Case Analysis of Financial Fraud Based on CRIME Theory

-- Taking Tongjitang as an example

Haoming Hu*, Zixi Chen

Abstract: In today's diversified era, China's economy is developing at a high speed, but it has also triggered people's concern about financial fraud. The constant emergence of financial counterfeiting incidents as well as endless counterfeiting methods have brought serious impacts to the society. The difficulty of recognizing fraudulent means is increasing, and we urgently need to find new ways to solve this urgent problem. Financial counterfeiters have no fear, wantonly for the wrong, completely disregard for the laws of the economic market, serious damage to the legitimate rights and interests of investors. Taking Tongjitang's inflated revenue of 21.1 billion yuan as an example, they have been carrying out financial fraud for four consecutive years, resulting in a huge amount and far-reaching impact. This paper will firstly review the case of Tongjitang's falsification, then analyze the financial falsification based on CRIME five-factor theory, and finally put forward corresponding suggestions and measures for their falsification means. Through the research and discussion in this paper, we hope to improve the understanding of financial counterfeiting, strengthen the ability to prevent and combat financial counterfeiting, further protect the legitimate rights and interests of investors, and maintain the stability and healthy development of the economic market.

Keywords: Financial Fraud, CRIME Theory, Tongji Tang.

1. Introduction

In the era of rapid global economic growth, the pharmaceutical sector has been regarded as the star of the A-share market, a large sector of rigid demand, carrying people's demand for health and medical services, and the stability of the highly recognized. However, in recent years, the financial irregularities of pharmaceutical companies have been a serious problem, and a number of pharmaceutical companies, such as Comet Pharmaceutical, Erkang Pharmaceutical, Hainan Pharmaceutical, Fu Ren Pharmaceutical and Buchang Pharmaceutical, have been exposed to financial fraud, which has brought successive blows to the pharmaceutical sector. These financial irregularities involve a huge amount of counterfeiting, the impact is extremely bad. Not only have they seriously jeopardized the interests of investors, they have also weakened investors' confidence in the market. These behaviors violate the normal order of the capital market, and adversely affect the healthy development of the capital market.

The Securities Law of the People's Republic of China was amended and passed on December 28, 2019 and came into effect on March 1, 2020. It increases investor protection, strengthens regulatory measures, improves the delisting system, and introduces criminal liability. In this context, there is still a large number of fraudulent behavior, this paper is based on the CRIME five-factor theory of Tongjitang Company, multi-angle, multi-level analysis of its financial fraud, will be based on the analysis of the results of the corresponding recommendations and measures aimed at preventing and responding to financial fraud. Through the case analysis, it can provide relevant reference for the subsequent financial fraud behavior and maintain the smooth and healthy operation of the economic market.

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2. Overview of Tongjitang's Financial Fraud Incident

2.1. Tongjitang

Tongjitang Group is a health industry group centered on pharmaceutical logistics, retail chain, e-commerce, health management and health product manufacturing. The founder, Zhang Meihua, established Tongjitang Pharmaceutical Co., Ltd. in January 2000, and introduced the advanced foreign pharmaceutical retail chain management model to establish a modernized large-scale pharmaceutical logistics and retail chain enterprise based on the actual situation in China.

Adhering to the business philosophy of "international management, national chain" and the tenet of "serving the society and caring for all people's health", the company is committed to building a first-class pharmaceutical distribution enterprise. After several years of rapid development, the company has built up a small-scale, high-density, community-based, township-based pharmacy chain network. The company has set up three provincial logistics and distribution centers, as well as more than 20 prefectural (city) and county distribution stations and more than 60 township distribution points, forming a strong three-tier logistics and distribution system, and realizing the goals of complete variety of commodities, low prices, rapid distribution and high quality service. The company's chain drugstores have established a reliable image in people's minds. As of 2005, the number of chain stores had reached 3,425, ranking second in the national drugstore chain industry, and
the sales revenue had reached 1.45 billion yuan, which also ranked among the top three nationwide.

