

# Research on the Motivation and Governance of Financial Fraud in Zuojiang Technology Based on Risk Factor Theory

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**Abstract:** With the rapid development of the market, more and more financial fraud events have been derived, which have brought bad effects to related industries, investors and society. As a typical shell case, the fraud case of Zuojiang Technology is a microcosm of the fraud case of listed companies. This paper takes this case as the main body, combines the risk factor theory, analyzes the causes of fraud from five perspectives, and puts forward relevant risk control suggestions for the existing problems of Zuojiang Technology, hoping to make some contributions to the healthy and orderly development of the capital market.

**Keywords:** Zuojiang Technology, Risk factor theory, Financial fraud.

## 1. Related Concepts and Theories

### 1.1. Concept of financial fraud

With the rapid development of the market, more and more financial fraud events have been derived, which have brought bad effects to related industries, investors and society. The concept of financial fraud has not reached a unified conclusion and has different interpretations in different countries. According to the American Institute of Certified Public Accountants, financial fraud is formed when enterprises fabricate and omit elements of financial reports, misrepresent financial information and mislead relevant stakeholders. The auditing standards for certified public accountants in China point out that fraud is a behavior in which members of the audited entity or third parties intentionally cheat in order to obtain illegal or improper benefits.

Although there are differences in the definition of financial fraud at home and abroad, they all have some common core characteristics. First of all, fraud is often carried out by enterprise management and internal personnel, who will deliberately beautify the content of financial statements, resulting in the failure of internal control mechanism, and it is difficult to effectively identify fraud by third parties after it occurs. Secondly, the target is usually focused on financial data, and the purpose of financial fraud is achieved by deliberately altering, adjusting or concealing the business performance, cash flow and expected finance of the enterprise. Moreover, most of the malpractices are generated to obtain improper benefits, with illegal profits. Finally, fraud is often carried out in a systematic manner over a period of more than a few accounting periods, making it difficult to identify.

To sum up, the definition of financial fraud in this paper is: the internal personnel of the enterprise subjectively tamper with, adjust and conceal financial data through illegal fraudulent means, with the purpose of changing accounting events, so as to attract capital and achieve the goal of obtaining huge profits.

### 1.2. Risk factor theory

The frequent occurrence of fraud cases promotes the development and optimization of relevant theories. The first is the two-factor theory from the structure of fraud and fraud

behavior analysis, elaborated the motivation of fraud behavior; Then, the fraud triangle theory analyzes the causes of fraud from pressure, opportunity and excuse. The GONE theory formed after that has gradually improved the motivation theory of fraud through comprehensive analysis of opportunity, need, exposure, greed and other aspects. The risk factor theory is extracted on the basis of GONE theory, which mainly includes the following two levels and five aspects, as shown in table 1-1:

**Table 1-1.** Theoretical model of risk factors

Risk factor theory	Individual risk factor	Moral character
		motive
	General risk factor	Opportunity for fraud
		The probability of detection
		Nature of punishment degree

#### 1.2.1. Individual risk factors

Individual risk factors usually refer to those factors that are outside the control of an organization or an individual and can potentially affect the achievement of objectives. Identifying, evaluating and managing these risk factors is crucial for financial fraud analysis. Individual risk factors are mainly composed of moral character and fraud motivation.

##### ① Moral character

The successful operation of an enterprise is closely related to the moral character of its internal personnel, and this connection is reflected in all levels of business operation. Business decisions are often made by management and realized through the efforts of the executive level. In this process, the moral character of the personnel undoubtedly plays a crucial role.

Management lacks moral qualities such as integrity, integrity and responsibility, and sacrifices the long-term development of the company for personal interests, leading to decision-making errors and strategic deviations. The executive level is responsible for translating decisions into concrete actions. If the executive level lacks integrity and professionalism, it will be lazy and perfunctory in the implementation process, resulting in the decision cannot be effectively implemented.

## ② Motive of fraud

In the survival and development cycle of enterprises, different stages of the needs of enterprises are also different. Sometimes, due to market pressure, internal competition or rapid changes in the external environment, enterprises may have improper or eager ideas, which may be transformed into incentives for fraud.

