

Research on Control of False E-Accounting of Listed Companies Based on Forensic Accounting

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Abstract—Since the 1990s, Internet-based E-Business and E-Government have undergone unprecedented rapid development. This makes the accounting based on cargo flow and cash flow quickly go from the traditional manual labor age into a digital age. Computer-based accounting and electronic accounts have thus appeared. As a consequence, false E-accounting is unavoidable. Fictitious huge operating income of Wuliangye Co., LTD in Yibin, Sichuan further indicates that false accounts are very common among China's listed companies. This leads to a turbulent capital market, continuous commercial bribery, and spreading corruption. This paper aims to explore the concept, features, content, form, prevention, and control path of electronic false accounts of listed companies by taking forensic accounting as the clew, so as to prevent the risks of false accounts of listed companies for the sake of healthy development of capital markets, effective control of commercial bribery, and apparent control of corruption of power.

Keywords- Forensic Accounting; Listed Company; False E-Accounting; Control

Introduction

Since the 1980s, especially the 1990s, Internet-based e-commerce has swiftly developed and electronic accounting has appeared. Electronic accounting cannot be done without accountants' manual operations. It is still controlled by the will of an accounting subject. False accounting caused by the lack of self-control by an accounting subject and insufficient external control will necessarily exist in the electronic accounting process. This is apt to result in false E-accounting which dissociates from the traditional legal supervision setup. False E-accounting is harder to be supervised and controlled than false paper account. It is reported in *Sichuan Online* (Chengdu) on September 30, 2009, *Oriental Morning Paper* (Shanghai) and *Yangtze Evening Paper* on October 14, 2009 that China Securities Regulatory Commission has investigated Wuliangye Joint-Stock Co., Ltd (called Wuliangye for short) in Yibin, Sichuan and found that the 2007 annual report of Wuliangye had entered the "principal business revenues" of its wholly-owned subsidiary (Yibin Wuliangye Supply and Marketing Co., Ltd) as RMB 8,250,661,500 (the actual principal business revenue is RMB 7,250,661,500). Thus, there is an increase of RMB one billion in business revenues [1]. According to the 2006 and 2007 annual reports publicly disclosed by Wuliangye and the clean auditor's opinion issued by an accounting firm, four people, including Mr. Feng, have successively bought altogether 10,000 Wuliangye shares and

lost nearly RMB 250,000. In November 2009, the four of them filed a lawsuit to a court and requested compensation [2]. One after another, individual investors and institutional investors in Shanghai are about to file lawsuits to the court [3]. Currently, the legal systems both home and abroad have not yet attached great importance to the supervision and control of false E-accounting. Forensic accounting is a new interdisciplinary subject. It is economic service activities which provide expert evidence, special assistance and professional consultation according to law. In the activities, a specific subject uses accounting tools to handle and solve accounting-related litigious and non-litigious legal matters which involve property rights and interests, governance of false accounting, irregularity risk management, and prevention of decision-making risks [4]. This paper aims to explore the concept, features, content, forms, prevention and control of false E-accounting of listed companies by taking forensic accounting as the clew, so as to prevent the risks of false E-accounting of listed companies and promote the healthy development of capital market.

I. CONCEPT AND FEATURES OF FALSE E-ACCOUNTING OF LISTED COMPANIES

A. Concept

False E-accounting of listed companies refers to the legal status of electronic accounting. In this status, financial accountants and certified public accountants violate accounting contract obligations. Consequently, in accounting information, the actual economic work of an accounting subject is inconsistent with original electronic documents; original electronic documents are inconsistent with electronic accounting vouchers; electronic accounting vouchers are different from electronic accounting books; electronic accounting books are irrelevant to electronic accounting reports; electronic accounting statements dissociate from real assets. False E-accounting does not comply with the real and intact obligations of an accounting contract and incurs losses to the observant party [5]. Its basic connotation is as follows:

First, the technical carrier of false E-accounting of listed companies is computer and Internet technologies. In electronic accounting, false E-accounting formed of the accounting information generated after the input of raw accounting data into a computer cannot exist without computer and Internet technologies. Second, the form of law of false E-accounting of listed companies is paperless electronic data programs. Third,

in terms of its legal nature, false E-accounting of listed companies is a legal act which breaks an accounting contract. Electronic accounting is based on accounting legal systems and accounting contracts. It is an accounting contract formed after sufficient gaming. Its legal obligation is to fabricate and provide real and intact accounting information which tallies with objective facts. False E-accounting of listed companies breaks the accounting contract. Last, in terms of legal consequences, false E-accounting of listed companies results in the losses of the observant party of an accounting contract.

