

Analysis of Financial Fraud Cases in Shen Xianyuan Company Based on Iceberg Theory

Tinghong Huang

School of Management, Xihua University Chengdu, China

Abstract: *In the past ten years, due to their own particularity and the difficulties in the confirmation, measurement and accounting of biological assets of agricultural enterprises, the fraud cases of biological assets of agricultural enterprises occur frequently. Based on the perspective of iceberg theory, this paper analyzes the specific causes and means of fraud cases from the two foothold of "structure" and "behavior", and finally puts forward suggestions and measures related to anti-fraud.*

Keywords: *Shenxianyuan; Iceberg Theory; Fraud*

1. Introduction

With the rapid development of the world economy, although China has gradually transformed from an agricultural country to an industrial country, the importance of agriculture still can not be ignored. Agricultural enterprises involve a large number of biological assets. Due to their own characteristics, biological assets increase the difficulty of audit, improve the risk of audit, and provide a natural barrier for fraud in agricultural enterprises^[1]. In recent years, the departure of scallop in Zhangzidao, Kanghua Agriculture falsely inflated profit and Longbao IPO fraud, which has aroused high attention of investors to the fraud incident of agricultural enterprises. The development of agricultural enterprises is related to the people's livelihood. Shenxianyuan was suspended from trading one and a half years after its listing in 2014^[2]. As the first company fraud incident on the New Third Board and it belongs to an agricultural enterprise, the reflection on the fraud of agricultural listed companies caused by the case is thought-provoking. This paper uses the iceberg theory to analyze the causes of the fraud, and analyzes the means of the fraud from the financial perspective, so as to put forward suggestions and measures for the anti-fraud of agricultural listed companies.

2. Theory Evidence

The iceberg theory, also known as the two-factor theory, was first proposed by the famous Austrian psychologist Freud, and was applied to management in 1999 by G.Jack.Pologan et al. The theory analyzes the causes of financial fraud from the perspective of structure and behavior. The iceberg theory divides fraud motivation into explicit motivation and implicit motivation, and compares the image of financial fraud to an iceberg. The dominant dynamic is a structural agent, exposed at the tip of the iceberg; the implicit dynamic is a behavioral agent, hidden under the sea water, which is also the most harmful part. This theory shows that the structural motive is a direct corporate fraud motive, but what really causes the corporate fraud is the behavioral motive hidden within the company^[3].

3. Case Review

3.1 Company Profile

Shengyuan Ginseng Industry Co., Ltd., formerly known as Liaoning Clear Water Forestry Development Co.,Ltd., is located in Dandong, Liaoning Province, was established on December 7, 2006. In 2014, it was restructured and officially changed its name to Shenxianyuan Company. Six months later, it was officially listed in the New Third Board market, becoming the first agricultural listed company in China to mainly manage wild ginseng at that time. The company is mainly engaged in wild ginseng, with 60 square kilometers of legal forest rights. It has taken 10 years to complete the planting area of more than 40,000 mu, and the existing seedling volume is about 1 billion plants, which is the largest wild ginseng base in the world.

3.2 Case Situation

Shenxianyuan stems from its successful listing in the New Third Board market in 2014, and the disclosure statement in 2014 showed that operating income and operating profit decreased significantly compared with 2013, and nearly 70% of the transactions in total sales were related party transactions.. The financial statements show the information doubts attracted the attention of the majority of investors, the outside world began to question the real situation of its financial situation. The CSRC formally investigated the case in July 2015. The investigation found that Shenxianyuan did commit fraud, inflated profit as high as 129.1115 million yuan. According to Article 193 of the Securities Law, Shenxianyuan was warned and imposed a fine of 600,000 yuan, and the principal responsible person was also fined in different amounts.