2.2. Case Review

Tongjitang was listed on the shelf of Hops Inc. in 2015, and signed a three-year betting agreement, which required Tongjitang's net profit to be not less than 460 million yuan, 529 million yuan, and 561 million yuan in 2016-2019. Precisely these three years, Tongjitang completed the betting agreement with a profit not much higher than the agreement, but after 2019, the profit fell off a cliff, and the loss in 2020 was as high as $22.62. This kind of profit trend abnormal behavior and Tongjitang financial report issued an unqualified audit report, which is not only suspicious but also attracted the attention of the China Securities Regulatory Commission. Upon investigation, Tongjitang was fined $3 million for inflating profits by as much as 2.816 billion yuan between 2016 and 2019, and Zhang Meihua and Li Qing were also fined a combined $5 million.fined a combined $5 million.

<table>
<thead>
<tr>
<th>Table 1. 2016-2018 performance attainment</th>
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<tbody>
<tr>
<td>year</td>
</tr>
<tr>
<td>Non-deductible net profit</td>
</tr>
<tr>
<td>Performance pledge fulfillment rate</td>
</tr>
</tbody>
</table>

Note: Data from Tongjitang disclosure announcement

3. Based on CRIME five-factor theory analysis

3.1. Financial fraudster analysis (Cooks)

Under most of the financial fraud, the acquiescence and authorization of the top management is indispensable. Tongjitang internal control system has many loopholes, and a person in the company in multiple positions, cross-position. Chairman Zhang Meihua's wife Li Qing served as vice chairman and general manager, deputy general manager Wei Junqiao also served as director, financial controller; deputy general manager Sun Y uping concurrently director, deputy general manager Li Chong concurrently secretary of the board of directors, there are a large number of directors concurrently executives phenomenon, the collusion is very complex, the responsibility of the whole unclear, the general meeting of shareholders is virtually null and void. Tongjitang senior for the pursuit of profit maximization, financial maximization. Desperate to take risks, the use of fraudulent means to complete the profits of the betting agreement. Harm to others will eventually harm themselves, and ultimately the relevant personnel involved have been punished accordingly and paid the due price.

3.2. Analysis of financial fraud tips (Recipes)

3.2.1. Inflating total revenue, costs and profits

After Tongjitang went public, its operating income has been soaring, the company's operating income in 2016 was up to 9 billion yuan, up 647% from the previous year, and its operating income in 2018 grew to 10.8 billion yuan. And the net profit rose more than 121 times in 2016, making a profit of 470 million yuan, and the net profit also rose steadily in 2018, reaching 528 million yuan.

During the three years from 2016 to 2019, the total operating income and profit were inflated by inflating sales revenue, fictitious management expenses, fabricating false business and forging bank statements. Receipt vouchers were forged through six bank accounts corresponding to three subsidiaries of Tongjitang, and the inflated accounts receivable and forged bank statements were offset against each other, while the so-called bank deposits were made through fictitious bank flows to deceive external auditors, thus forming a closed-loop chain of forgery. But its relevant original documents have "disappeared", the investigators can not be verified from the source. Tongjitang also fictitious customers and suppliers, the China Securities Regulatory Commission found after a visit to the associated customers and suppliers from 2016 to 2019, the actual amount of transactions and accounts data has a large difference. Tongjitang also falsified its tax records, with the tax records in its financial statements and the amount of tax payments already disclosed by the enterprise clearly not equal in amount, and its bank payment streams for tax payments were also fictitious and fabricated.

<table>
<thead>
<tr>
<th>Table 2. Total Inflated Revenues, Expenses, Costs and Profits, 2016-2019 (in billions of dollars)</th>
</tr>
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<tbody>
<tr>
<td>year</td>
</tr>
<tr>
<td>Inflated operating income</td>
</tr>
<tr>
<td>Inflated operating costs</td>
</tr>
<tr>
<td>inflated costs</td>
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<tr>
<td>Inflated total profit</td>
</tr>
</tbody>
</table>

Note: Data compiled based on the CSRC's "Prior Notice of Administrative Penalties and Market Entry Ban".

3.2.2. Controlling shareholders and related party transaction falsification

Under the typical structure of dispersed shareholding or high separation of powers, the most prominent problem faced by listed companies is the conflict of interest between all shareholders and operators. Specifically, it is how investors can make business operation decisions to protect their interests, how to ensure that the operators do not steal their investment interests or invest their investment in a very poor project, how to ensure that investors can effectively monitor the operators, etc.

