

Research on the Impact of Enterprise Business Model Innovation on Audit Risk in the Mobile Internet Era

-- Based on the Case Analysis of Luckin Coffee's Financial Fraud

Rui Zhu¹, Ke Zhou², Tian Li², Jingwei Li³

¹School of Accountancy, Anhui University of Finance and Economics, Bengbu 233030, China

²School of Business Administration, Anhui University of Finance and Economics, Bengbu 233030, China

³School of Finance and Public Administration, Anhui University of Finance and Economics, Bengbu 233030, China

Abstract

The business model of enterprises in the mobile Internet era has undergone great changes, and there are many risks in the rapid development, which brings challenges to regulatory work such as auditing. Therefore, the audit risk also appears correspondingly, and the corresponding innovation mode needs to be carried out to adapt to the development of the times and improve the audit quality. Luckin Coffee has achieved rapid expansion relying on Internet technology, but the unsustainability of its business model has led to financial fraud by its management, which has brought new risks to the audit work. In the mobile Internet era, new retail enterprises represented by Luckin Coffee bring new challenges to audit work in terms of environmental risks, information technology risks, internal control systems, and legal supervision risks. The auditing technology adapted to the new Internet retail model realizes the verification of the financial information of the new retail enterprise.

Keywords

New Internet Retail Business Models; Luckin Coffee's Financial Fraud; Audit Risk.

1. Introduction

The development of the mobile Internet has caused great changes in the business models of many enterprises, and the operation model of the traditional retail industry has also undergone tremendous changes. In the past, physical retail played an important role in the field of commercial circulation, carrying business flow, logistics and capital flow. With the advent of the Internet era, big data, Internet of Things, and artificial intelligence have developed rapidly, and the business format of the physical retail industry is constantly changing and innovation, and formed a new retail industry characterized by information technology. The innovation and reconstruction of the traditional retail business model is an inevitable requirement for the evolution of the business model due to the development of modern science and technology. The changes in the business model of the retail industry and the application of information technology have brought corresponding changes in the financial management activities of retail enterprises. Taking Luckin Coffee as an example to analyze the methods of new retail enterprises to attract customers and maintain stickiness, Luckin Coffee was successfully listed on Nasdaq in the United States only 18 months after its establishment, setting a record for the fastest listing of Chinese startups. Luckin Coffee claims to have built a new retail model based on Internet technology by combining online and offline methods, taking the lead in selling coffee through an all-Internet sales method, and building a data-driven new retail coffee road.

Consumers order online through Luckin Coffee's online APP, WeChat applet and other online methods, and then go to offline stores to pick up coffee, which shortens the waiting time of consumers. As an emerging brand, Luckin Coffee mainly uses free orders for new customers and invitations to deliver coffee to attract customer traffic, and uses cash subsidies and discount coupons to attract customers to repeat purchases to maintain customer stickiness. High-quality coffee beans", "leading Internet technology" and "innovative business models" are the key points of publicity to quickly establish a brand image and attract more consumers. Luckin Coffee's method of attracting customer traffic is based on a large amount of cash outlays. It has indeed acquired a large amount of customer traffic by "burning money" in a short period of time, and has established a brand image of Internet new retail. The rapid rise of Luckin Coffee in the Chinese coffee market has driven the upsurge of new Internet retail business models.

At present, some enterprises in my country have begun to innovate financial management activities, using information technology to carry out precise and centralized management of corporate financial activities, realizing the sharing and timely circulation of corporate financial information. In the era of mobile Internet, commercial enterprises have carried out changes in financial management methods in a timely manner to cope with changes in business models. However, relatively speaking, due to the particularity of new retail enterprises in the Internet era, when conducting mutual audits, both audit institutions and auditors Faced with great audit risk. In view of this, this paper introduces the financial fraud case of Luckin Coffee into the study of audit risk of new Internet retail enterprises, and analyzes the impact of enterprise business model innovation on audit risk in the mobile Internet era.

2. Audit Risks of New Business Models in the Internet Era

2.1. Environmental Risks in the New Internet Retail Industry

The new Internet retail industry faces risks from the internal and external environment. From an internal point of view, enterprises in the new Internet retail industry rely on modern information technology, their own development requires high technology, and the operation of products is relatively complex. As an emerging brand, Luckin Coffee mainly uses free orders for new customers and invitations to deliver coffee to attract customer traffic, and uses cash subsidies and discount coupons to attract customers to repeat purchases to maintain customer stickiness. High-quality coffee beans", "leading Internet technology" and "innovative business models" are the key points of publicity to quickly establish a brand image and attract more consumers. However, Luckin Coffee's way of attracting customer traffic is based on a large amount of cash expenditures, and it is true that a large amount of customer traffic is obtained by "burning money" in a short period of time. However, Luckin Coffee attracts customers with low prices and cultivates customers' consumption habits. The business model did not bring actual profits, and the loss of Luckin Coffee continued to increase. From an external point of view, the current fierce market economic environment will also make enterprises in the new Internet retail industry rise and fall. After the success of Luckin's business model, chain coffee companies such as Starbucks and costa have followed suit and improved, which has increased the uncertainty of competition in the market environment to a greater extent.

