

Stripping the Cocoon and Talking about Swordsmanship, Thirty-six Strategies to Solve Complex Emotions

-- Case Analysis and Research on Kangmei Pharmaceutical

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Abstract

In recent years, financial fraud scandals have been common. Behind the financial fraud of enterprises, what causes frequent financial fraud cases of listed companies in the Chinese securities market? How to prevent such phenomena from happening has become a hot topic in society. This article will sort out the whole case based on the financial fraud incident of Kangmei Pharmaceutical, analyze and summarize the main means of financial fraud, clearly distinguish between the misunderstanding of accounting standards and the management's intentional fraud, distinguish between audit responsibility and accounting responsibility, analyze the key factors of audit failure of Guangdong Zhengzhong the Pearl River Certified Public Accountants' Office, clarify the responsibility of independent directors, and give corresponding countermeasures to improve the independent director system to make it more effective.

Keywords

Financial Fraud; Audit Failure; Independent Director Information Disclosure.

1. Introduction

At present, China's economy is developing rapidly, and at the same time, relevant economic systems and laws and regulations are constantly developing and improving.[1] In recent years, there have been some major cases of financial fraud with extremely bad nature, which is shocking. It not only damages the direct interests of stakeholders, but also affects the healthy development of China's economy, disrupts market order, and hinders market prosperity. From this perspective, analyzing financial fraud cases has practical significance and is very necessary. This report takes the case of financial fraud of Kangmei Pharmaceutical Co., Ltd. (hereinafter referred to as "Kangmei Pharmaceutical") as a starting point, combs the whole case, analyzes and summarizes the main means of financial fraud, clearly distinguishes the misunderstanding of accounting standards from the intentional fraud of the management, distinguishes the audit responsibility from the accounting responsibility, analyzes the key factors for the failure of Guangdong Zhengzhong the Pearl River Certified Public Accountants, and clearly defines the responsibility of independent directors, Provide corresponding countermeasures to improve the independent director system and make it more effective.

2. Organization of the Text

2.1. Concept Definition and Related Theoretical Foundations

2.1.1. Financial Fraud and Misunderstanding of Accounting Standards

Table 1. Financial Fraud and Misunderstanding of Accounting Standards

	Incorrect understanding of accounting standards	financial fraud
subjective angles	The misunderstanding of accounting standards is not intentional subjectively, but is caused by the deviation of financial personnel's understanding of the standards. Once the professional competence of financial personnel is improved, the misunderstanding of accounting standards will disappear or be corrected.[2]	Financial fraud subjectively has intentional nature. It is a premeditated falsification or omission of financial information by corporate financial personnel for short-term interests. Regardless of whether there is a consensus on the matter from the outside world, and the level of professional competence of corporate financial personnel, their intentional nature inevitably exists.
Objective perspective	The objective harm of understanding errors in accounting standards is relatively low, and the higher the professionalism of financial personnel in enterprises, the lower the harm. At the same time, due to the fact that companies hire highly professional accounting firms for external audits or reviews, errors in understanding accounting standards are easily detected during the audit or review process due to differences in understanding between financial personnel and certified public accountants. Therefore, they often involve small amounts and are already discovered. Moreover, due to the lack of intentional behavior of financial personnel in enterprises, they can make timely corrections after being pointed out by certified public accountants, resulting in lower harm to society and investors.	Financial fraud objectively has great harm, and the higher the professionalism of financial personnel in enterprises, the higher the harm. Financial fraud has its intentional nature from the beginning, which will bring great difficulty to the audit work of certified public accountants. There may even be fraudulent enterprises collaborating with the auditing party to engage in financial fraud, which makes it possible for the enterprise to be exposed to the outside world only when a significant amount of fraud occurs. In addition, financial fraud cannot increase the actual capital and business of a company. When its fraudulent behavior is exposed, the following risks will come: debt harm, shareholder equity harm, employee unemployment risk, and other social hazards.
Short term concealment	The short-term concealment of misunderstandings in accounting standards is extremely low. Due to the deliberate concealment of relevant information by corporate financial personnel and management, misunderstandings in accounting standards are easily discovered by the outside world.	The short-term concealment of financial fraud is extremely high, and the higher the professional level of financial personnel in enterprises, the stronger their short-term concealment. This is because the fraud methods designed by high-level financial personnel often easily penetrate the weak points of auditing, avoiding external detection of anomalies in their accounting information.