Tongjitang there is a controlling shareholder and related parties non-operational occupation of funds illegal behavior, between 2016 and 2019, Tongjitang without consideration of the procedure for Tongjitang holding non-operational funds of 2.592 billion yuan for the controlling shareholder to repay the principal and interest of the stock financing and investment, but did not disclose in the annual report. And
several times for the controlling shareholder financing matters to guarantee, and due to the debt overdue problem Tongjitang, Zhang Meihua and other total frozen bank deposits of 1.282 billion yuan. In 2020 Xinjiang Tongjitang Health Industry Co., Ltd. issued the "Tongjitang's announcement on receiving the inquiry letter from the Shanghai Stock Exchange", it was mentioned that Tongjitang had a large number of controlling shareholders and affiliates in the form of suppliers and other non-affiliated parties, occupying a total of 1.047 billion yuan of the company's funds; the company's capital activities, procurement business, sales business, asset management and other accounting and financial reporting related to the The internal control of the company's capital activities, purchasing business, sales business, asset management and other internal controls related to accounting and financial reporting have all experienced systematic internal control failures and serious deficiencies in internal control in financial reporting; and there have been significant changes in the company's performance. The company's annual report was issued with an audit report of no opinion by the firm that audited it, and at the same time, Tongjitang's internal control was also issued with a negative audit report.

<table>
<thead>
<tr>
<th>Year</th>
<th>Funds tied up in funds</th>
<th>Funds returned</th>
<th>Funds not yet returned</th>
<th>Main application</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>11,915</td>
<td>8,915</td>
<td>3,000</td>
<td>Repayment of bank loans, foreign investments, etc.</td>
</tr>
<tr>
<td>2017</td>
<td>27,701</td>
<td>27,701</td>
<td>-</td>
<td>Repayment of principal and interest on financing by Tongjitang Holdings and its related parties</td>
</tr>
<tr>
<td>2018</td>
<td>156,767</td>
<td>73,500</td>
<td>83,267</td>
<td>Repayment of financing principal and interest, construction, foreign investment, etc.</td>
</tr>
<tr>
<td>2019</td>
<td>62,852</td>
<td>3,030</td>
<td>59,822</td>
<td>Repayment of principal and interest on financing, return of borrowings, payment of investments, etc.</td>
</tr>
</tbody>
</table>

Note: Data from Tongjitang disclosure announcement

3.2.3. Failure to truthfully disclose material matters

Tongjitang failed to timely disclose and failed to disclose the connected transactions of non-operational appropriation of funds by controlling shareholders and their related parties in the Annual Reports from 2016 to 2019; and failed to truthfully disclose the deposit of the Company's fund-raising and its actual utilization. The 2018 Annual Report and the 2019 Annual Report were not disclosed in a timely manner, nor were matters relating to guarantees to controlling shareholders and related parties as well as material litigation disclosed as required. At the same time, Tongjitang also failed to truthfully disclose the use of funds raised from the reorganization listing. Without going through the state of deliberation procedures, provided non-operating funds and guarantees for the controlling shareholder Hubei Tongjitang Investment Holding Company Limited for many times. Had successively paid a cumulative total of 162 million yuan of goods to Zhongsheng Construction and three other enterprises under the name of prepayment for projects, and then transferred the original goods back to Tongjitang for the payment of dividends and daily operating expenditures, which accounted for 21% of the fund-raising.

3.3. Analysis of Financial Fraud Motivation (Incentives)

3.3.1. Pressure to perform on the signing of betting agreements

In 2015, Tongjitang successfully conducted a shell listing and reached a performance betting agreement with Hops. According to the agreement, the two parties assessed the profitability level of Tongjitang Pharmaceuticals and agreed that the net profit of Tongjitang Pharmaceuticals would not be less than 460 million yuan, 529 million yuan and 561 million yuan during the period from 2016 to 2018, respectively. Tongjitang fulfilled the performance betting commitment in accordance with the contract and achieved the target during the contract period. However, surprisingly, in 2019, only one year later, Tongjitang's profits fell sharply, with a net profit of only 120 million yuan, down more than 76% from 2018. Tongjitang explained that the apparent decline in profit was due to changes in net recognized income in 2019 due to changes in agency channels, business models, and other reasons.