From the perspective of profit-seeking in the capital market, the motivation of financial fraud of enterprises largely stems from the pursuit of short-term interests. In order to attract the attention of investors and increase the stock price, some enterprises may beautify financial statements by fraudulent means, inflate profits, and cover up the real financial situation. The pressure of business performance is also an important factor leading to the motivation of financial fraud. In the fierce market competition, the business performance of an enterprise often becomes the key index to measure its success. However, due to changes in the market environment, improper business strategies or inadequate management capabilities, some enterprises may not be able to achieve the expected performance targets. In order to cover up these problems, some enterprises may choose to falsely report their performance through fraudulent means to avoid being eliminated by the market. In addition, the expectation of shareholders is also one of the important factors leading to the motivation of financial fraud. As the owners of enterprises, shareholders have high expectations for the operating results of enterprises. However, when the business performance of the enterprise can not meet the expectations of shareholders, some shareholders may use fraudulent means to whitewash the financial statements to meet the expectations of other shareholders. However, this approach not only harms the long-term interests of the company, but also undermines the relationship of trust between shareholders and the company.

### 1.2.2. General risk factors

General risk factors Risk factors that can be reduced or avoided by an organization or entity through effective management and control. It usually involves the internal operations and management of an organization or entity. General risk factors are mainly composed of the occurrence of fraud opportunities, the probability of fraud detection and the nature and degree of punishment after fraud exposure.

#### ① Opportunities for fraud

The opportunity of fraud refers to the objective conditions that promote the occurrence of financial fraud in enterprises. It originates from the defects in the design and operation of the internal control of the enterprise, as well as the loopholes in the business model, which provides opportunities for the improper behavior within the enterprise.

Internal control is a series of policies and procedures designed by enterprises to ensure the accuracy and reliability of financial reports, prevent and detect errors and fraud. However, when there are flaws in the design and operation of internal controls, opportunities for fraud creep in. When the ownership structure is unreasonable and the majority shareholder or management hierarchy is able to override internal controls, they may use their position to manipulate financial data and accounting records for improper benefits. In such cases, internal controls are nonexistent and facilitate fraud.

In addition, loopholes in business models are also important sources of fraud opportunities. For example, criminals may disguise the true financial situation through fictitious transactions, falsifying sales data and other means,

so as to achieve the purpose of illegal profit.

#### ② The probability of fraud detection

The possibility of fraud exposure is the possibility that the enterprise will be discovered by internal personnel or external regulators after committing fraud. The probability is inversely related to the probability of financial fraud. The smaller the exposure probability, the greater the probability of financial fraud. Therefore, the relevant regulatory departments and third-party audit institutions must master the methods to identify fraud, and constantly improve the relevant supervision mechanism to prevent the occurrence of corporate financial fraud.

From the perspective of enterprise insiders, the possibility of fraud exposure is closely related to the internal control system of the enterprise. A perfect internal control system can effectively reduce the risk of financial fraud, because it makes it difficult to hide fraud by standardizing the financial management process of enterprises, clarifying the division of responsibilities, strengthening internal audit and other ways. When an enterprise's internal control system is defective or poorly executed, the possibility of fraud exposure will be reduced, thus increasing the possibility of financial fraud.

From the perspective of external regulators, the likelihood of fraud exposure is influenced by the intensity of regulation and technical means. By formulating strict laws and regulations, strengthening daily supervision and inspection, improving audit quality and other means, regulators can increase the possibility of fraud exposure, so as to effectively curb the occurrence of corporate financial fraud. In addition, with the development of science and technology, regulators can also use advanced technologies such as big data and artificial intelligence to improve regulatory efficiency and accuracy, and further reduce the risk of corporate financial fraud.

However, it is important to note that the possibility of fraud exposure is not absolute. Even if an enterprise's internal control system is perfect and external supervision is strict, it is still difficult to completely eliminate the occurrence of financial fraud. Because fraud often has the characteristics of concealment, complexity and diversity.

