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Research on Audit Failure Based on the GONE Theory: A Case Study of Tianheng Auditing Jiangsu Sainty

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Abstract

The frequent occurrence of audit failure cases has become a prominent problem restricting the healthy development of the trade industry. Exploring the causes of audit failure is highly important for improving audit quality. This paper takes the financial fraud case of Jiangsu Sainty, a listed trade enterprise audited by Tianheng Certified Public Accountants for the years 2020--2021, as the research object. On the basis of the GONE theory, a "four-element–two-subject" analysis framework is constructed. Combining the CSRC (China Securities Regulatory Commission) penalty decisions and the enterprise's annual report data, it conducts an in-depth analysis of the behaviors of the enterprise and the accounting firm, sorts out the enterprise's financial fraud methods, and analyzes the causes of audit failure. The targeted preventive measures proposed accordingly provide theoretical and practical references for improving the audit quality of the trade industry.

Keywords

GONE theory, audit failure, accounting firm, audit quality

1. Introduction

As a key link in the market supervision system, auditing conducts independent reviews of the financial reports of listed companies and issues audit opinions, playing an indispensable role in maintaining market order and protecting the interests of investors. In recent years, with the continuous deepening of Chinese capital market supervision policies, the Chinese auditing industry has undergone profound changes. The implementation of the new Securities Law in 2020 abolished the administrative license for the securities business of accounting firms and replaced it with a "dual filing system", promoting the reshaping of the competitive pattern of the audit market; the issuance of the Measures for the Integrated Management of Accounting Firms in 2022 strengthened the quality control requirements for headquarters and branch offices; and the new "Nine National Policies" in 2024 further strengthened the "gatekeeper" responsibility of intermediary institutions and set more stringent standards for audit quality. Against this background, audit failure cases still occur frequently, so research on typical audit failure cases is still necessary.

Existing studies mostly analyze the single dimension of audit procedure defects or corporate fraud. Although some causes of audit failure have been revealed, research on the interaction mechanism between corporate fraud motives and firm audit defects, as well as the application of the GONE theory in the dual-subject analysis of enterprises and accounting firms, is still lacking. This paper takes Jiangsu Sainty as a typical case, uses the case analysis method and data statistics method to analyze the connection between the audit failure of Tianheng and the financial fraud of Jiangsu Sainty in detail, aims to accurately identify the relationship between audit procedure loopholes and fraud methods, and provides a theoretical and practical basis for improving audit quality and identifying and preventing fraud to contribute to the healthy and stable development of the capital market.

2. Literature Review

2.1 Connotation of the GONE Theory

The GONE theory is a classic theory that explains the causes of fraud. Its core connotation is that the occurrence of fraud is the result of the joint action of four interrelated factors, whose English initials form “GONE”, representing, respectively: G (Greed) refers to the excessive desire of individuals or institutions for wealth, interests, etc., which is the internal motive of fraud. O (Opportunity) refers to the conditions for committing fraud without being easily discovered, usually related to internal control defects, regulatory loopholes, etc. N (Need) refers to the direct driving force for individuals or institutions to commit fraud owing to specific needs. E (Exposure) refers to the possibility of fraud being discovered and punished, as well as the intensity of punishment. If the probability of exposure is low and the intensity of punishment is weak, it will reduce the number of fraud cases and indirectly encourage fraud.

These four factors interact with each other. When the motive of “greed”, the “opportunity” to take advantage, and the “urgent need” exist at the same time and when the risk of “exposure” is low, fraud is likely to occur.

2.2 Domestic and Foreign Research

2.2.1 Audit Subject Characteristics and Lack of Independence

The characteristics of the audit subject are widely regarded as fundamental factors affecting audit quality, which in turn are closely linked to the occurrence of audit failure. DeAngelo (1981))DeAngelo (1981) put forward the seminal view that there is a positive correlation between audit firm size and audit quality. The reasoning is that larger audit firms have more “quasirents” at stake, so they attach greater importance to maintaining their own reputation and thus can maintain greater audit independence. However, this view of size advantage is not absolute. From the perspective of the history of the accounting profession, Zeff (2003))Zeff (2003) further noted that the commercialization process of the audit industry may erode audit independence, thereby weakening the positive impact of firm size on audit quality.

