the audit third party. On the other hand, it may be because the audit of the intermediate related party transactions is relatively expensive and laborious, and Erkang Pharmaceutical intentionally conceals the transactions of the third party, thus blurring the third party of the transactions. Therefore, it is generally difficult to detect fraud for such universal review of third parties. Therefore, avoiding the formation of indirect related party transactions is the core issue to avoid financial fraud.

The Erkang Pharmaceutical Financial Fraud Case has now been heard, and Shuai Fangwen and other personnel involved have been punished accordingly in accordance with the law. Through the review and summary of the fraud, the top management of Erkang Pharmaceutical should clarify their own sense of responsibility, abide by the professional ethics code, guide the influence of Erkang Pharmaceutical in a positive direction, reform the organizational structure of the Company, select the audit department with higher public trust to cooperate, strengthen supervision and avoid the recurrence of indirect connected transaction relationship. In addition, Erkang Pharmaceutical, as the leading pharmaceutical manufacturer in China, should vigorously innovate and promote its development, make further progress in the capital market with its practical ability, strengthen the influence of the stock market, and set a good example for other enterprises of the same type. It also believes that Erkang Pharmaceutical can achieve further success with its legal means, positive image and positive image. At the same time, based on the analysis of Erkang Pharmaceutical's financial fraud cases, it puts forward the following suggestions for the development of domestic listed companies and market supervision:

5.2. Suggestions on Enterprise Internal Management

The organizational structure of an enterprise is the basis of the overall operation of the company, and the balanced establishment of departments and the effective planning of functions are the cornerstones on which an enterprise depends for its survival. From the case study of Erkang Pharmaceutical, we can see that if the internal department functions of the company do not form an effective power check, it is easy to lead to decision-making errors, and such problems are not uncommon in listed companies, especially in enterprises with relatively large systems. Vertical straight-line functions and horizontal departmental functions within the company need to form a balanced relationship of mutual supervision and mutual restriction, so as to ensure the maximum function of the organizational structure. In other words, an enterprise's internal organizational structure can effectively play its role, which can greatly avoid financial fraud.

In the financial fraud case of Erkang Pharmaceutical, Western Securities and Tianjian Certified Public Accountants, both of which are third-party supervisors, have unshirkable responsibilities. At the same time, it can also reflect the problems in financial supervision of listed companies. At present, many third-party institutions in charge of supervision and audit of listed companies in our country have direct interests with the companies under supervision. We know that as a third-party audit and supervision department, it should have a parallel relationship with the institutions under supervision rather than a subordinate relationship. If there is a direct interest relationship between the supervision department and the enterprise under supervision, the audit supervision will inevitably be biased, thus undermining the basic auditing standards and indirectly providing the conditions for financial fraud to be implemented. Therefore, if we want to curb financial fraud, we must require the audit and supervision institutions to be serious and responsible, abide by the audit standards, be rigorous and meticulous in the audit work, and be fair and open to the audit results. Only in this way can we effectively curb the occurrence of financial fraud.

The relevant regulations on financial fraud in the existing legal system of our country are not strict enough on the qualitative conditions and punishment, which is also an important reason for the frequent occurrence of financial fraud in recent years. Through the research on the existing financial fraud incidents, it is found that the listed companies that commit fraud often shirk their responsibilities and perfunctorily accept the punishment when facing the related punishment and fixed responsibilities, which also damages the whole healthy atmosphere of the market. Therefore, only by effectively strengthening the punishment for such fraudulent acts in market management and forming a high-pressure situation for such acts with strict legal

requirements can market health and stability be effectively maintained and the occurrence of such acts be curbed.

The healthy development of the market depends on the joint efforts of all enterprises in the same field. The frequent occurrence of financial fraud is inseparable from the inability of enterprises in the same field to supervise each other. A market is made up of all enterprises related to a certain aspect. If each enterprise can support and supervise each other, the fairness and health of the market can be guaranteed. Then the cost of implementing such fraud incidents will correspondingly increase, and the proportion of exposure factors will also increase, thus effectively avoiding the frequent occurrence of such incidents. Therefore, mutual supervision and checks and balances among various enterprises are very important to curb the occurrence of financial fraud.

6. Summary and prospect

Through the research and analysis of financial fraud in listed companies, we can draw the following conclusions: financial fraud is illegal, financial fraud is shameful, and the impact of financial fraud is bad. The causes of financial fraud are very complex and involve many responsibilities. Therefore, to effectively contain the occurrence of financial fraud, we must adopt a multi-pronged approach. First of all, the market management is orderly, the company members are strict with themselves, and the review and supervision are fair and open. Only in this way can we solve all problems related to financial fraud and its root causes. Secondly, we should try our best to perfect the audit procedure, appropriately doubt whether the third party acts as an intermediate party, and conduct corresponding on-the-spot investigation and investigation on the suspected objects, and obtain comprehensive information dutifully to perfect the audit process so as to reduce the audit risk. Finally, it is necessary to improve the auditor's ability. It is difficult to audit related party transactions, and it is a brand-new challenge to briefly introduce related party transactions. For any auditor, he should draw lessons and sum up experience from each audit event, find his own shortcomings from previous cases, and accumulate experience to improve his ability. It is also sincerely hoped that the financial frauds of listed companies in our country will not happen frequently, that all enterprises will support each other and contribute to the economic development of the motherland, so that all enterprises can compete and develop in a healthy and fair market environment. It is also believed that the outstanding pragmatic spirit of our entrepreneurs can effectively achieve fair competition and sound development and jointly promote the development and prosperity of our motherland.

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