#### ③ The nature and degree of punishment after fraud is exposed

The degree of punishment faced by the fraudsters is the intensity of punishment that will be imposed by the regulatory authorities after the corporate fraud is exposed. The degree of punishment mainly depends on a number of factors, including the amount of fraud, the degree of impact on the market and social climate, and whether it constitutes a criminal act, etc. These factors together constitute the basis for the regulatory authorities to judge the severity of punishment for fraud.

First of all, the amount of fraud is an important indicator to judge the severity of fraud. Generally speaking, the greater the amount of fraud, the greater the damage to companies, investors and the market, so the severity of the punishment of the regulators will be increased accordingly. Secondly, the degree of influence of fraud on the market and social climate is also one of the criteria. If malpractices lead to market turmoil, loss of investor confidence or crisis of social trust, regulators will take harsher punitive measures to safeguard market stability and the public interest. Finally, whether the fraudulent behavior constitutes a crime is also a key factor in judging the degree of punishment. If the fraud violates the relevant laws and regulations and constitutes a criminal act, then the fraudster will face more serious legal sanctions.

If the punishment is not enough after the enterprise fraud, the fraudster does not have the psychology of knowing the mistake and fear, and the law does not play a restrictive role, it will have great harm to the healthy operation of the capital market.

## 2. Zuo Jiang Technology Financial Fraud Case

### 2.1. Case Review

Founded in 2007, Zuojiang Technology (300799) is mainly engaged in the design, development, production and sales of hardware and software platforms, boards and chips related to information security. In the planning of the listing of several years, Zuojiang technology performance has been growing, especially in 2017 and 2019, revenue rose 83.08% and 62.96% year-on-year, respectively. On October 29, 2019, Zuojiang Technology landed in the capital market, at that time, the sponsor was still the head brokerage CITIC Securities.

In the chip industry, DPU is considered to be the new "third main chip", and the main DPU manufacturer is the international giant represented by Nvidia. Since 2021, Zuojiang Technology has continuously disclosed the research and development of "programmable network data processing chips", which provides a huge imagination for the stock price. Although the concept of DPU chips is attractive, the real situation of Zuojiang technology business has been concerned by the Shenzhen Stock Exchange.

The data show that the operating income of Zuojiang Technology in the first three quarters of 2023 was 33.72221 million yuan, a year-on-year decrease of 9.54%; The net profit of the mother is a loss of 97.3273 million yuan, which fell 28.27% year-on-year. In 2023, the "Daily Economic News" questioned Zuojiang Technology's 51 million yuan network card sales, and Zuojiang Technology replied to the exchange's inquiry that the "51 million yuan contract" signed by the holding subsidiary (the product is the server network card) could not confirm the corresponding income in 2023 because the actual use project had not been completed and accepted.

The "51 million yuan contract" is related to whether Zuojiang Technology is delisted. On the one hand, if it is found to be serious financial fraud, it may be forced to delist due to major violations of laws and regulations; On the other hand, according to the financial delisting standard, if the operating income cannot reach 100 million yuan in 2023, it will hit the delisting index; Now its operating income of less than 40 million yuan in the first three quarters is suspected of serious financial fraud, and it is impossible for the annual revenue to exceed 100 million yuan in 2023.

On November 24, 2023, Zuojiang Technology was investigated by the CSRC. On January 30, the CSRC announced preliminary investigation results that the financial information disclosed in 2023 was seriously untrue and suspected of major financial fraud. The case is currently under investigation, and the CSRC will find out the illegal facts as soon as possible and deal with it seriously according to law.

### 2.2. Analysis of fake means

Zuojiang Technology customer Shaoguan Xuhui Technology Co., LTD. (hereinafter referred to as "Xuhui Technology") investors and holding subsidiary Zuojiang (Shaoguan) Technology Co., LTD. (hereinafter referred to as "Zuojiang Shaoguan") the second largest shareholder of Guangdong Zhongke Computing Electronic Technology Co.,

LTD. (hereinafter referred to as "Zhongke Computing") legal representative, executive director of the same name. The legal representative of the second largest shareholder of Zuojiang Technology holding subsidiary has the same name as the customer shareholder, and there is a business network behind it. This complex business network points to the Shaoguan City Computing Industry Association, its main member unit Guangdong Baohua Agricultural Technology Co., LTD. (hereinafter referred to as "Baohua Agricultural Science") and the local large construction company - Shaoguan City Residential Construction Engineering Co., LTD.