B. Features

First, false E-accounting of listed companies damages extensive objects. False E-accounting of listed companies will necessarily propagate to accounting subjects, such as a natural person, a legal person or other organizations, that need to consume accounting information. Consequently, damaged objects are apparently diversified.

Second, false E-accounting of listed companies is an intelligent legal act. False E-accounting of listed companies relies on accountants' professional acts, thus highly intelligent.

Third, false E-accounting of listed companies has hidden forms. False E-accounting of listed companies is performed by means of Internet and computer data programs, thus relatively hidden.

Fourth, false E-accounting of listed companies has international legal relationships. False E-accounting of listed companies shows cross-national jurial relations of a subject.

Fifth, false E-accounting of listed companies should receive unified governmental supervision. For the supervision and management of false E-accounting of listed companies, different countries should implement unified rules and governance standards.

II. CONTENT AND FORMS OF FALSE E-ACCOUNTING OF LISTED COMPANIES

A. Content of False E-accounting of Listed Companies

Content of false E-accounting of listed companies refers to six false accounting elements which false E-accounting reflects, that is, assets, liabilities, owner's rights and interests, incomes, expenses, and profits. It includes:

First, false assets. Assets refer to the resources which are formed of former accounting transactions and items and possessed by an organization and will bring economic interests to the organization or an individual. False E-accounting of listed companies takes electronic technology as the carrier. The accounting asset items it reflects, including fixed assets, liquid assets, and intangible assets, do not conform to three characteristics of law of assets. In consequence, accounting assets become false assets.

Second, false liabilities. Liabilities refer to the current obligations which are formed of former accounting transactions and items and make an accounting subject's economic interests flow out. The liability items reflected by false E-accounting of listed companies do not conform to the characteristics of law of liabilities. They result in false liability

content and damage a creditor's interests.

Third, false owner's rights and interests. Owner's rights and interests refer to the economic interests of net accounting assets an owner enjoys, including paid-in capital, contributed surplus, and retained earnings. The paid-in capital, contributed surplus, and retained earnings reflected by false E-accounting of listed companies are not of factuality. They are false owner's rights and interests.

Fourth, false income. Income refers to the economic interests an accounting subject obtains when selling products, providing labor services and transferring assets. It is either an increase in assets or a decrease in liabilities. Income reflected by false E-accounting of listed companies is not of factuality. This results in the income loss and asset leakage of an accounting subject.

Fifth, false expenses. Expense refers to the outflow of economic interests when an accounting subject sells products, provides labor services and transfers assets. The manufacturing costs, management costs, business costs, and financial expenses reflected by false E-accounting of listed companies become accounting fees without any truth.

Sixth, false profits. If the assets, liabilities, owner's rights and interests, income, and expenses reflected by false E-accounting of listed companies are false, the information about profits calculated based on income and expenses will be false, too.

B. Forms of False E-accounting of Listed Companies

First, false electronic practice, that is, false electronic accounting business, including raw accounting data without accounting factual basis, accounting business activities without factual and legal basis, accounting contracts without factuality, and false original accounting documents an accounting subject fabricates on purpose.

Second, false electronic documents, that is, false electronic original documents, electronic accounting vouchers, and electronic journal vouchers. Electronic original documents are original paper or non-paper legal documents with objective and real economic work content. An accounting information fabricator obtains electronic original documents according to electronic accounting business. Electronic original documents serve as the basis of electronic accounting information. They include external original documents and home-made original documents; electronic accounting vouchers are electronic accounting forms an accountant fabricates based on electronic original documents by employing an electronic computer and a legal accounting software program and takes as the electronic accounting book login basis. There may be illegal accounting entries, accounting titles and data.

Third, false electronic accounting book, that is, the electronic accounting book entered based on false electronic documents, including day book, detailed ledger, and general ledger. Electronic day book refers to electronic cash account and electronic bank account; electronic detailed ledger refers to an electronic accounting detailed ledger of an accounting subject's original accounting information an accountant fabricates by running an electronic accounting operation

program according to an accounting system. It takes accounting classification items as the standard; electronic general ledger is the ledger account book of an accounting subject's original accounting information an accountant fabricates by running an electronic accounting operation program according to an accounting system. It takes the accounting ledger items as the standard.