4. Case Fraud Identification and Means Analysis

4.1 Fraud Identification

In 2015, Professor Qian Ping comprehensively sorted out the relevant theoretical research results on Chinese fraud companies at home and abroad, and summarized the characteristics of China's financial fraud elements into 8 indicators: management characteristics and incentive, corporate governance, regional development level and industry characteristics, financial performance, market information and audit information, According to the characteristic variables of the traditional fraud prediction model, 15,555 listed companies in China were selected to extract reliable and accurately reflect the possibility of fraud of listed companies in China, and establish a Cscore model suitable for fraud prediction and identification in China's securities market, After extensive experiments, the proposed model has higher accuracy and stronger fraud recognition ability compared with traditional western prediction models. The Cscore model can detect the possibility of fraud in listed companies, and predict and identify the fraud in advance, which can effectively prevent the huge losses caused by the company fraud. This article takes the reference source of fraud as an example, follows the above research ideas, and uses the Cscore model to identify fraud, which provides logical ideas for strengthening the research on fraud prevention and control^[4]. The Cscore financial fraud prediction model is published as follows:

$$\text{Cscore} = -0.983 - 2.261\text{TATA} - 2.495\text{CH_CS} + 5.057\text{OTHREC} + 0.797\text{LOSS} - 0.059\text{SD_VOL} - 3.198\text{H5INDEX} - 4.298\text{INSTIU} + 0.888\text{ISSUE} + 1.184\text{STKCYC}$$

Set the discrimination threshold value is -4.701. When the Cscore model calculation results are above the defined value, the company has a greater risk of financial fraud. In the above formula, the model-related variables and their meanings are shown in the table.

Table 1: Cscore model correlation variables meaning

Variable	Meaning
TATA	Accruals / total assets, accruals = (Δ current assets- Δ monetary funds) - (Δ current liabilities-long-term liabilities due within Δ -taxes payable for Δ) - Depreciation expense
CH_CS	(Operating income- Δ accounts receivable) / Operating income
OTHREC	Other receivables / total assets
LOSS	If the ROE is less than 0 after deduction, Then 1, otherwise 0
SD_VOL	standard deviation of stock average monthly turnover rate for 12 consecutive months
H5INDEX	The square of the shareholding ratio of the top five shareholders, the larger the more concentrated the stake is
INSTITU	Annual annual number of shares / total shares of institutional investors
ISSUE	Have equity or bond financing, it is 1, otherwise it is 0
STKCYC	The bear market is 1, the bull market is 0, divided by whether the weighted average market return is greater than 0

$$\text{TATA} = [(-39300 - (-501.86)) - (-72100 - 0 - 4875.04) - 2166.65] / 536000 \approx 0.0672$$

$$\text{CH_CS} = (11800 - (-79.76)) / 11800 \approx 1.007$$

$$\text{OTHREC} = 1.04 / 5.36 \approx 0.194$$

$$\text{ROE after deducting the non-recurring profit and loss} = -1349.38 / (5579.95 + 98.16) / 2 \approx -0.475 < 0, \text{LOSS} = 1$$

$$H5INDEX = (66.61\% + 6.83\% + 5.26\% + 2.48\% + 1.51\%)^2 \approx 0.684$$

$$INSTITU \approx 2.77\% + 2.13\% \approx 4.9\%$$

Because Shenxianyuan did not refinance in 2013 and it was a bear market in 2013, so $ISSUE=0$, $STKCYC=1$.

Since the trading data of Ginseng Xianyuan has been recorded from June 2015, the monthly turnover volatility in 2015 is approximately used to replace the monthly turnover volatility in 2013, simulating the fraud model identification in 2013. $SD_VOL \approx 0.023$

Based on the formula, The Cscore detection value $= -0.983 - 2.261 \times (0.0672) - 2.495 \times 1.007 + 5.075 \times 0.194 + 0.797 \times 1 - 0.059 \times 0.023 - 3.198 \times 0.684 - 4.298 \times 0.049 + 0.888 \times 0 + 1.184 \times 1 \approx -3.081245$

Due to $-3.081245 > -4.701$, the 2013 C value is located in the financial fraud distribution area of the Cscore model, and there is a greater risk of financial fraud. The fraud identification model can make a digital and rational judgment on whether the company is in fraud, and lay the foundation for the subsequent fraud analysis.