In the reply letter to the 2023 semi-annual report, Zuojiang Technology mentioned that the company had shipped to Xuhui Technology in batches from September 19, 2023, when Xuhui Technology had signed for acceptance and was waiting for acceptance. Upon inquiry, Zhongyuan has not yet paid the loan to Xuhui Technology. The network card of this "51 million yuan contract" is 20,000 sets of network adaptation equipment purchased by Qingyang Zhongyuan Space-time Cloud Technology Co., LTD. (hereinafter referred to as "Zhongyuan Space-time") from Zuojiang Shaoguan through Xuhui Technology. Prior to this, Zuojiang Technology reported to the Shenzhen Stock Exchange the purchase contract signed by Xuhui Technology and Zuojiang Shaoguan, which made it clear that Xuhui Technology purchased 20,000 sets of 2\*25G network cards from Zuojiang Shaoguan with 51 million yuan.

In the reply to the three quarterly report of Zuojiang Technology in December 2023, it said that the company has shipped 20,000 sets of network cards to Xuhui Technology according to the "server network card procurement Contract", and at present, Xuhui Technology has signed for and has not yet confirmed revenue. As the spatiotemporal big data cloud center project is an underground cave data center, the design is difficult and complex, and the project schedule is lagging behind and uncertain due to various factors, after communicating with Zhongyuan spatiotemporal, except for some test products, the delivery and acceptance of server network cards cannot be completed in the Qingyang project in 2023, and the relevant income cannot be recognized in 2023. The specific determination is based on the demand of crowdsourcing time and space, etc., and the income can be confirmed only after the acceptance of crowdsourcing time and space. The inconsistent information disclosure of Zuojiang Technology raises questions.

According to the information disclosed by Zuojiang Technology in 2023, the most important thing is the performance of the 51 million yuan network card contract, and whether the income is recognized is crucial to its shell.

## 3. Analysis of Fraud in Zuojiang Technology based on Risk Factor Theory

### 3.1. Analysis of individual risk factors

#### 3.1.1. Analysis of moral character

DPU chip as Zuojiang technology claimed to be a strong investment project, the output in science and technology is not consistent with its publicity. In the previous 2023 semi-annual report, Zuojiang Technology also publicly declared that the DPU chip "is an important link in the company's network security product system, and is an important layout for the company to face the future", and more importantly, "as of this reporting period, the series of chips have been successfully

introduced to the market". However, in the announcement on December 12, 2023, it disclosed two important information: 1, the first three quarters of 2023 DPU chip sales revenue in addition to the aforementioned Haotian Xuhui sales, no other chip sales revenue was realized. 2, after verification, Haotian Xuhui is not the end user of the product, is a trade distributor, currently sold to Beijing Juxian technology trading company, Juxian technology purchased 400 pieces of NE6000 chips, up to now, of which 370 pieces are stored in the warehouse, 20 pieces of marketing by sales staff, the remaining 10 pieces of research and development.

Zuojiang Technology's DPU chips did not achieve real sales to end customers, more than 90% of the DPU chips were kept in the dealer's warehouse, and some were scattered in the hands of the dealer's salesman. The secondary distributor is "Beijing Juxian Technology Trading Company" with registered capital of only 500,000 yuan, and at the end of 2022, there is no shareholder investment information and no social security payment record, but it holds all the DPU chips from Zuojiang Technology factory.

In order to maintain a high stock price and seek more profits, the shareholders and senior executives of Zuojiang Technology lied and fabricated the operating conditions of Zuojiang Technology, which brought losses to the capital market and investors, and its corrupt moral character provided soil for the occurrence of fraud.