Investors should be cautious about the veracity of the performance of companies listed through reorganization in their day-to-day investments, especially for companies listed through performance betting agreements. While these agreements may provide a degree of protection, there are still risks, including the possibility of financial fraudulent operations. Therefore, when Tongji Tang sets a high target for performance betting, once the actual net profit fails to meet the set conditions, investors need to exercise prudent judgment and pay attention to the possibility of financial fraud. This emphasizes that investors should fully understand the company's financial position, business model and risk factors when making investment decisions in order to make informed investment choices.

3.3.2. Urgent need for financing to repay borrowings

From 2017 to 2020, Tongjitang's long-term borrowing has been zero, while short-term borrowing has been climbing year by year, from 288 million yuan in 2017 to 736 million yuan in 2020, an increase of up to 156%. The rapid growth of short-term borrowing while long-term borrowing has been kept at zero, indicating that Tongjitang's operating conditions are becoming more and more unpromising, and the company's lack of credit capacity in the bank is mostly based on short-term borrowing, and the ability to obtain long-term borrowing is poor. And Tongjitang company in 2019 occurred bank borrowing overdue about 313 million yuan, until August 2020 the overdue borrowing is still 138 million yuan has not been returned, in this case Tongjitang can only negotiate with the bank and renew the borrowing. In April 2021, Tongjitang medicine released a notice pointing out that in 2018 the issuance of "18 Tongji 01" and "18 Tongji 02" two bonds appeared significantly overdue. From the above activities, it can be concluded that Tongjitang has difficulties in raising liquidity, and its cash flow is very tight, facing overdue loans and unpaid bonds of subsidiaries, which in turn exacerbates the cost of debt financing for Tongjitang. Facing the debt pressure, Tongji Tang can only keep on making false.
statements to the financial statements in order to obtain more debt financing to fill the overdue debts.

3.3.3. Risks of delisting

The Securities and Exchange Commission (SEC) has specific regulations related to the suspension and delisting of listed companies, and listed companies may avoid delisting through fraud when there is a risk of non-compliance with the financial health of the listed company. For example, Tongjitang's financial indicators, including net profit growth rate and asset growth rate, are used to analyze Tongjitang's financial status and delisting risk before and after the implementation of financial fraud. 2016-2020 Tongjitang's net assets and Tongjitang's net profit growth rate show a significant decline in the state, and the company continues to lose money. In summary, in this state Tongjitang can only implement financial fraud and disclose false financial information to the outside world, in order to allow it to temporarily avoid the possibility of its delisting, but also let the stock price has been kept in a higher state.

3.4. Financial Fraud Regulatory Analysis (Monitoring)

3.4.1. Excessive centralization of power at the managerial level

The behavior of financial fraud in Tongjitang Company is greatly related to the irrationality of the equity structure within the enterprise. Excessive concentration of shareholding can easily lead to benefit encroachment effect. The largest shareholder of Tongjitang's shareholding structure is Tongji Tang Holding, which accounts for as high as 29.3%, while Tongji Tang Holding is a family-type holding of Zhang Meihua, whose shareholding of Zhang Meihua himself and his wife and his son accounts for as high as 100%. Under such circumstances, if the controlling shareholder has a conflict of interest with other minority shareholders, the controlling shareholder will utilize its huge shareholding to gain benefits at the expense of minority shareholders. In the case of financial fraud in listed companies, the more concentrated the shareholders, the greater the possibility of financial fraud. If Tongji Tang has absolute control, Zhang Meihua's family can easily control the company and influence important decisions without the internal control of other shareholders, thus giving Zhang Meihua the opportunity to commit financial fraud.