2.1.2. Audit Responsibility and Accounting Responsibility

Accounting is the provider of financial information, while auditing is the guarantor of the accuracy of financial information. The key to distinguishing between accounting responsibility and audit responsibility is to distinguish the historical attributes of the information. If there is an error in the provision of financial information, and it is caused by the incorrect behavior of relevant financial personnel due to violation of accounting standards and relevant legal provisions, then this will be classified as accounting responsibility. If, for a financial misstatement phenomenon, the auditor fails to point out and require the relevant financial personnel of the enterprise to correct it in a timely manner due to violating audit standards and

relevant legal provisions, resulting in significant errors in the final disclosed financial information, it should be classified as audit responsibility.

2.2. Theoretical Basis of Relevant Analysis

GONE Theory GONE theory is one of the classic theories used by academia to analyze and infer the causes of financial fraud in enterprises, and to combat and prevent fraudulent behavior. The four aspects of financial fraud analysis proposed by it not only reflect the causes of financial fraud, but also constitute the probability of financial fraud occurring.

3. Case Introduction

3.1. Basic Information of the Enterprise

In 1997, Kangmei Pharmaceutical was founded by its founders Ma Xingtian and Xu Dongjin in Puning. Within four years, Kangmei Pharmaceutical's stock was listed. Kangmei Pharmaceutical has comprehensively laid out the traditional Chinese medicine industry chain, with its commercial territory covering numerous business sectors such as traditional Chinese medicine trade, health products and food, medical device production and sales, and pharmaceutical e-commerce. It has once become a dazzling leader in the domestic traditional Chinese medicine industry. In 2007, Kangmei Pharmaceutical reported revenue exceeding one billion yuan in its annual report. In 2016, Kangmei Pharmaceutical's revenue exceeded 20 billion yuan, and its net profit income even increased by a hundred times, with an average compound growth rate of over 30%. Kangmei Pharmaceutical has always been known as the "white horse stock" in the pharmaceutical industry, and its share price hit a historical peak of 27.99 yuan on May 29, 2018. But behind the "myth", it seems to be unsatisfactory. In 2018, a trigger for the stock limit decline set off Kangmei Pharmaceutical's ticking time bomb scenario, exposing the huge amount of financial fraud behind it, which shocked the industry.

3.2. Case Review

On October 16, 2018, Kangmei's stock fell below the limit, while an article pointed out that under high financial expenses, Kangmei still chose to hold a large amount of monetary funds, and multiple assets did not have provision for depreciation, which poses significant doubts. Kangmei, on the other hand, did not agree and continued to vigorously carry out large-scale financing. The unreasonable "high deposit and high loan" policy has even existed for a long time, and as early as 2012, experts and scholars questioned the "Kang Mei lie". On October 17, 2018, the China Securities Regulatory Commission urgently established a professional verification team to conduct a financial investigation into Kangmei Pharmaceutical. The investigation was officially filed on December 28. On April 29, 2019, the company's 2018 annual report was delayed and accounting errors were corrected in the previous period. Only one report resulted in the disappearance of 30 billion yuan in monetary funds, which also showed that Kangmei Pharmaceutical had significant problems in its financial management system and internal control system.

In the first ten days of May 2019, the Shanghai Stock Exchange successively issued two inquiry letters to Kangmei Pharmaceutical on financial issues. On May 9, 2019, Guangdong Zhengzhong the Pearl River Accounting Firm received the notice of case filing and investigation issued by the CSRC due to its suspected violation of laws and regulations in the audit business of Kangmei Pharmaceutical. On May 17, 2019, the China Securities Regulatory Commission issued an investigation progress confirming that the financial reports for the three years from 2016 to 2018 were fraudulent, with serious circumstances and a huge amount of inflated monetary funds, making it the largest financial fraud case in the history of A-shares. The "White Horse Stock" fell to the altar.

On May 14, 2020, the China Securities Regulatory Commission issued an "Administrative Penalty Decision" to Kangmei, which clearly identified the illegal fact of Kangmei falsely increasing its income, profits, monetary funds, and fixed assets through financial fraud. It also pointed out that there were significant omissions in Kangmei's relevant annual financial reports and did not disclose the related party transactions of controlling shareholders and their related parties' non operational occupation of funds. The Administrative Penalty Decision imposes a fine of 600000 yuan on Kangmei Pharmaceutical, a fine of 100000 to 900000 yuan on the responsible person, a 10-year to lifelong ban on market entry for six main responsible persons, and a maximum fine of 900000 yuan on Ma Xingtian, Xu Dongjin, and others, a lifelong ban on market entry.