### 3.1.2. Analysis of fraud motivation

The "vigorous development" of the concept of DPU chips of Zuojiang Technology superimposed the wave of artificial intelligence in 2023, and A shares once "smelled AI that rose". In May 2022, its stock price rose rapidly, from the initial 37.9 yuan/share, all the way up to 149.98 yuan/share on December 8, and then fell back, in February 2023, it opened the skyrocketing mode again, and hit 299.8 yuan/share on July 14, 5 months later. Set a new record for its share price. In order to attract investors' attention and increase stock prices, enterprises beautify financial statements by fraudulent means, inflate profits and cover up the real financial situation.

**Table 3-1.** Part of Zuojiang Technology's operating indicators from 2018 to 2022

	2018	2019	2020	2021	2022
Net profit attributable to mother (ten thousand yuan)	6448	8871	9364	566	-14690
Total revenue (ten thousand yuan)	13420	21880	20070	11830	5896
Return on equity (%)	35.15	28.32	14.11	0.8	-22.13

Data source: Zuojiang Science and Technology Annual Report

In sharp contrast to the "vigorous development" of its stock price, Zuojiang Technology's losses continue to increase, and its operating income growth rate from 2022 to 2023 is -10.3% and -9.54%. The loss of net profit attributable to the mother is serious. Business performance is under great pressure. In the face of delisting, enterprises carry out false transactions to avoid being eliminated and achieve expected income to whitewash financial data.

## 3.2. Analysis of general risk factors

### 3.2.1. Generation of fraud opportunities

As a listed company, the unreasonable internal structure of Zuojiang Technology is also one of the important reasons for the occurrence of fraud. This paper mainly analyzes the rationality of the internal structure of Zuojiang Technology from the two aspects of customer concentration and the proportion of major shareholders.

Customers have a significant impact on the company's ongoing business development and performance. On the one hand, the high concentration of customers helps to improve the net interest rate of the company's assets, enhance the company's ability to obtain bank loans, make the company's supply chain more stable, and bring continuous performance and IPO premium to the company. On the other hand, high customer concentration will also increase the company's business risk and affect the company's business and financial decisions. Table 3-2 shows the amount and proportion of top five sales customers of Zuojiang Technology in recent years.

**Table 3-2.** Main customer data of Zuojiang Technology from 2019 to 2022

	2019	2020	2021	2022
Top five customers sales amount (ten thousand)	21863	20188	11695	5282
Proportion of Top five customers (%)	99.57	100.58	98.82	89.59

Data source: Zuojiang Science and Technology Annual Report

As can be seen from Table 3-2, in recent years, the top five customers of Zuojiang Technology account for a relatively large proportion, and their customers are mainly divided into military industry and civilian industry. With the saturation of the market, their sales amount is gradually decreasing. At the same time, the proportion of employee compensation in the total operating cost increased from 6.59% to 29.70%, the pressure of enterprise operation is greater, the operating risk is gradually revealed, and the risk of fraud is increased. The total sales amount of the top five customers in 2020 exceeds 100%, which is caused by the audited price adjustment of the current income amount of the customers who have not entered the top five.

The research results of some scholars show that the characteristics of ownership structure of listed companies in China, such as ownership concentration, the nature of controlling shareholders and the shareholding of institutional investors, can have a certain impact on the quality level of internal control, and the reasonable arrangement of ownership structure is the basis for the implementation of enterprise internal control system. The nature of the controlling shareholder not only plays a decisive role in the resources and intensity of the construction and implementation of the internal control system, but also has an important impact on the quality of the internal control of the enterprise. If institutional investors are involved, they can supervise the standardization of the construction and operation of the internal control system of the listed company to a certain extent, and then affect the internal control level of the enterprise.

**Table 3-3. Top five shareholders of Zuojiang Technology**

Top five shareholders	Zhang Jun	23.10%
	He Zhaohui	21.87%
	Zhang Yinan	7.5%
	He Peixiao	7.5%
	Wuxi Zuojiang Future investment management partnership	4.56%

As shown in Table 3-3, the top five shareholders of Zuojiang Technology hold 64.53% of the shares, and none of them belong to external institutions. Under normal circumstances, the high proportion of major shareholders will improve the operation efficiency of enterprises, but at the same time, there will be authoritarian phenomena. The moral character of shareholders and senior executives of enterprises has been analyzed above, and their corrupt moral character will tend to seek more personal interests. Due to the lack of supervision from external institutions and investors, Zuojiang Technology often falsified transactions and embellished its financial data when faced with the temptation to continue listing.