In addition to the size of audit firms, the experience of individual auditors is also a key factor affecting audit quality. Han (2017))Han (2017) noted that auditors with rich industry experience have a stronger ability to identify abnormal signals in complex transactions, which helps to improve audit quality and reduce the possibility of audit failure.

Audit independence, as a core element of audit quality, is significantly affected by client dependence. Fu and Liao (2022))Fu and Liao (2022) conducted an empirical study and reported that when the importance of a client to an audit firm is greater, auditors are more likely to make compromises when they disclose key audit matters (KAMs), which weakens the warning function of audit reports and increases the risk of audit failure. To further clarify the causes of audit failure, Xie et al. (2018))Xie et al. (2018) distinguished whether audit failure is caused by “incompetence” or “lack of independence”. Their research results showed that auditors who have been sanctioned do not show differences in professional competence in subsequent audit projects, which indirectly proves that a lack of independence is a primary cause of audit failure. In the specific scenario of private network communication fraud, Ye and Huang (2024) analyzed audit failure cases and noted that auditors’ failure to penetrate and identify the essence of related-party transactions is the result of the combined effect of a lack of independence and insufficient professional skepticism.

2.2.2 Regulatory Environment and Effectiveness of Penalties

The regulatory environment, as an important external constraint, plays a crucial role in curbing audit failure. From an international perspective, Krishnan et al. (2017))Krishnan et al. (2017) used international inspection data from the Public Company Accounting Oversight Board (PCAOB) and reported that regulatory inspections can significantly improve the audit quality of inspected audit firms, which shows that regulatory deterrence has cross-jurisdictional effectiveness. In the Chinese market, Li (2017))Li (2017) conducted an analysis on the basis of the administrative penalty announcements of the China Securities Regulatory Commission (CSRC) and reported that there is a close relationship between audit failure and the inadequate implementation of auditing standards, indicating that the regulatory environment in China also has an important effect on audit quality. On this basis, Wang et al. (2011))Wang et al. (2011) further verified the role of administrative penalties in improving audit quality. Their research revealed that the audit quality of audit firms that have been sanctioned by administrative penalties is significantly improved in subsequent periods, which confirms the positive role of external penalties in regulating audit behavior.

However, the effectiveness of regulatory supervision also has certain limitations. Hu and Dou (2021))Hu and Dou (2021) argued that to govern audit failure, we should start with the internal quality control of audit firms. Relying solely on external penalties can hardly solve the root cause of audit failure because internal quality control is the fundamental guarantee for maintaining audit quality. Zheng (2022))Zheng (2022) conducted an in-depth analysis of the CSRC penalty decisions from 2006--2020 and reported that related-party transactions are still a high-incidence area for audit failure, which reflects that there is a lag in regulatory rules in the identification of complex transactions and that it is difficult for regulatory measures to fully cover the emerging complex audit scenarios in a timely manner.

2.2.3 Application of Audit Technology and Risk Identification

The correct application of audit technology is a technical guarantee to prevent audit failure, and the ability to identify risk is an important embodiment of the level of audit technology application. Knechel et al. (2020))Knechel et al. (2020) studied audit activities from the perspective of services and emphasized that in complex audit judgment scenarios, audit quality depends not only on the professional competence of auditors but also on their service commitment. Only when auditors have both professional ability and a responsible attitude can they better apply audit technology to ensure audit quality. In terms of risk identification, Han and Zhang (2018))Han and Zhang (2018) reported that the disclosure of key audit matters (KAMs) can enhance auditors' sense of responsibility, thereby making auditors more cautious in the audit process, improving the ability to identify audit risks, and reducing the occurrence of audit failures.