Fourth, false electronic reports. Electronic accounting reports are accounting statements fabricated based on electronic accounting books. They include electronic balance sheets, electronic cash flow reports, electronic income statements, electronic profit distribution reports, and electronic financial situation statements. False electronic reports refer to electronic accounting statements filled in according to false electronic accounting books or other false electronic accounting business facts.

Fifth, false electronic capital verification. That is, certified public accountants do not observe legal capital verification criteria and material requirements and issue a registered capital verification report according to false E-accounting of a listed company or illegally home-made false documents or when there is no legal basis.

Sixth, false electronic audit. That is, certified public accountants do not observe legal audit procedures and material criteria and issue an accounting statement auditor's report and a profit prediction report according to the false electronic accounting report, document, business, account book, and capital verification document of a listed company or illegal home-made false audit evidence or when there is no legal evidence.

Last, false electronic assessment. That is, certified public accountants or certified asset assessors do not observe asset assessment procedures and material criteria and issue an asset assessment report according to the false asset business, electronic document, account book, and report of a listed company or illegal home-made false assessment evidence or when there is no legal evidence [6].

III. PREVENTION AND CONTROL OF FALSE E-ACCOUNTING OF LISTED COMPANIES

We must establish a false E-accounting prevention and control system to control its spread and hazard according to the technical features and characteristics of law of false E-accounting of listed companies.

A. Establish a Legal System for Governance of False E-accounting

First, formulate and modify the *Accounting Information Law* and add to the Law the prevention and governance of false E-accounting of listed companies. Second, formulate electronic accounting contract rules by giving full consideration to the needs of electronic accounting online contracts to formalize electronic accounting contracts. Third, formulate the *Accounting Evidence Law* as soon as possible to stipulate the evidential burden, evidential object, scope of investigation and taking evidence of an accounting court, appearing in a court as a witness, and illegal evidence of

accounting evidence and false E-accounting evidence; clarify the demand of proof and evidence standard of electronic and non-electronic false accounting; standardize accounting evidence order. Fourth, formulate the *False Accounting Responsibility Law* to standardize the concept, principle, criteria, judgment procedure, evidence, and penalty of the legal responsibility of electronic and non-electronic false accounting; establish a false E-accounting responsibility system.

B. Establish a False E-accounting Supervision System

First, establish an electronic accounting information registration license system. The system stipulates that a listed company should report to the national department in charge of accounting audit before using computer and Internet technologies to check financial accounting information. The department shall issue an electronic accounting information network license; a financial accounting information fabricator and the department in charge should sign an electronic accounting information supervision contract to establish the contractual legal relationship between them.

Second, establish an electronic accounting information exchange supervision system. The national department in charge of accounting audit must formulate rules for the legal acts of a listed company, such as the input, upload, conversion, change, removal, output, and consumption of electronic accounting information, so as to strengthen whole-course supervision of electronic accounting information and prevent false E-accounting.

Third, establish an electronic accounting information security supervision system. In order to prevent a listed company abusing the principle of confidentiality, we must use advanced electronic information technology to establish the decryption, encryption and confidentiality system of electronic accounting information of the listed company. This enables a government to manage the electronic accounting information of the listed company and protects the legal rights and interests of the listed company.

Fourth, establish an electronic accounting information document supervision system. Establish a rigorous, all-around and effective management system for all electronic documents that store electronic accounting information; stipulate that the electronic accounting information document of a listed company should be reported and sent to the national department in charge of accounting audit so that it can be supervised at any time.

C. Establish a False E-accounting Certification Procedure System

Formulate the *False Accounting Certification Law* to fully standardize the concept, principle, form, subject, reconsideration and arbitration, judicial proceeding, and legal responsibility of electronic and non-electronic false accounting certification, so as to establish absolute authority of false E-accounting certification.

D. Establish a False E-accounting Risk Prevention and Control System

Electronic accounting information is faced with many transaction risks, such as liquidity risk, market risk, credit risk, technical and legal security risk, Internet system intrusion risk, false certification risk, and risk of error of transmission. We must establish an electronic accounting information security risk prevent system according to inherent risks of electronic accounting information to control false E-accounting of listed companies and promote the development of national economy and world economy [7].

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