### 3.2.2. Probability of fraud detection

The discovery of fraud is usually from the internal and external, the internal of the enterprise is a systemic risk, and the external is mainly involved in the role of relevant institutions.

Internal frauds arise from the original shareholders who own a controlling interest, and such original shareholders have control rights that can directly promote financial frauds, such as circumventing internal controls, which is the source of the anti-audit nature of financial frauds in systematic fictitious economic operations. This kind of fraud has little resistance and is very hidden, which can make the participating shareholders benefit greatly. The shares of Zuojiang Technology are relatively concentrated, and the major shareholders have relatively consistent opinions, which can make important decisions on the operation and management activities of the company. Due to the asymmetric characteristics of market information, the information received by ordinary investors is incomplete, Zuojiang Technology intentionally ignored some important and key matters, did not disclose various financial information as required, and the disclosed information is not completely true, which improves the conceal ability. At the same time, Zuo Jiang forged economic transaction information and fabricated economic business. It is difficult to verify the authenticity and effectiveness of these original data. This kind of intentional fraud from the source of business data, with systematic and planned characteristics, makes it difficult for audit institutions to identify and blur the professional judgment of audit.

Institutions play a very important role in the development of Zuojiang technology. Its underwriter CITIC Securities sponsored 30 listed companies in 2023, and 22 broke. The underwriter and continuing supervisor of Zuojiang Technology is CITIC Securities, and the continuous supervision period is from October 29, 2019 to December 31, 2022. According to the company's prospectus, Citic Securities collected 30.1887 million yuan in underwriting and sponsorship fees for the new issue of Zuojiang Technology. Since 2023, Zuojiang Technology has encountered several inquiry letters and regulatory letters from the exchange, and until May 9, 2023, CITIC Securities still stated that "during

the period when the sponsor agency performed the initial public offering of shares and listed in the GEM sponsor duties, the company has no major matters and needs to be dealt with by the sponsor agency." This endorsement superimposed the continuous rise of stock price speculation at that time, which caused great trouble to investors and brought huge economic losses.

In addition to the sponsors and underwriters who have the primary responsibility, there are also brokers who issue false research reports. Hua 'an Securities issued a false research report on April 24, 2023, compiled a lot of data and information, and conceived from five levels, respectively, the DPU chip industry, the DPU chip situation of Zuojiang Technology, the network security business of Zuojiang Technology, the performance of Zuojiang Technology and equity incentives, and investment recommendations. The research report said that Zuojiang Technology DPU market scale, fast growth, DPU domestic technology leading enterprises, has completed the independent controllable DPU chip, master the core competitiveness. The actual situation is that most of the DPU chips produced by Zuojiang technology are unsalable in the warehouse, and 400 chips are only sold by fictitious trade distributors, and the actual number of sales is only 20 pieces.

### 3.2.3. Nature and degree of punishment after fraud exposure

The financial fraud of Zuojiang Technology has not issued a clear penalty notice, and the penalty standards of most fraudulent enterprises in the past have a certain reference role for this case.

According to the departure documents published by the CSRC, this paper looked for enterprises with similar facility amounts for analysis, and concluded the corresponding penalties as follows. ST\* new billion gave a warning and imposed a fine of 8 million yuan; Yuekai Securities Co., Ltd. was ordered to correct, given a warning, confiscated 6.6 million yuan of illegal income, and imposed a fine of 600,000 yuan. When the stock price of Zuojiang Technology was high, shareholders reduced their holdings in large numbers, obtaining at least hundreds of millions of yuan, and the amount of fines was not worth mentioning compared to the benefits obtained through fraud, and it can even be said that financial fraud was implemented at almost zero cost. This shows that the punishment provided by the law for financial fraud is not strong enough.

## 4. Suggestions on Risk Control

### 4.1. Shaping corporate culture and strengthening business ethics

The development of corporate culture can prevent financial fraud from the moral level. The thoughts and ideas of managers have a decisive influence on the moral level and cultural atmosphere of the whole company; At the same time, with the system as the guarantee, the formation of the long-term mechanism of credit construction.