In the case, both the independent directors and auditors were deeply involved. As an independent audit department, the relevant personnel of Guangdong Zhengzhong the Pearl River Certified Public Accountants failed to maintain the spirit of questioning and make audit reports with major defects. The court ruled that Zhengzhong the Pearl River Certified Public Accountants and its direct responsible persons should bear 100% joint and several liability, and gave public condemnation and rising disciplinary punishment. The five independent directors involved in the case failed to perform their duties, which was not objective, Failure to provide independent director supervision resulted in a huge joint and several liability of 123 million to 246 million yuan. The financial fraud case of Kangmei Pharmaceutical is one of the few major cases in China, and the compensation amount exceeds imagination. Why is there such a major financial fraud under the interference of external audit, and what role does Zhengzhong the Pearl River Certified Public Accountants play in it? Why is there still a situation of incomplete information disclosure and distortion in the existence of an independent director system, which is a system of power balance and supervision? The Kangmei Pharmaceutical case is not just a case of financial fraud. The many problems caused by this are even more thought-provoking and urgently needed.

4. Case analysis

4.1. Financial Fraud Identification - Based on Enterprise Report Data

The most questioned aspect of Kangmei Pharmaceutical's dual high deposit and loan ratio is the dual high deposit and loan ratio. During the same period, Kangmei Pharmaceutical's monetary funds and short-term borrowings have significantly increased, and huge liabilities and deposits coexist, which is unimaginable. Moreover, the large amount of debt is accompanied by high financial expenses that need to be paid, but Kangmei Pharmaceutical has not properly planned its wealth management and fund management, resulting in minimal profit income, which makes people curious about the insider information.

Accounts receivable are occupied by related parties, inventory anomalies, and a mismatch between inventory growth and operating revenue exist. Most of Kangmei Pharmaceutical's operating revenue is achieved through accounts receivable, and the credit sales rate exceeds the normal range. Moreover, excessive inventory of goods does not meet the actual sales situation of the enterprise.

There are two possible scenarios for the phenomenon of net profit being much higher than net operating cash flow in consecutive years: firstly, in recent years, the actual profit and income of the enterprise have been higher than the actual situation; Secondly, the bad debt situation occurred in the accounts receivable account. Either of these two scenarios is consistent with the hypothetical existence of a fictitious net profit.

The proportion of major shareholders' shares pledged is too high. What was hidden in the financial statements of Kangmei Pharmaceutical in 2018 is that after Kangmei Pharmaceutical was released from the pledge, its equity in the pledged state remained as high as 90%. This also

truly reflects the concerns and distrust of the company's revenue and financial situation as a major shareholder.

The value of fixed assets, construction in progress, and investment real estate is falsely high. In the 2018 semi annual report, Kangmei Pharmaceutical included six engineering projects that were not included in the report in the previous period, resulting in a significant increase in the value of fixed assets, construction in progress, and investment real estate. The total assets increased by 3.605 billion yuan [3].

4.2. Financial Fraud Methods

4.2.1. Utilizing Related Party Transactions

has become a powerful means for enterprises to engage in financial fraud due to its imperceptible advantages. In the case of Kangmei Pharmaceutical, due to the internal related party transactions of the enterprise, investors and creditors were unable to learn the actual business status of the enterprise. But there is no truthful reflection of the relevant situation in the financial statements. The massive and frequent related party transactions have piled up inflated book amounts, keeping investors and creditors in the dark. In addition, Kangmei Pharmaceutical also used the funds transferred to related party companies to purchase the company's shares, so as to drive up the share price and manipulate the stock market.

4.2.2. Forgery and False Increase of Bank Deposit Receipts, and False Reporting of Monetary Funds at the Reporting Level

Data shows that Kangmei Pharmaceutical's cash flow mainly depends on financing. It seems that monetary capital is abundant, but the interest earned cannot cover the interest generated by liabilities, which makes people suspicious. According to the investigation of the CSRC, in order to highlight its strength and attract investment, most enterprises will make corresponding false increases in accounts receivable, prepayments, inventories, fixed assets and other items, because these assets are relatively difficult to investigate and verify, and monetary funds are much better to investigate. However, Kangmei Pharmaceutical is going against the trend and taking the edge of the sword, which is to falsely increase monetary funds, not three million, five million, or 30 billion.

4.2.3. Overcounting Cash Income, Underrecording Cash Expenses, Delaying the Recognition of Related Assets, and Inflating Monetary Funds.

