

Research on the Prevention of Inventory Audit Risk of Agricultural Listed Companies

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Keywords: Agricultural listed company, Inventory, Audit risk, Measures

Abstract: Inventory is an important asset item of an enterprise and an important component of the current assets of an enterprise, which accounts for most of the capital of an enterprise. Based on the complexity and diversity of inventory projects, agricultural listed companies frequently make financial fraud with the help of inventory projects. This paper summarizes the reasons and means of inventory audit risks of agricultural listed companies through the research of fraud cases of several agricultural listed companies from 1999 to 2019, and puts forward preventive measures from the enterprise level and the CPA level respectively.

1. Introduction

In October 2014, Zhangzi Island issued a notice, because of the cold water mass that happened once in decades, leading to the failure of harvesting scallops. It lost 1.189 billion yuan in that year. In January 2018, Zhangzi Island scallops found that the inventory of bottom seeded scallops in some sea areas was abnormal, and it is expected that the profit will directly change to a loss state. The explanation given in the annual report is: the sea disaster caused scallops to die thin! On the evening of November 11, 2019, Zhangzi Island revealed that “scallop died naturally on a large scale” in the listed company of Zhangzi Island. In five years, there were three “abnormal” events of scallop inventory. From the financial fraud of Lantian in 1999, to the financial statement fraud of Yinguangxia in 2001, to the false transaction of green earth, and then to the profit fiction of wanfushengke in 2012, it is not difficult to see that these enterprises made false reports involving inventory items. In many audit failure cases, the proportion of cases related to inventory is quite large, from Macson & Robbins company, Falmo company to Lantian Co., Ltd., Yinguangxia and Hongguang industry. In these domestic and foreign financial report fraud cases, enterprises often make use of inventory projects. As the last defense against financial report fraud, audit plays an important role in controlling the occurrence and spread of financial report fraud.

2. Causes of Audit Risk

2.1 Industry Characteristics

The price of forgery of agricultural products enterprises is low. The forgery of enterprises needs to pay a price. The more income enterprises make up in the financial statements, the more value-added tax they need to pay to the tax authorities, the more profits they make up, and the more enterprise income tax they pay to the tax authorities^[1]. Because of the policy reasons, agricultural enterprises enjoy the tax preference given by the state. They can make up the income and profits of enterprises without worrying about the large amount of taxes that need to be paid in vain for counterfeiting. The purpose of these preferential policies is to support agricultural production, but it provides convenience for these agricultural enterprises to falsify statements.

2.2 Characteristics of Biological Assets

The characteristics of growth and storage of agricultural products make it impossible to make a detailed inventory. For example, in the aquaculture industry, the stock of enterprises is the fish and shrimp growing in the water, but it is impossible to fish all the fish and shrimp in the pond in the inventory, which is not practical at all; for example, in the forestry industry, the stock of enterprises is the trees on the mountain, and it is impossible to let people go to the field in the inventory, which will cost huge manpower Financial cost; for example, in the grain planting industry, the enterprise's inventory is the crops planted in the field. Even if the area of the field is known, but the seed germination rate and the survival rate cannot be specifically known at all. The density of the crops and the grain plumpness also directly affect the grain yield. Therefore, it is difficult to count whether and how many agricultural enterprises have inventory. Even if we adopt certain methods, we can only get estimates^[2].

2.3 Impact of Natural Conditions

Agriculture is a special industry, agricultural output will be affected by natural conditions. Weather, precipitation, natural disasters and so on will affect the income and cost of agricultural enterprises. If enterprises want to pay less taxes, they can use the weather to increase costs and reduce profits. For example, the bird flu around 2004 has become a good opportunity for faking on the grassland, and the company has made up the compensation of 339 million yuan for the breeding households; the continuous dry weather in Yunnan in 2009 provides a basis for the faking on the Green earth company. For another example, in October 2014, scallops in Zhangzi Island were wiped out because the North Yellow Sea encountered a cold water mass once in decades.

2.4 The Purchase and Sales Terminals Are Relatively Scattered and Are Not Easy to Check.

For agricultural enterprises, most of the companies purchase directly from farmers, and the number of farmers is scattered. Auditors cannot find out whether this transaction is available. What is the transaction amount? What is the quality of the products? Which kind of quality, the transaction objects are scattered and used more cash, personal accounts to pay, cash will often occur, but due to the small amount of transactions, but the large number of characteristics, from the perspective of cash flow, it is almost impossible to trace the whereabouts of funds^[1].

3. Means of Fraud

3.1 Increase of Income

Agricultural listed companies generally have scattered purchases and sales, and the amount of various documents is small and difficult to verify. Therefore, agricultural listed companies that conduct counterfeiting tend to fabricate customers, especially customers with a large number of fabrications and relatively small transaction amounts. Customers are scattered and the amount is not large, and it is more difficult to verify, especially those companies that deal mainly with overseas companies. It is even more difficult to verify. For example, Zhenlong specialty products are mainly purchased from farmers and cannot be confirmed concretely. Therefore, they have made a bold and false increase in income. In terms of sales, Zhenlong Specialty Co., Ltd. uses the characteristics of selling goods to overseas traders and the difficulty of verifying the sales documents to artificially increase the income by means of falsely increasing the unit price. From 2012 to 2014, Zhenlong Special Product s accumulatively increased export revenue by 82.68 million in the form of inflated contract sales unit price, and then adopted the fraud method commonly used by most enterprises, that is, using account receivables to make up for cash flow.

