

Research on Green-land Case

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Abstract

In recent years, audit failure events occur frequently, the public not only to the professional ethics and ability of certified public accountants questioned, enterprises and accounting firms also suffered heavy losses. The chain reaction of audit failure makes us have to pay attention to the supervision and improvement of audit work. This paper analyzes the reasons for the failure of Green-Land audit and puts forward the corresponding improvement measures, which have important practical value for improving market supervision and corporate governance and promoting the development of the accounting profession.

Keywords

Green Earth; Audit failure; Case study.

1. Introduction

In recent years, audit failures happen frequently, which has aroused public concern. The professional quality and professional ability of certified public accountants are not only questioned, accounting firms are also facing legal proceedings, and even the threat of bankruptcy. At present, the imperfect laws and regulations of China's market economy affect the authenticity and rationality of audit reports. Once audit failure happens, it will not only affect the decision-making behavior of investors, but also damage the reputation of accounting firms, and enterprises are also facing the possibility of bankruptcy. This series of chain reactions will also have a negative impact on the stable operation of market economic order. Through systematic analysis of the reasons for the audit failure of Green-Land Company, this paper proposes corresponding improvement measures in the hope of enlightening the smooth implementation of the audit work in the future and preventing the audit failure.

2. Introduction of Green-Land Company

Yunnan Lvdi Biotechnology Co., LTD., formerly known as Yunnan Hekou Lvdi Industrial Co., LTD., was founded in June 1996 and transformed into a joint-stock company in March 2001 through overall changes. It is the only listed agricultural science and technology company in Yunnan Province. Its main business includes the production and sales of potted plants and ornamental seedlings, and the industrialized production of characteristic seedlings. In November 2006, the CSRC rejected the listing application of Yunnan Lvdi Company. After rectification, the company was officially listed in 2007, with a registered capital of up to 150 million yuan. In 2009, He Xuekui, chairman of Green-Land, became the richest woman in Yunnan with a fortune of 1.1 billion yuan and a 28.63 percent stake in Hurun. 2009 green of the senior management of the third quarter of the earth results in the change for many times, March 30, 2010, the company expects 2009 annual business performance may be a loss, in fact, published on February 27th 2009 results express, green earth net profit of 62.116 million yuan, a month between company suddenly "losses" more than 6000. On December 30, 2010, the company was investigated for alleged illegal disclosure and non-disclosure of important information. On March 17, 2011, yunnan Provincial public security authorities arrested the

actual owner, controlling shareholder and former chairman of Lvdi Company, He Xuekui, on suspicion of the crime of fraudulent issuance of shares. Through sorting out the whole case, it was found that the trigger for the investigation of Green-Land by the procuratorial organs was the enterprise's quarterly report in March 2010. The financial report sent a clear warning signal: on April 28, 2010, the forecast basic eps of \$0.27 was released. Two days later, the actual EPS fell to \$0.1. In a short time, the company's operating income, net profit per share abnormal decline. Prosecutors to green earth company during the period of 2004 to 2009, the financial activities of the inflated assets, false procurement violation behavior in the public prosecution, in addition, also proves the green earth exist in the business activities of illegal disclosure of information, hidden information, false notes and forge the company contract, fake company seals, forge the contract of sale, forge national office document, destruction of important accounting data, and so on many illegal activities. After relevant verification and verification, he Xuekui, when serving as the chairman of Green-Land Company, made financial fraud for many times before and after the listing. He used the falsely increased income and assets of 35 affiliated companies to whitewashed the financial statements. Even after being investigated by regulators, they blatantly modify false performance reports. Lvda was once a green project as the main business, in order to achieve the purpose of listing, the company into the image of "agriculture + high-tech". The name of the company was changed to "biotechnology company", and in the accounting treatment, the profit subject was changed from the income from greening project to the income from "seedling planting". As a result, the company's main revenue has become 85% dependent on the sale of seedlings, and 85% of the seedlings it sells come from outsourcing.

3. Introduction of Shenzhen Pengcheng Accounting Firm

Shenzhen Pengcheng Accounting Firm was established in 1992, which not only has a number of audit qualifications, but also has a variety of professional talents mainly certified public accountants. Mainly engaged in legal and special audit, management consulting and other businesses. In the people's Court's judgment released in early December 2011, only Pang Mingxing, a former director of Huayuan Certified Public Accountants, was a certified public accountant. In this case, he acted as an external consultant. According to the announcement issued by the Sichuan Provincial Finance Department in 2005, Pang Mingxing once worked for Pengcheng Accounting Firm. However, Pengcheng has cooperated with Huayuan for many years and was greenearth's auditing firm during the period of listing. They reached an agreement in 2001 to become partners. But in the whole case, the only firm that has not been punished is Pengcheng. Curiously, pengcheng's 2007 audit report issued unqualified opinions, but after the green Land accident, the firm was able to walk away.