Business ethics respects the overall interests of the company and the sustainable development of society while pursuing individual interests. Without business ethics, corporate managers and employees will only consider their own interests, excluding corporate stakeholders such as investors, creditors and suppliers, and even sugarcoat financial statements for personal interests. Strengthen business ethics education for enterprises and apply it to daily

work to weaken the idea of financial fraud.

#### **4.2. Improve corporate governance and improve internal control system**

Zuojiang Technology's equity is relatively concentrated, which restricts the play of internal control. With decentralized ownership structure, when the degree of ownership concentration is low, internal control obviously has a stronger positive impact on investor relations management, which indicates that, in a sense, decentralized ownership provides a cornerstone support for internal control to play its investor protection function.

Select strategic partners. The main customers of Zuojiang Technology account for a large proportion, and the business activities are excessively dependent on related enterprises, and once the relevant enterprises reduce business contacts, they will fall into financial crisis. Most of the company's business is concentrated in North China, which does not exclude the impact of the protective policies of the location of the enterprise. On this basis, we should expand the business channels and get rid of the single channel dependence.

A sound internal control system includes a culture-oriented internal environment, reliable and prudent risk assessment, control activities to ensure the reliable execution of upper management instructions, timely and accurate information and communication, and effective internal oversight. The management of Zuojiang technology tampered with the business data at will for financial fraud, and its internal control mechanism has long been in vain. The internal control of normal operation should be as follows: have a strict internal control system, a reasonable risk assessment mechanism, and separate the power and responsibility of the department.

#### **4.3. Increase penalties and increase the cost of fraud**

When the high profits obtained by financial fraud far exceed the cost of fraud, enterprise managers will be more likely to take illegal fraud for personal gain. If the regulator continues to increase the penalties for financial fraud and increase the cost of fraud, it will prompt enterprises to think carefully. In the case of Zuojiang Technology, according to the previous experience and judgment, the mismatch between the fraud cost and the benefits obtained is difficult to form an effective deterrent effect on the enterprises that commit financial fraud, so that the financial fraud incidents of enterprises are repeatedly banned. Therefore, only by strengthening the punishment of financial fraud from the institutional and legal levels, and fundamentally increasing the cost of fraud, can the regulatory authorities restrain the motivation of financial fraud.

At present, China has implemented the "new Securities Law", and the punishment has been further increased, but in fact, the cost of financial fraud is still far lower than the income brought by fraud, so the punishment needs to be further increased. At the same time, the scope of punishment should be increased. Once financial fraud is revealed, all companies and actors involved in financial fraud, including accounting firms, certified public accountants, and upstream or downstream companies of the companies involved, are subject to severe penalties. Financial fraud can be effectively prevented by reducing the number of colluding or participating companies, strengthening supervision, and encouraging mutual checks and balances among companies.

## **5. Conclusion and Enlightenment**

This paper takes the financial fraud incident of Zuojiang Technology in 2023 as a case, and describes the origin and means of fraud of Zuojiang Technology case. Then, combining with the theory of fraud risk factors, this paper analyzes Zuojiang Technology from five dimensions: moral quality of enterprise personnel, financial fraud motivation, fraud opportunity, fraud exposure possibility and punishment degree, so as to identify the specific fraud risk factors of the company. At the same time, in view of the current situation of Zuojiang Technology, some suggestions on risk control are put forward: shaping corporate culture, strengthening business ethics, improving corporate governance, improving internal control system, increasing penalties, and increasing the cost of fraud.

The problem of financial fraud in enterprises has been in the capital market for a long time, and it needs the participation of the whole society to overcome this problem. With the innovation and changes in the industry, relevant policy documents, laws and regulations are constantly being implemented, and the perspective of studying financial fraud needs to be constantly updated and broadened. I have certain limitations in thinking and analyzing problems. I hope this paper can arouse the attention and attention of scholars in related fields to financial fraud in the capital market, and promote the healthy and orderly development of the capital market.

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