In the case of Kangmei Pharmaceutical, in order to achieve the ideal operating profit, the enterprise violated the conditions of Revenue recognition in the accounting, raised the revenue and lowered the expenditure, which caused the substantial growth of the enterprise profit to confuse investors to obtain a larger source of funds and further accumulate capital.

4.3. Reasons for Financial Fraud - Based on GONE Theory

4.3.1. Greed Factor Analysis

Greed refers to entrepreneurs who are not satisfied with the existing profits and income they receive, but attempt to satisfy their desires through illegal and improper means. In the case of Kangmei Pharmaceutical, the chairman and general manager of the company, Ma Xingtian, who was unable to realize the development and expansion of the enterprise scale under the current rules and regulations, tried to exploit the loopholes of the system, speculate, maliciously exploit, violate the accounting system and laws, and cheat the investors and creditors. In the case, Ma Xingtian, the chairman and general manager, regarded his own personal interests as the ultimate pursuit, recognized financial fraud in his subconscious mind, viciously argued and did not admit his mistakes after the matter was revealed, It can be seen that they lack a sense of responsibility and good moral concepts.

4.3.2. Opportunity Factor Analysis

From the perspective of internal control, Kangmei Pharmaceutical has five major problems. Firstly, there are deficiencies in the internal control organizational structure. The internal audit committee mainly obtains information from senior management personnel such as the general manager and chairman, while the internal audit department is responsible to the CEO. Issues involving the personal interests of executives are difficult to solve, which can easily lead to the loss of independence in internal auditing; Secondly, there are deficiencies in the accounting system; Thirdly, there is no strengthening of internal control over expenses; Fourthly, the division of labor for employees and departments is vague, and there is a phenomenon of one person holding multiple positions, which cannot achieve the effect of mutual restraint and restraint. Fifth, Chairman Ma Xingtian has absolute control over Kangmei Pharmaceutical due to his "one share dominance", which has laid the foundation for Kangmei Pharmaceutical's false information disclosure. These five major loopholes, combined, provide ample opportunities for Kangmei Pharmaceutical's financial fraud.

From the perspective of external supervision, the reason for the failure of external supervision is that Kangshimei Pharmaceutical frequently engages in large-scale bribery. Since 2016, there have been 5 instances of suspected bribery, with drug regulatory department heads and local government officials receiving a total of HKD 6.1 million in bribes. In terms of external punishment mechanisms, the administrative punishment of the CSRC is relatively weak and inefficient. According to the Securities Law, for the punishment of illegal and irregular information disclosure by enterprises, the maximum penalty is only a fine of 600000 yuan for the obligor, and only a fine of 300000 yuan for other directly responsible personnel and supervisors. It can be seen that the cost of punishment for illegal and irregular activities by enterprises is only a few hundred thousand yuan, which is not comparable to the often hundreds of millions of yuan of listed fundraising, making the enterprise form a gamble with small profits.

4.3.3. Factor Analysis is Required

Kangmei Pharmaceutical's demand for capital market funds and the interests of major shareholders has stimulated the management of the company to take the risk of financial fraud and whitewash its financial statements. In the 18 years since Kangmei Pharmaceutical went public, it has raised a total of 83.57 billion yuan, especially in recent years when it frequently conducts large-scale financing. The newly added debt funds are used by major shareholders to buy and sell the company's stocks through related party transactions, maintaining the stock price at a high level to increase market value, enabling the company to continue listing in the securities market, continue to enjoy financing qualifications, and avoid delisting risks that must be faced due to poor management.

4.3.4. Analysis of Exposure Factors

In terms of the possibility of being discovered during the implementation of the behavior, Kangmei Pharmaceutical has been engaged in financial fraud for several years without being discovered by local regulatory authorities, indicating the possibility of bribery to local regulatory authorities, which greatly reduces the possibility of its fraud being discovered by external regulatory authorities. As an accounting firm, the fundamental responsibilities include verifying the various transactions of the enterprise, paying special attention to monetary funds and related transactions. However, Kangmei Pharmaceutical has been engaged in financial fraud for many years, and the involved amount is huge, but the problem has not been discovered. This shows that the firm has not been able to comply with the principle of full professionalism and has lost its independence.