4. The Reasons for the Failure of Green-Land Audit

4.1. Reasons for Yunnan Lvdi Company

In order to go public, Greenearth committed financial fraud by whitewashing its financial statements for four years from 2004 to 2007. For example, in 2004, Greenland artificially increased the cost by purchasing land by RMB 9,0200 yuan, in 2005, by the same way, another RMB 31.9 million yuan, and in 2007, in the name of improving soil quality, the artificially increased cost was RMB 21.24 million yuan. In addition, Greenland also made up sales revenue by secretly carving dozens of official seals and forging sales contracts. According to the judgment of the people's Court of first instance, the imaginary increase in green-Land's income before its listing reached 296 million yuan, and the imaginary increase in income after its listing reached 547 million yuan. In addition, Green-Land uses all kinds of illegal means to make up the collection of money and at the same time to inflate the cash flow. In this way, the business

between the company and its affiliates is used as a cover, and the financial data is falsified by means of capital flow. The specific operation is as follows: transfer the capital out by means of project payment or land payment, and finally make the capital return to the enterprise through the account of the affiliated company. It is worth noting that before the company went public in 2007, it had business dealings with a number of purchasing customers. After the company went public in 2007, the customers who had had a positive impact on the company's revenue "secretly disappeared". Just think, without the help of related customers, Lvdi could not be listed in a short time. Therefore, we have full confidence in the smooth listing of Green-Land and suspect that it was realized through transactions with related customers, the use of inflated assets, profits, whitewashing financial statements and other ways. After the relevant verification later, it was exactly what we expected.

In the second half of 2009, Greenland's capital flow began to be tight and it tried to increase its assets by means of private placement. In order to achieve the goal of additional issuance, it falsely increased assets by more than 4 million yuan by making false accounts. At that time, Greenerth's financial problems had already arisen, and the local securities regulatory Bureau had rejected greenerth's application for additional issuance. After several months of efforts, Green-Land's forecast performance has been revised five times, realizing the transformation from the expected value-added to the loss of 150 million yuan. In the financial statements of the company in the third quarter, expected that the net income increased by 20% - 50% than the previous year, but in the early 2010's announcement, net profit is expected to fall to less than 30%, the end of February, 2010, 2009 letters issued by the green earth, said net profit of 62.12 million yuan in 2009, fell 30%, in April 2010, net profit was modified again.

Shenzhen Pengcheng Accounting Firm and Green-Land have been cooperating for 7 years. In 2008, Green-Land unanimously passed the resolution to change zhonghe Zhengxin accounting firm by holding a board meeting. In 2009, the audit firm was changed to Zhongli Asia Pacific Accounting Firm, and the service fee was increased by 200,000 yuan on the original basis. The company has changed offices frequently over the past two years, all during the period close to the annual report. Investigate its root, it is the enterprise's capital chain appears the problem, wants to carry on self-rescue through the method of private placement. At that time, the regulatory authorities had detected the abnormal behavior of Greenland, and the securities regulatory Bureau rejected its application for additional shares. In order to cover up its false financial statements, Green-Land could only take advantage of the opportunity of changing audit institutions and make them issue uncritical audit reports through economic transactions with the firm.

4.2. Reasons for Pengcheng Accounting Firm

3.2.1 Issue unqualified audit reports

In November 2006, Green-Land's attempt to go public ended in failure because of a strict approval system and its own flawed prospectus. However, chairman He Xuekui did not give up the listing. He inflated the profits and assets of the enterprise by making up businesses and forging contracts, and "actively" dealt with the problems that might be raised by the NDRC. Finally, the listing went smoothly. Pengcheng Accounting Firm and Greenerth have been cooperating for 7 years. Faced with greenerth's modification of financial statements and use of related party transactions to falsely increase income, Pengcheng Accounting firm did not expose such irregularities, but covered up the existing problems and carried out financial fraud.

3.2.2 Violating the principle of audit independence

From 2007 to 2010, Green-Land kept changing audit units, and the audit reports issued by the institutions it had cooperated with were unqualified opinions. Later after the relevant evidence found that since 2007, PangMingXing outside way, in the name of the consultant, there is a close relationship with green earth, at the same time, and, as a "middleman" for ever worked

PengCheng business of certified public accountants to introduce green the earth, make both indirectly from the interest relations, and the PengCheng company for this behavior is not rejected, this serious violation of the principle of auditor independence.

c. The quality of practice is not effectively monitored

When Green-Land first filed to go public in 2006, it had problems not only with its financial statements but also with its prospectus. After a series of fraud in 2007, muddle through successfully listed. Its audit institutions did not conduct effective and timely monitoring of these violations, and did not supervise the audit process and process, leading to the audit problems existing in the audit institutions have not been disclosed. There is also no follow-up inspection of completed audit procedures to ensure the normal operation of the auditees. On the contrary, in order to realize their own interests, Pengcheng Accounting firm gave Pang Mingxing the identity of "two-faced person" and "attached" with the accounting firm.