3.2 Reduce Costs and Expenses

Another way for agricultural listed companies to cheat is improper registration costs and expenses, so as to reduce costs and increase profits. From the aspect of cost reduction, there are two main means: first, cost capitalization, that is, some consumption that should be included in cost is

improperly included in assets such as construction in progress^[3]. For example, in the balance sheet of wanfushengke and wanfushengke in 2011, the amount of construction in progress increased by 12.5 times compared with the previous year, while the completion progress of the project decreased. Second, write down operating costs with non recurring items. For example, Lianhua monosodium glutamate will offset the main business costs with various government subsidies such as environmental protection subsidies, government compensation funds for eliminating backward production capacity, etc., with a total amount of more than 40 million yuan.

4. Suggestions on Risk Prevention of Inventory Audit

4.1 Enterprise Level

4.1.1 Strengthen Internal Control

Looking at all the listed companies that have financial fraud, their internal control system is either porous or virtual. Therefore, in order to effectively prevent the occurrence of financial fraud, the basic “firewall” of internal control is still needed to play an important role. First of all, the enterprise should strengthen the control of purchase, acceptance, warehousing and storage, and formulate effective rules and regulations according to its own nature, characteristics, industry conditions and internal and external situations. And strictly in accordance with the system to ensure that the internal control of the inventory circulation plays a supervisory role. Secondly, the enterprise should establish a strict acceptance system to strictly check the quantity, quality, type and specification of the inventory obtained, and the value of the inventory obtained is the key inspection object of the acceptance and warehousing. Finally, the enterprise must establish and improve the responsibility system, clearly distinguish the responsibilities of each department, so as to avoid the situation of mutual prevarication. Relevant departments shall also supervise the completion of work and responsibility performance of each department, and regularly or irregularly inspect important posts to contain hidden dangers in the cradle.

4.1.2 Improve the Professional Quality of Accountants

Due to the particularity of inventory, there is often impairment loss. In accounting, accountants are required to make reasonable accounting estimates according to their professional quality and accumulated experience. Therefore, inventory is prone to fraud in the provision of impairment loss, and these fraud is difficult to be found in the audit. The financial position of the company shall be held by financial personnel with rich experience and high professional level. Financial personnel must also be aware of the huge role that financial information brings to investors, creditors, the public, capital market and economic environment. The users of financial information, as the stakeholders of external interests, do not directly participate in the daily operation of the company, only through the financial report of the enterprise to contact the business information of the enterprise, so the financial personnel must have the corresponding professional quality and moral quality.

4.2 Cpa Level

4.2.1 Pay Attention to Inventory Supervision

Certified public accountant is the external personnel of an enterprise, so it is impossible to have too much understanding of the production process, operation status, transaction mode and inventory status of an enterprise. The confirmation, measurement and inventory of biological assets have always been the difficulty of audit, and also one of the important sources of audit risk. The audited unit often grasps this shortcoming of certified public accountant and intentionally passes the complicated Transactions to fictitious business, virtual increase in revenue and profits, which greatly increased the probability that the CPA ignored the significant misstatement of the financial statements of the enterprise, the audit inspection risk is also greatly increased. Auditors should not only design a scientific and reasonable inventory supervision plan and strictly implement the supervision procedures^[4], but also have the innovative spirit and actively seek new audit technology

suitable for biological assets. If the auditor needs to rely on external experts, the auditor shall employ highly reputable experts and make reasonable use of their work.

4.2.2 Innovative Audit Technology

With the development of social economy, the forms of enterprises are becoming more and more diversified, the ways of business settlement are also diversified, and the accounting methods are constantly updated and improved. The traditional auditing methods inevitably have some loopholes, and some of the loopholes of listed companies are convenient for fraud. Auditors need to make new breakthroughs in the concept, methods and technical means of audit to cope with many new situations and tasks. Auditors should constantly improve their learning ability, enhance their awareness of innovation, constantly accumulate experience, grasp the cheating means of listed companies, and innovate audit technology, so as to adapt to the challenges faced by the audit work in the new situation, so that the audit can be carried out efficiently.

4.2.3 Strengthen the Professional Ethics of Certified Public Accountants

The inventory project of agricultural listed companies is a complex project, and there is a high risk of fraud in each node related to inventory. Therefore, the audit of inventory project is a complex work, which is quite different from the general audit, and naturally puts forward higher requirements for certified public accountants. Looking at the fraud cases of agricultural listed companies, it is not difficult to see that most auditors fail to fulfill their due responsibilities. The lack of professional ethics of auditors has a significant impact on audit risk, so auditors must strengthen professional ethics in inventory audit. In the implementation of the assurance business, auditors must maintain independence, proceed from the reality, be impartial, maintain our original intention, do not violate our original intention due to the temptation of interests, change our professional judgment, maintain professional competence and due attention. In addition, certified public accountants should maintain professional skepticism, and take seriously and cautiously the abnormal situations in the audit process.

5. Conclusion

Through the research, agricultural listed companies often make use of the characteristics of their industry particularity and the inventory is not easy to count, often through fictitious customers and other ways to increase revenue, through the improper registration of costs and expenses to reduce costs, increase profits from two directions to play the role of whitewash statements. In order to reduce the inventory audit risk of agricultural listed companies, enterprises should strengthen internal control, improve the quality of accounting personnel, certified public accountants should improve their professional quality, maintain due attention, pay attention to inventory supervision, innovate audit technology, and use other professional experts to overcome the difficulty of inventory audit of agricultural listed companies.

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