In addition, based on the severity of punishment after being discovered, in the current weak and inefficient legal system, the low cost and high profits of fraud are also the main reasons for

the repeated prohibition of financial fraud in enterprises, but it is still vigorously prevented. From the perspective of civil compensation, China's current civil compensation mechanism is not perfect, with long litigation time and complex and troublesome procedures. So obtaining civil compensation is difficult. From the perspective of criminal responsibility, according to the relevant provisions of the Criminal Law, Kangmei Pharmaceutical has committed massive fraud. Although it is possible to hold the responsible personnel criminally responsible, it also requires a long game time and high time cost.

In short, after analyzing the costs and benefits, the management of the enterprise makes a choice. The tempting benefits obtained from financial fraud far outweigh the fines and accountability that may be incurred if the matter is exposed, and the benefits far outweigh the costs. This makes the management of the enterprise feel lucky and willing to take risks to try the law.

4.4. Brilliant but Unreal, Virtual and Useless - On Independent Directors

The independent directors of a listed company are independent of other shareholders and do not hold positions within the company. They make independent judgments and provide recommendations on the company's operations and related affairs solely based on their professional qualities. The original intention of the establishment of independent directors is to prevent the internal control of shareholders or management from causing harm to the interests of the enterprise. Due to their independence and non full-time nature, independent directors play a crucial role in improving the internal power balance mechanism of enterprises and improving the quality of information disclosure. In the Kangmei Pharmaceutical case, its financial fraud is closely related to the absence and inaction of independent directors.

4.4.1. Responsibilities and Obligations of Independent Directors

To safeguard the interests of the enterprise and enhance its image, independent directors should conscientiously fulfill their responsibilities and safeguard the interests of the enterprise in accordance with the company's articles of association. At the same time, hiring some independent directors such as experts, scholars, and departing presidents to serve as the company's independent directors invisibly enhances the company's image and facilitates financing activities.

Having the obligation of integrity and diligence towards the enterprise and all shareholders. In accordance with relevant laws and regulations, independent directors should serve the company while safeguarding the interests of small and medium-sized shareholders, so that the company and investors can achieve a "win-win situation". When independent directors perform their duties, they should maintain their independence, avoid interference from other factors, and effectively fulfill their duties from the perspective of the overall interests of the company. When there is a conflict of interest between shareholders and management, supervision of the company's management should be based on the interests of small and medium-sized shareholders.

4.4.2. Improvement of the Independent Director System

Improving the selection system for independent directors is based on the phenomenon of concentrated equity in listed companies in China. Implementing a cumulative voting system can to some extent suppress the chaos of major shareholders manipulating the selection of independent directors based on their controlled capital. The new Company Law of our country stipulates that "the election of directors and supervisors by the shareholders' meeting can be carried out in accordance with the provisions of the company's articles of association or the resolutions of the shareholders' meeting, and a cumulative voting system can be implemented." However, this provision is not enforced, so it is rarely used in the actual operation of listed companies. Therefore, in legislation, relevant regulations should be adjusted as soon as possible,

and the nomination committee should be made a necessary institution for the normal operation of listed companies, maintaining the independence of independent directors from two dimensions: nomination and election.

Strengthening the actual status of independent directors is hindered in the process of fulfilling their responsibilities and obligations due to their low actual status. The discourse power of independent directors can be enhanced by increasing the number of independent directors and increasing the lower limit of the proportion of independent directors to board members.

Improving the incentive mechanism for independent directors can enhance their work enthusiasm by introducing compensation incentives. However, as the salary standard is determined by the board of directors and shareholders' meeting, it is inevitable that it will have an impact on the independence of independent directors. Therefore, it is up to independent directors to propose a subsidy proposal and submit it to the board of directors and shareholders' meeting for joint decision. This not only ensures the independence of independent directors, but also stimulates their enthusiasm. Of course, only subsidy incentives are far from enough, and corresponding penalties need to be set up to force independent directors to make a difference. However, due to the unfamiliarity and lack of experience of independent directors in enterprise management, the responsibility system of independent directors should be improved and applied as soon as possible.

4.5. Governance Measures

4.5.1. Quick Identification Methods for Financial Fraud in Enterprises

Due to the inherent logic and recording standards of the accounting discipline, the increase or decrease of one accounting subject will inevitably lead to the decrease or increase of another or more accounting subjects. When recording transactions, such accounts with cross checking relationships will inevitably have corresponding logical relationships reflected in the financial statements of the enterprise. From this, it can be seen that paying close attention to accounting subjects with cross checking relationships and maintaining professional suspicion at all times can help us detect financial fraud.