2.2. Information Technology Risks in the New Internet Retail Industry

Enterprises in the new Internet retail industry rely on information systems to operate, and computer information technology has penetrated the production process, operation management process, and financial information systems of enterprises in the new Internet retail industry. The information system will process and generate a large amount of data in a short period of time. . Therefore, it is highly dependent on modern information technology, which leads to the unique information technology risks of the new Internet retail industry.

Luckin Coffee uses the pick-up code provided by the online order to falsify the sales volume. The pickup code is no longer generated in sequence, but is an incremental random number. The random number has the phenomenon of skipping orders, which achieves the purpose of exaggerating sales and sales revenue. Secondly, for offline sales, mobile payment has become a common phenomenon, and code scanner scanning has also become a source of financial information. Therefore, whether it is the outflow of expenses or the inflow of the company's revenue, it has become an obscure transaction within the company and a loophole that is difficult for third-party auditors to find.

2.3. The Soundness and Effectiveness of the Internal Control System in the New Internet Retail Industry

The sound and effective internal control of enterprises in the new Internet retail industry plays a key role in the success or failure of their operations to a certain extent. Generally speaking, sound and effective internal control can ensure the authenticity and accuracy of corporate accounting information, maintain the security and integrity of corporate funds, and can effectively prevent business risks faced by companies. If the internal control of enterprises in the new Internet retail industry is not sound and effective, it will cause great difficulties to the audit work. Luckin Coffee uses related transactions to conduct financial fraud, which is relatively concealed. The supply side of Luckin Coffee is in charge of the company of the student of the chairman of Luckin Coffee, and the student also has assets with the chairman of Luckin Coffee, and even The company address is also near Luckin headquarters. The internal investigation of Luckin Coffee also stated that the funds used to support the counterfeit transactions were remitted to the company through multiple third parties, some of which were related to related parties. Luckin transfers its own funds to affiliated companies, and then forges sales business, and the return of funds will be reflected in the income growth on the statement. Finally, there are numerous fictitious customers who repeatedly buy vouchers in large sums, inflating voucher sales.

2.4. Legal and Regulatory Risks

Due to the short start time of my country's new Internet retail industry, the existing laws on the new Internet retail industry are not perfect, and the supervision is still in its infancy. , the regulatory authorities have not issued specific regulatory rules for various models. This will allow some operators with poor moral quality and bad intentions to take advantage of the gaps or loopholes in the relevant regulatory policies, thereby whitewashing the financial statements of the company, resulting in a relatively high risk of major misstatements of the company. Luckin Coffee exploited industry regulatory loopholes at the group level and used false advertising investment to increase costs, creating the illusion that the company's influence was constantly increasing. Even if the company's expense level was increasing, Luckin Coffee exchanged false fees for false income. From this point of view, one in and one out, through a cycle, the funds flow back to the company. In this cycle, the company's operating performance has been improved, and the appearance of inflated profits has also been formed. The management used forged contracts and false invoices to Money finds the "right" place and kills two birds with one stone. It is common to increase advertising expenditures in the early stage. However, with the follow-up of advertising effects and star effects, it is impossible for such a large amount of advertising costs in the later stage. In the company's financial situation, the company's later costs will be less. Profits will naturally increase.

3. Challenges Faced by Auditors under the New Business Model in the Internet Era

3.1. Auditors' Risk Awareness

Compared with the traditional manual audit, the audit risk of the new Internet retail industry now has many new characteristics, such as the concealment of audit risk, and the poor controllability and destructiveness. . Auditors must pay enough attention to the risks of the new Internet retail industry in order to adopt appropriate audit testing procedures for these risks, so as to better complete the audit work and achieve the audit objectives.

3.2. The Quality Requirements of Auditors

The audit of the new Internet retail industry is a comprehensive audit. Compared with the traditional audit, it requires a wider range of knowledge and adopts more advanced audit methods. It requires personnel to have a comprehensive understanding and understanding of the new Internet retail industry, business model, and risk control, and puts forward higher requirements for the quality of auditors. However, due to technical reasons and the rapid update of knowledge, it is difficult for the current auditors to meet the audit needs of the new Internet retail industry in terms of knowledge structure. In addition, due to the imperfect auditing standards related to the auditing of the new Internet retail industry, auditors lack corresponding auditing basis in the auditing process, which also brings certain inspection risks. Auditors should use more key auditing techniques such as field investigation, information technology, and data analysis to verify the financial information of new retail enterprises.

Acknowledgments

This word is funded by the Undergraduate Innovation and Entrepreneurship Training Program of Anhui University of Finance and Economics (project number: 202010378287), the ownership of the research results belongs to Anhui University of Finance and Economics.

References

- [1] Qi Chaxin. Case study on internal control of corporate financial reporting -- A case study of Luckin Coffee fraud [J]. Time-honored Brand Marketing,2022(08):143-145.].
- [2] Hui Zhipeng. Innovation of audit mode of new retail enterprises in the era of mobile Internet -- based on the case analysis of Luckin Coffee financial fraud [J]. Accounting communications, 2021 (01) : 129-134 + 172. DOI: 10.16144 / j.carol carroll nki issn1002-8072.20200927.001.
- [3] Wan Guang, Chen Geng. Research on audit risk of Internet finance under modern risk-oriented audit [J]. China Collective Economy,2016(09):73-74.
- [4] Xie Rong, Wu Jianyou. Accounting Research,2004(04):47-51. (in Chinese).