As an important part of corporate governance, the effectiveness of internal auditing directly affects the quality of financial information and then has an impact on the audit work of external auditors. Cohen and Sayag (2010))Cohen and Sayag (2010) conducted an empirical study and reported that there is a positive correlation between the professional competence and organizational status of internal audit departments and their work effectiveness. The greater the professional competence of internal auditors and the greater their organizational status, the stronger the ability of internal audits to supervise and constrain a company's financial activities, and the more helpful it is in improving the quality of financial information. On this basis,Wang (2020))Wang (2020) proposed that we can exploit the synergistic supervision effect of internal audits and the board of supervisors, compensate for the deficiencies of a single supervision mechanism, and form a more comprehensive and effective internal supervision system to provide better support for external audit work.

However, the application of audit technology still needs to take independence as a prerequisite. Ye and Huang (2024))Ye and Huang (2024) noted in their analysis of private network communication fraud cases that if auditors lack the courage to make independent judgments, even if they strictly implement standardized audit procedures, they may not be able to detect carefully planned fraud, especially in the face of complex transaction structures. This shows that without the guarantee of independence, the role of audit technology in risk identification cannot be fully exerted, and audit failure is still difficult to avoid.

2.3 Summary of the literature review

A review of literature shows that improving audit quality is a systematic project involving multiple entities and links, with three insights and expansion directions for research on Tianheng Certified Public Accountants. First, while existing studies have identified core factors influencing audit quality and financial fraud identification frameworks, case studies on regional accounting firms are scarce. As a scaled regional firm, Tianheng's audit quality is more affected by regional market competition and local regulatory environments, requiring further analysis with local practices. Second, although the GONE theory is mature for fraud identification, it focuses mostly on audited entities; research on how audit institutions optimize procedures via this theory is insufficient. The theory can be integrated into the entire audit process. Third, studies on local firms' development paths emphasize macro strategies and lack personalized research. Future research can formulate actionable quality improvement strategies on the basis of Tianheng's scale and business structure and focus on how audit technology innovation restructures its quality control system amid digital transformation.

3. Introduction to the Audit Failure Case of Tianheng Auditing Jiangsu Sainty

3.1 Overview of Jiangsu Sainty

Jiangsu Sainty Co., Ltd. was listed on the Shanghai Stock Exchange in September 2000. After more than 40 years of development, it has grown into a comprehensive enterprise with diversified businesses. The company is engaged mainly in the import and export business of various commodities and technologies, covering clothing production, chemical storage, equity investment and other fields, and has a certain market position in the trade industry.

3.2 Overview of Tianheng

The predecessor of Tianheng Certified Public Accountants was Jiangsu Certified Public Accountants. In 1999, it completed decoupling and restructuring in line with the development trend of the industry and then transformed into a special general partnership accounting firm on November 4, 2013. In terms of business qualifications, Tianheng has a profound foundation. It is one of the first batches of accounting firms in China to obtain qualifications for securities and futures-related businesses and the first batch to obtain qualifications for auditing financial enterprises. Its business scope is wide, and its core business focuses on audit, asset evaluation, engineering cost consulting, management and IT consulting, tax services and other sectors.

3.3 CSRC Penalty Situation

3.3.1 Penalty on Sainty

On the evening of July 5, 2024, Jiangsu Sainty issued an announcement stating that the company and relevant parties had received the Administrative Penalty Decision issued by the Jiangsu Securities Regulatory Bureau of the China Securities Regulatory Commission. After investigation, the private network communication business of Jiangsu Sainty led by Sui Tianli was essentially a false self-circulating business with a closed loop of contracts, funds and bills, without business substance, and should not confirm the corresponding operating income, operating costs and profits. By participating in the false self-circulating business of domestic trade in communication equipment, Jiangsu Sainty overstated its operating income by approximately 10.333 billion yuan, operating costs by approximately 9.398 billion yuan, and total profits by 934 million yuan in its annual reports from 2009--2021.