3.4.2. Higher number of internal control gaps

In terms of the preparation of Tongjitang's financial statements and the determination of relevant statement items, Tongjitang has frequent financial activities with its subsidiaries, problems in the procurement business and sales business as well as significant deficiencies in asset management and accounting, financial reporting and other related internal controls. At the same time, Tongjitang has not been repaid due to the controlling shareholder's encroachment on the company's funds, which is one of the main factors of Tongjitang's 2019 annual report by the audit firm in which it was issued an inability to express an opinion report, and the firm has been issuing a standard unqualified audit report during the first three years. Even if the means of financial fraud is extremely covert, three years is still traceable in the financial statements. This is also enough to prove that before 2019 Daxin Accounting Firm failed to be diligent and responsible in its work, let Tongjitang's financial fraud for many years, and caused great damage to the interests of small and medium-sized investors.

3.5. Analysis of financial fraud results (EndResults)

At the end of the investigation into Tongjitang's alleged illegal disclosure, the SFC imposed a fine of RMB 3 million on Tongjitang; a fine of RMB 5 million and a lifetime ban on Zhang Meihua, chairman of the board of directors, and Li Qing, general manager and director of the company; and a fine of RMB 1 million and a 10-year ban on Wei Junqiao, head of the finance department. The amount of the fine is very huge for ordinary people, but it is only minimal compared to the huge gains made by the company's falsified and issued shares. Tongjitang's counterfeiting behavior for many consecutive years from 2016 to 2019 has only been discovered to this day and subjected to administrative penalties in accordance with the law, and it can be seen that Tongjitang's actual controller has not been deterred by the penalties, and that's why it will be able to falsify its financial statements for many years in a row, to Implementation of financial fraud.

4. Tongjitang Financial Fraud Case

4.1. Fraudster's perspective

4.1.1. Remuneration incentives for independent directors

In general, remuneration incentives are an important factor that positively affects the performance of independent directors' duties and is very useful for improving their supervisory effectiveness. First of all, remuneration incentives can stimulate the enthusiasm and sense of responsibility of independent directors, make them participate in corporate governance more diligently, and improve the efficiency of their duties. Secondly, remuneration incentives can motivate independent directors to pay more attention to the company's operating conditions and financial performance. By virtue of their independence and professional ability, independent directors will analyze complex financial information and consider key matters more carefully during the performance of their duties, in order to obtain sufficient and effective information to identify and
supervise the irregularities of the management and controlling shareholders, and to prevent these behaviors from harming the interests of minority shareholders. Finally, financial gain is the most direct and certain reward for independent directors, and is one of the motivations for independent directors to perform their duties seriously.

4.1.2. Innovative independent director appointments

Independent directors should conscientiously fulfill their duties to safeguard the interests of the company as a whole, and in particular, pay attention to the legitimate rights and interests of small and medium-sized shareholders to ensure that they are not jeopardized. As members of the Board of Directors, they enjoy voting rights in proportion to their shareholdings, they are essentially controlled by the major shareholders. Therefore, it is recommended that independent directors be identified through the recommendation and election of small and medium-sized shareholders, with incumbent independent directors recommending replacement independent directors.

4.1.3. Critical review of independent directors' qualifications

At present, independent directors in China are mainly technical experts, scholars, social celebrities, as well as lawyers and accountants, most of whom have a social background. However, independent directors not only need to have specialized knowledge in law, finance, finance or economic management, but also should have a comprehensive strategic vision. In this sense, independent directors should be one of the best talents in the capital market, capable of giving constructive advice on the management of the company, possessing the ability to confront the major shareholders and protecting the rights and interests of small and medium-sized shareholders.

4.1.4. Guarantee that independent directors enjoy full independence and the right to information

This is the key to the effective performance of independent directors. In order to better utilize the role of independent directors and protect the interests of investors, in addition to further strengthening the sense of responsibility of the independent directors themselves, listed companies need to provide more adequate safeguards, such as providing the necessary materials required by the independent directors for the performance of their duties, and responding to the queries and opinions put forward by the independent directors in a timely manner. In the course of performing their duties, relevant information should be strictly scrutinized before signing documents, and independent directors have the right to refuse to sign.

4.2. Fraud Tips Perspective

4.2.1. Prohibition of related party collusion in counterfeiting

In the case of Tongji Tang's falsification, the number of false related party transactions involved is large and the amount is huge. So it should be excluded that the non-fair transaction behavior occurs between the subjects with obvious related relationship, and the external audit should pay extra attention in the execution of the work and make inquiry and inspection; on the other hand, the business sector should update and pay attention to the important related party information of the enterprise in time, so that the number of improper transactions occurring can be reduced at the root of the problem; on the other hand, it is more important to pay attention to the surface of the relationship between the distant, but in fact, for the interests of the subject of the financial forgery of the conspiracy between the acts of the main body, such as Financial institutions such as securities companies and lending banks with large capital flows.