4.2 Fraud Means

4.2.1 Appropriated Labor Costs to Purchase Raw Materials, Inflated Profits

In 2013, Ginseng signed the ginseng light care agreement with Zhongweitong and Jiayeshan 52huang in 2013, but Ginseng did not actually implement the light care operation, but used the light care fee as outsourcing ginseng and included it in the asset subject. This practice is to fabricate labor costs, the above costs are actually used to buy assets, has achieved the purpose of less operating costs, the purpose of inflated profit.

4.2.2 Make Use of the Related Party Transactions to Falsely Increase the Income

On December 15, 2012, Shenxianyuan signed the Purchase and Sale Agreement with Shenxianyuan Wine Industry, and sold wild ginseng for more than 15 years. The unit price was 800 yuan per tree, and the unit price of broken ginseng was 20,000 yuan /kg. The price of ginseng wild ginseng is 396.34 yuan / branch, and the market price of broken ginseng is 10,000 yuan /kg. According to the requirements of the Accounting Standards No.14 of the Accounting Standards for Business Enterprises, the related transaction price of ginseng sold to ginseng Xianyuan Wine Industry in 2013 has greatly exceeded the purchased book purchase price of the same wild ginseng at the same time^[5]. The unfair part should not be recognized as income. According to the industrial and commercial registration data, since the establishment of Shen Xianyuan Wine Company to July 1, 2013, the only shareholder of Beijing Clear Water Investment Co., Ltd. (hereinafter referred to as Clear Water Investment Co., Ltd.) was established on July 1, 2013, During this period, Shenxian and ShenxianWine are related parties under the same control. Obviously, Shenxianyuan uses related party transactions to falsely increase sales revenue and manipulate profits.

5. Analysis of the Causes of Case Fraud

5.1 Explicit Factors

The internal governance structure of enterprises is unreasonable, and the related parties collude with each other. There is a serious dominant problem with Ginseng Xianyuan. The controlling shareholder of Shen's is Yu Chengbo, who owns 89.33% while his wife owns 10.67%. Yu Chengbo has final say in shenxianyuan. According to the public information disclosed by the shareholders, Yu Chengbo is also the controlling shareholder of the Clear Water Investment Company mentioned above. According to the 2014 public transfer prospectus, Shenxian and Shenxianyuan Wine are both controlled by clear water investment. The controlling shareholders of the three enterprises are all Yu Chengbo, and the contracts signed by the three enterprises with each other are suspected of major fraud. The governance structure controlled by Shenyuan within management is completely ineffective. The lack of fairness and fairness eventually resulted in the whole governance layer, senior executives and related parties.

Biological assets Due to their own particularity to increase the difficulty of inventory and inventory. The wild ginseng purchased by Shenxianyuan is planted in the deep mountains, and it is not easy for the wild ginseng to conduct a comprehensive examination when the CPA is supervised. The

deadline for the annual report audit is December 31, at which the northeast has been covered by heavy snow, and the plants will show withered leaves in winter, which makes it more difficult to check out.

5.2 Recessive Factor

The enterprise management signed a betting agreement. Shenxianhas just been listed on the New Third Board. Although the sector has no profit requirements for it, Shenxianhas signed an agreement with its second largest shareholder (Agricultural Development Fund)^[6].

Shenxianyuan lacked of working capital and faced financial pressure. The statement disclosed from Shenxianyuan in 2012 showed that the net profit was-23.290,700 yuan, showing a financial deficit. In poor operating conditions, it is difficult for Ginseng Xianyuan to obtain new financing. In order to successfully enter the New Third Board, Shen Xianyuan finally chose fraudulent methods to beautify the financial statements and whitewash the financial situation. eement has a listing commitment, performance betting and other related provisions.

6. Anti-fraud Advice

6.1 Internal Measures of the Company

The company wants to continue to operate for a long time, external to actively manage efforts to generate income, strict internal management, separation of responsibilities. Ginseng Xianyuan company a dominant and related party collusion between the problem in the fraud inventory exposed. If it wants to improve its internal control structure, the company needs to achieve an effective separation of responsibilities, each important position can not be concurrently, multiple. In each link of production and operation, there should be a clear division of responsibilities and follow the system. The company has clear rewards and punishments, and an open and transparent system. Good internal control can protect the healthy development of the company, and fraud in most enterprises stems from poor company management. In view of the dominant problem, the company can introduce institutional investors or other investors to weaken the discourse power of major shareholders, and restrain the behavior of major shareholders through the supervision of the audit committee and other institutions.