4.3. Reasons for Certified Public Accountants

In the whole Green-land event, Pang Xingxing, as a key figure that cannot be ignored, played a vital role in the development of the whole event. Before 2005, he had been working in Pengcheng Accounting firm. In 2007, Pengcheng Certified Public Accountants in Shenzhen became green-Land's auditor to apply for a public listing. At the same time, Pang Mingxing became an "external consultant" working for Green-Land to guide the company's fraud. Not only did he modify Greenland's financial data, but he manipulated its audit reports. The correlation between the two obviously violates the professional ethics of maintaining the independence of certified public accountants and increases the risk of fraud in the whole audit process.

5. Revelation

5.1. The Internal Audit of the Auditees Shall Give Full Play to Its Role

Internal audit is the supervision and inspection carried out by the professional auditors of the auditees. According to the inspection results, evaluation is given and corresponding improvement suggestions are given. It can not only help the managers of enterprises to effectively manage, but also can provide reliable audit materials for external audit work and reduce the workload of audit. Internal audit and external audit are interdependent and complement each other. Internal audit represents the internal control of enterprises to a certain extent. From the principles of internal audit, we can find the deficiencies in internal control, which is conducive to the evaluation of material misstatement in the financial statements of enterprises. In addition, compared with external audit, internal audit is closer to the financial activities of enterprises, which can make use of the results of internal audit to judge financial risks, so as to improve the efficiency of audit work. Therefore, giving full attention to and giving full play to the role of internal audit in the audit process has an important impact on preventing the audit failure of the audited entity.

5.2. The Accounting Firms Shall Strengthen Risk Prevention and Control and Improve Their Professional Quality

Accounting firms play an important role in the smooth completion of audit work. The firm has a certain decision right to undertake the business, in addition, the supervision of the audit process also plays an important role. Therefore, accounting firms should not only pay attention to the implementation of risk prevention and control, but also enhance the level of professional quality. The specific performance is as follows: First of all, accounting firms should be prudent in undertaking business, undertake familiar and experienced work fields, and maintain a high level of vigilance and prudence in fields with no audit experience and high risk of fraud. Before undertaking business, relevant investigation and analysis should be carried out, and then

undertaking after verification and verification. At the same time, we should attach importance to the independent character of certified public accountants, and appoint certified public accountants who have no interest relationship with the audited objects to complete the audit work, so as to prevent the two from carrying out related transactions and causing fraud. In the audit process, accounting firms should supervise the audit business and process, and actively expose a series of major audit problems. Secondly, in the course of auditing, if a firm finds any fraud in the financial statements of the audited entity, it should quit in time to avoid serious consequences caused by the interest relationship between the audited entity and the audited entity. Finally, accounting firms should comply with audit standards and relevant standards in the process of auditing. It can be found from the audit failure events that have occurred that if they follow professional ethics and audit standards and procedures, they can identify the behaviors of the audited entity to whitewash the financial statements. In addition, the financial results of the audited companies without defects can be questioned. As for the current laws and regulations and the corresponding supervision system in China, there may be some imperfections, and the amount of reply may not reach 100%. Therefore, for enterprises with an excessive amount of reply, even up to 100%, they can be appropriately suspected.

5.3. Certified Public Accountants Shall Abide by the Basic Standards of Professional Ethics in Auditing

As an important basic code of professional ethics, independence enables certified public accountants to adhere to the principle of objectivity and impartiality as well as due professional skepticism, without affecting the completion of work due to any interests. To violate this principle would inadvertently increase the risk of financial fraud. The independence of auditing enables certified public accountants to use their professional skills to make fair and objective audit reports on the audit contents without external interference. Audit independence is an important link to ensure the authenticity and reliability of audit reports. It directly affects the disclosure of financial errors and frauds in the audit process and is the top priority to ensure the quality of audit reports. Professional competence is also a principle of professional ethics that employees must have. Certified public accountants should constantly improve their professional competence, use their relevant knowledge and skills, and obtain and evaluate evidence that needs auditing. Only with professional competence, the report issued by certified public accountants is convincing. Therefore, the independence and professional competence of certified public accountants are essential to the assurance of audit quality.

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