4.2.2. Timely disclosure of information

The interests of small and medium-sized shareholders are often innocently jeopardized by information asymmetry problems, so timely and complete information disclosure is an important part of preventing financial fraud. If the problem of information asymmetry is to be alleviated, it is necessary to compel the controlling shareholders and other important related parties of the enterprise to make timely information disclosure. In order to ensure that investors can receive timely financial information and grasp the company's operating conditions, the Securities and Futures Commission and other supervisory authorities should supervise the timeliness and authenticity of information disclosure by listed companies.

4.3. Fraud Motivation Perspective

Improving the delisting system is an important measure to protect market stability and investors' rights and interests. To this end, comprehensive consideration needs to be given to a number of aspects. First, in terms of laws and regulations, relevant laws and regulations should be formulated and improved to establish a scientific and complete delisting system. The delisting conditions, procedures and standards should be clearly defined, and the delisting process and procedures should be standardized, so as to provide an opportunity for companies that do not meet the listing conditions or have serious violations to exit the market. Secondly, strengthening information disclosure and supervision is key. Supervise listed companies to disclose information in a timely and comprehensive manner as required to ensure that investors have access to accurate and comprehensive information. At the same time, inaccurate disclosure of information and other violations are severely punished to safeguard market order and investor interests. Third, it is crucial to establish a sound risk warning and assessment mechanism. Timely detection of operational and financial risks of listed companies and taking corresponding regulatory measures to avoid further expansion of risks. It ensures that market risks are controllable and maintains the stability and healthy development of the market. Fourth, strengthening the audit and supervisory system is essential. Strengthen the supervision of the independent auditing and supervisory system of listed companies and increase the independence and professionalism of auditors and supervisors. Ensure that auditors and supervisors can fulfill their duties objectively and impartially, detect and report problems, and improve the governance level of listed companies. Finally, enrich the exit channels and methods. Provide diversified exit channels and methods, including mandatory delisting, voluntary delisting, mergers and acquisitions, and reorganization. Provide companies that do not meet the listing conditions or have serious violations with a reasonable opportunity to exit the market, reduce market volatility and protect investors' rights and interests.

4.4. Fraud regulation perspective

4.4.1. Improvement of corporate governance structure

An important reason for the existence of accounting information distortion in Tongji Tang is that a few individuals hold the actual control of the company. In order to reduce
effectiveness. Implement adequate audit procedures to ensure audit professional abilities to develop targeted audit programs and extensive professional knowledge and possess proficient occurrence of audit failures. Auditors should also acquire improving confidentiality and security, thereby reducing the improvement of technology application, so as to investment in technology research and development, and strengthening the role of social intermediaries and audit and supervisory organizations should not be ignored. They should strengthen the audit and supervision of enterprise financial information to ensure authenticity and accuracy. In addition, personnel quality training is also very important. Practitioners should improve their professionalism and professional knowledge and skills.

4.4.2. Improvement of the company's internal audit system

The independence of the internal audit department is one of the key factors in preventing distortion of accounting information. In formulating the internal audit system, the board of directors of a company should give the internal audit department full autonomy and independence to ensure that its actions are not influenced by the board of directors and that it has a unique management mode. At the same time, the professional training of internal auditors should be strengthened so that they always maintain a high level of professional ethics.