The CSRC held that the annual reports of Jiangsu Sainty from 2009--2021 and the accounting error correction announcement on April 30, 2022 contained false records, violating multiple provisions of the Securities Law. Finally, Jiangsu Sainty was ordered to make corrections, given a warning, and imposed a fine of 10 million yuan. Gao, who served as the director, general manager and chairperson of Jiangsu Sainty at that time, was the person in charge directly responsible for Jiangsu Sainty's illegal information disclosure. He was given a warning and a fine of 1.5 million yuan, and at the same time, a 3-year securities market entry ban was imposed on him. In addition, other relevant responsible persons were also given warnings and fines of different amounts.

3.3.2 Penalty to Tianheng

On January 17, 2025, the China Securities Regulatory Commission issued an administrative penalty decision, confirming that Tianheng failed to perform its duties with due diligence in the audit business of the 2020 and 2021 annual reports of Jiangsu Sainty Co., Ltd., and issued documents containing false records. Tianheng received 867,900 yuan in income excluding value-added taxes from Jiangsu Sainty for the 2020 annual audit project and 867,900 yuan in income excluding value-added taxes for the 2021 annual audit project and the previous accounting error correction audit. The CSRC decided: Order Tianheng Certified Public Accountants to make corrections, confiscate the business income of 1.7358 million yuan excluding value-added tax, and impose a fine of 3.4 million yuan. Warnings are given to the signed certified public accountants Lu Dezhong and Wei Na, and fines of 280,000 yuan are imposed.

3.3.3 Case introduction

As a listed company in the trade industry, Jiangsu Sainty has attracted market attention in recent years because of financial fraud. The incident originated from the abnormal data of its communication equipment business. In 2020, the revenue of this business accounted for 23% of the total revenue, but there were no records of actual goods flow, and the characteristics of the capital closed loop were significant. After regulatory investigation, it was found that the company overstated enormous revenue through false trade, whereas the audit report with unqualified opinions issued by Tianheng failed to reveal this problem, eventually leading to audit failure. According to the administrative penalty decision of the CSRC, Jiangsu Sainty exhibited the following financial fraud behaviors.

(1) Fabricating Self-Circulating Trade, Recognizing Revenue in Advance, and Overstating Operating Income and Total Profits

According to the annual report data of Jiangsu Sainty before and after adjustment from 2020--2021, Table 1 shows that, by participating in the false self-circulating business of domestic trade in communication equipment, Jiangsu Sainty overstated its operating income by 149,4154,000 yuan and total profits by 85,340,600 yuan in 2020. The overstated revenue accounted for 34.13% of the disclosed revenue, and the capital closed-loop return rate was 91%. In 2021, it overstated its operating income by 90,666,900 yuan and total profits by 90,666,900 yuan, with the overstated proportion accounting for 2.34% of the disclosed revenue and the capital closed-loop return rate being 89%.

In this business, the goods were transported by the supplier to the location designated by the customer, and Jiangsu Sainty was not responsible for the transportation of the goods, so there were no logistics documents. The communication equipment did not actually enter or leave its warehouse, and only virtual in-out warehouse documents were generated through the OA system in accordance with the customer's receipt documents and goods confirmation documents, forming a false transaction closed loop without business substance.