6.2 External Regulatory Measures

6.2.1 Improving the Legal System

China's rapid economic development, all walks of life are trying to catch up with the world's advanced level. Under the high speed of development, a perfect legal system is still needed to provide escort. At present, the law enforcement of financial fraud is mainly the Company Law, which itself is not perfect, and there are no regulations specifically for agricultural enterprises. The whole agricultural industry involves the special asset of biological assets. At present, although China's accounting standards have had certain open policies on the confirmation, measurement and accounting of biological assets, the accounting situation of biological assets is more complex in practice, and there is a large room for agricultural enterprises to manipulate. In order to effectively curb financial fraud, the state should establish unified industry standards for the industry and strictly implement them, make strict provisions on the disclosure of biological asset information, and standardize the behavior of agricultural enterprises.

6.2.2 Punishing Those Who Violate the Law and Discipline Severely

Shenxianyuan's profit and income manipulation caused fraud of hundreds of millions of yuan, but the CSRC only fined her 600,000 yuan and ordered rectification and warning, and its executives were fined up to 300,000 yuan and administrative warning respectively. Comparing the cost of punishment with fraud profit, we can see that the cost of violation is far less than the high profit of fraud^[7]. In this case, many companies will desperate to cheat the market support. In addition, although the company has the main responsibility in the fraud case of Shenxianyuan, the external audit agency is not in full good faith, and their responsibility should also be investigated.

6.2.3 Enrich Financing Channels

The root cause of the fraud of Shenxianyuan Company is that Shenxianyuan Company is in urgent need of a large amount of funds for financing after its listing. However, the real financial situation of

Shenxianyuan is relatively poor^[8]. In the case of poor financial situation, it is difficult for the company to obtain bank loans and funds from market investors. From the failure experience of Shen Xianyuan, we can see that when the enterprise seeks financing, it can not only take a single loan for financing, which is easy to cause the company's financial difficulties. Ginseng Xianyuan should adopt diversified ways as far as possible to reduce financial risks. At the same time, the betting agreement signed by Shen Xianyuan is more risky, The company in the business situation is not a greater grasp of the situation, should carefully choose.

7. Conclusion

When we analyze the causes of fraud cases, we can use the risk identification model to predict the fraud, and analyze the cause theory of fraud. The analysis of the case of Shen Xianyuan fraud selected in this paper can show that agricultural enterprises have a large space for fraud due to their own particularity, so in order to better prevent fraud, they should be prevented from both internal and external aspects. The company's internal control and external supervision and laws and regulations should be gradually improved.

References

- [1] Xu Fanqing, Zhang Zhiwen. *Research on Multiple Motives of Financial Fraud in Listed Companies* [J]. *Business Accounting*, 2021 (20): 38-41.
- [2] Wang Yuwei. *Research on Shen Xianyuan Company fraud in the New Third Board market based on GONE theory* [D]. Hebei Normal University, 2021.
- [3] Generation of Venus. *Analysis of financial fraud characteristics and audit strategy of Agricultural listed companies* [D]. Hebei University of Economics and Trade, 2021.
- [4] Zou Yafang. *Study on Financial Fraud of Qianshan Pharmaceutical Machine Based on Risk Factor Theory* [D]. Northeastern Petroleum University, 2021.
- [5] Tao Xinya. *Financial fraud analysis of listed enterprises on the New Third Board — takes Shen Xianyuan as an example* [J]. *National circulation economy*, 2020 (12): 162-163.
- [6] Mu Luping. *Biological asset case analysis based on fraud triangle theory — takes Samxianyuan as an example* [J]. *Business Economy*, 2020 (03): 152-153.
- [7] Guan Ying. *The Identification and Prevention of Financial Fraud in the New Third Board Market* [D]. Nanjing University of Posts and Telecommunications, 2019.
- [8] Li Zhilin. *Study on the causes and economic consequences of the financial fraud* [D]. Donghua University, 2019.