Related party transactions refer to the economic activities between an enterprise and its related parties. Although such economic activities of enterprises can reduce transaction costs and improve transaction efficiency, they will affect market fairness. [4]At the same time, as transaction matters are controlled by the main controllers of both parties, it harms the interests of shareholders of the enterprise. At the same time, if the transaction involves a large amount of money, it is easy to inflate income and profits. If a company conducts frequent and significant transactions with its affiliated parties, its financial fraud risk coefficient is relatively high, which should raise awareness.

According to the theoretical and empirical research of many scholars, there is a positive correlation between the size of the board of directors and internal governance to suppress financial fraud behavior in enterprises; At the same time, there is a positive correlation between the shareholding ratio of the board of directors and the company's financial fraud, that is, the higher the shareholding ratio of the board of directors, the higher the likelihood of the company's financial fraud; The degree of separation of major leadership powers in a company is negatively correlated with financial fraud. Therefore, paying attention to the organizational structure of a company, especially the structure and overlap of its highest authority and supervisory bodies, can quickly identify the risk level of financial fraud.

4.5.2. Preventive Measures for Financial Fraud

The first and foremost task in improving internal governance is to break the phenomenon of "one shareholder dominating the company". The absolute control of major shareholders over the company will have a negative impact on the fairness of accounting information disclosure,

and at the same time, it will also lay hidden dangers for financial fraud in the enterprise. The second issue to be addressed is that the management and supervisory levels each fulfill their respective duties, with the chairman and general manager being held by the same person, breaking the power balance within the enterprise and easily falling under the absolute control of one person. One of the main reasons why Kangmei Pharmaceutical's financial fraud has not been discovered for many years is the absence of internal supervision agencies. Factors such as too few members of the supervisory board and incomplete representation of interests by supervisory board members may result in the inability of internal supervision institutions to perform their original functions. Therefore, improving internal supervision decision-making institutions in enterprises plays a positive role in suppressing financial fraud. The equity incentive system is an effective incentive method for shareholders to supervise the operation of enterprises. As the shareholding ratio of external directors increases, the possibility of financial fraud in enterprises will gradually decrease. At the same time, due to the externality and non professional characteristics of independent directors, their focus on the company's operation is to maximize profits. Strengthening the voice of independent directors and improving the independent director system are conducive to improving the authenticity of enterprise accounting information disclosure and preventing financial fraud.

Strengthening external governance to protect the interests of investors and accept public supervision, China's laws have mandated the basic framework of the information disclosure system for listed companies. However, the result is that voluntary information disclosure only exists as verbal encouragement, without truly effective incentive measures. At the same time, there are no definite disciplinary provisions for false disclosure, which leads to the weak effectiveness of enterprise accounting information disclosure. Further improving the relevant information disclosure system and laws and regulations can help incentivize the financial authenticity of listed companies from both rewards and punishments, and suppress financial fraud.

Improving the independence of audit quality is the soul of auditing, and maintaining the independence of external audit institutions helps to improve their audit quality. Among them, such measures as regular replacement of external audit offices, reduction of audit fees, and separation of Assurance services from non Assurance services will help improve the independence of external audit institutions. One of the reasons for audit failure is that the audit process is not standardized. Strict implementation of audit procedure and review will help improve audit quality and find financial problems of enterprises. Emphasizing the professional quality of auditors, raising the entry threshold, and emphasizing professional quality education can all help prevent audit failures in accounting firms. Establishing relevant professional committees, strengthening the internal regulatory department of the accounting firm, and improving regulatory efficiency can help quickly respond to audit failures and reduce the likelihood of audit failures.

5. Report Analysis Summary

Starting from the overall case of financial fraud of Kangmei Pharmaceutical, this paper successively analyzes the means of financial fraud of Kangmei Pharmaceutical, the reasons for the audit failure of Zhengzhong the Pearl River Certified Public Accountants, and the responsibilities of independent directors to the company. We have also conducted a comparative analysis between Kangmei Pharmaceutical's claim of "incorrect understanding of accounting information standards" and the concept of financial fraud. In this case of financial fraud of Kangmei Pharmaceutical, the relevant management and supervision personnel of Kangmei Pharmaceutical, the independent directors of Kangmei Pharmaceutical and Zhengzhong the Pearl River have unshirkable responsibilities. This article proposes

corresponding solutions to the problems exposed by the financial fraud scandal at Kangmei Pharmaceutical from two dimensions: identification methods for financial fraud and prevention and control measures for financial fraud.

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