4.4.3. Holding the line on the practice of law

Intermediaries and auditors should not forget their original intent, abide by the ethics of practice, and prompt the truth for investors, creditors, and users of the report, and be fair and impartial. First, maintain due professional skepticism and practice prudently. Intermediaries and auditors should pay attention to the importance of professional skepticism and take measures in talent training, organizational systems and organizational culture to urge auditors to maintain professional skepticism and perform their duties prudently. Secondly, they should understand the motives and techniques of accounting falsification and pay attention to the environment and risks of the audited entity. In recent years, the distortion of accounting information of listed companies has been serious, and as an independent third party, auditors need to familiarize themselves with the motives and techniques of accounting falsification, and pay attention to the environment and risks of the audited entity, including the industry situation, the regulatory environment, the national policy, the industry policy, the objectives and nature of the audited entity, the selection of accounting policies and internal controls, and so on. At the same time, auditors should maintain the necessary professional skepticism and make appropriate professional judgments to avoid audit failures. Lastly, it is necessary to continuously innovate the audit technique and method and strengthen the follow-up professional education. To avoid audit failures, auditors can strengthen the application of big data and cloud computing technologies in the auditing field by formulating development strategies, promoting the construction of regulations, establishing a sound auditing industry platform, increasing investment in technology research and development, and improving the level of technology application, so as to improve confidentiality and security, thereby reducing the occurrence of audit failures. Auditors should also acquire extensive professional knowledge and possess proficient professional abilities to develop targeted audit programs and implement adequate audit procedures to ensure audit effectiveness.

4.5. Fraud outcome perspective

Sanctions for violations of the law should be severe, and penalties for counterfeiting should be increased, including fines, revocation of business licenses, restrictions on listing, and prosecution for legal liability. At the same time, it is necessary to improve the operability and enforcement of penalties to ensure that they can be effectively enforced. Increase the cost of violating the law, for companies involved in counterfeiting, measures can be taken to increase their cost of violating the law, such as increasing the amount of fines, increasing the cost of legal proceedings and so on. By increasing the cost of violating the law, corporate counterfeiting can be effectively curbed. Enhance the public transparency of disciplinary measures: timely publicize the results and process of punishment, increase public opinion exposure, and strengthen the deterrent effect of punishment. The public and investors are aware of the serious consequences of corporate counterfeiting and can better warn other enterprises. Establishment of a blacklisting system: Establish a blacklisting system for companies that violate the law, record and publicize companies that have violated the law multiple times or in a major way, restrict their activities in the capital market, and increase the severity of penalties. Strengthen cross-sectoral collaboration and information sharing to enhance collaboration and information sharing among regulatory authorities and improve the efficiency of detecting and dealing with illegal enterprises. Through the combined efforts of multiple departments, it is possible to grasp the true situation of enterprises more comprehensively and combat counterfeiting.

Improvement of internal control and regulatory mechanisms and strengthening of internal control and regulatory mechanisms of listed companies, including strengthening of internal auditing and verification of the truthfulness and accuracy of financial reports. Improving internal control and regulatory mechanisms can effectively prevent and curb counterfeiting. Improve investor protection and legal awareness, strengthen education and training for investors, and improve their risk awareness and legal awareness. The increased vigilance and initiative of investors themselves play a positive role in detecting and exposing counterfeiting behavior.

To summarize, increasing the punishment of counterfeiting companies requires the comprehensive use of legal, regulatory and market means to combat counterfeiting by increasing penalties, raising the cost of violating the law, openness and transparency, and information sharing. At the same time, it is also necessary to strengthen the construction of the internal control and regulatory mechanism of enterprises, and to improve investors' awareness of protection and legal awareness. The combined effect of these measures can effectively reduce counterfeiting and safeguard market order and the legitimate rights and interests of investors.

5. Research Implications

The conclusion of the Tongjitang case has provided us with many important insights. In order to prevent financial fraud, we need to build a strong firewall in a number of areas. First, the company's own corporate governance mechanism should be sound and complete to ensure good faith operation, shape a good corporate image and win the trust of investors and the public. Secondly, internal and external regulatory mechanisms should be strengthened, and the role of social intermediaries and audit and supervisory organizations should not be ignored. They should strengthen the audit and supervision of enterprise financial information to ensure authenticity and accuracy. In addition, personnel quality training is also very important. Practitioners should improve their professionalism and professional knowledge and skills,
establish a sense of professional ethics and bottom line, enhance risk awareness, and eliminate the occurrence of financial fraud.

Both companies, governments, practitioners and investors should work together to maintain a stable order in the economic market and promote honest development. We should remember "don't reach out, reach out and you will be caught" and work together to create an honest, fair and transparent economic environment.

References