Table 1: Overstated Revenue and Profit of Jiangsu Sainty from 2020--2021

Fraud Data Indicators	2020	2021	Abnormal Performance of Financial Indicators
Inflated Operating Revenue (10k RMB)	149,415.4	9,066.69	Abnormally high Accounts Receivable Turnover Rate
Ratio of Inflated Revenue to Disclosed Revenue	34.13%	2.34%	Deviation betwee revenue growth rate and cash flowgrowth rate
Inflated Total Profit (10k RMB)	8,534.06	9,066.69	Rising deviationbetween net profit and net operating cash flow
Fund Closed-Loop Return Rate	91%	89%	Net operating cash flow contains components of false fund return

3.4 Source: China Securities Regulatory Commission

3.4.1 llegal Revenue Recognition Method, Abusive Gross Method and Incomplete Retrospective Adjustment

Jiangsu Sainty had a prominent problem with illegal revenue recognition methods in its private network communication business. The core manifestation was that it disguised agency business as self-operated business, illegally used the gross method to calculate revenue, and the subsequent retrospective adjustment of accounting errors failed to cover all problems, resulting in serious distortion of financial information.

From the perspective of business substance, the transaction mode of the company's communication equipment business clearly reflects the nature of agency: in the sales link, the contract stipulates that the customer shall pay a prepayment or deposit of 10% to 20% within 3 working days after signing the contract, the company shall deliver the goods within 30 to 35 days after receiving the payment, and the customer shall pay the remaining balance within 240 days after passing the acceptance; in the procurement link, the supplier is required to deliver the goods within 30 days after signing the contract, and the company shall pay the supplier with a bank acceptance bill with a term of 8 months after the customer confirms receipt and passes the acceptance. This structure of "customer acceptance as the common premise for upstream and downstream payment" indicates that the company did not obtain control of the goods before transferring the goods to the customer, and it also disclosed that this business effectively avoided inventory risks and lacked independent pricing power. In essence, it was an agent role. According to the standards, the net method should be used to recognize revenue, but the company illegally used the gross method, resulting in a false revenue structure and packaging agency business as a self-operated business to exaggerate the revenue scale.

In terms of retrospective adjustment, in April 2022, Jiangsu Sainty made accounting error corrections to the financial statements of the communication equipment business from 2009--2020 for the first time, changing the revenue recognition method from the gross method to the net method; in June 2023, it corrected the data from 2009--2021 again, further reducing the revenue and adjusting part of the profits to capital reserves. However, both adjustments fail to completely solve the problem. The CSRC later determined that the adjusted data still had major omissions and that false records were not completely eliminated. From the perspective of specific data, the proportion of error-corrected revenue of this business to operating income fluctuated significantly from 2009--2020: 3.65% in 2009, rising to 23.41% in 2015; falling to 14.66%, 15.41% and 8.25% from 2016--2018; rising sharply to 22.86% and 32.18% from 2019--2020, among which the proportion exceeded 30% in 2020, and the proportion exceeded 15% in at least 7 years from 2009--2020 (Zhu, 2023). These data intuitively reflect the severity of the distortion of previous financial data.

In terms of information disclosure, Jiangsu Sainty faced the problem of concealing key information for a long period of time. Before 2021, the revenue of the communication equipment business accounted for a proportion higher than 2.34% of the company's total revenue, but the company never separately disclosed the revenue amount, business mode and revenue recognition method of this business in its annual reports. It was not until August 17, 2021, when it received a regulatory work letter from the Shanghai Stock Exchange requiring an explanation of the abnormal situation of this business, that it disclosed the business mode and contract details for the first time in the maj nor risk warning announcement on August 18; in April 2022, it separately listed the revenue of this business in the 2021 financial report. Before that, it had long covered the illegal facts of revenue recognition through insufficient disclosure.

3.4.2 Inadequate Disclosure of Related-Party Relationships and Transactions

The upstream and downstream enterprises of Jiangsu Sainty's communication equipment business were actually controlled by Sui Tianli, forming a self-circulating trade under the same controller. As shown in Table 2, these enterprises acted as both suppliers and customers to conduct transactions with Jiangsu Sainty in different years, forming related-party transactions.

Table 2: Main Related Enterprises of Jiangsu Sainty

Related Enterprise Type	Enterprise Name	Actual Controller	Transaction Role with Jiangsu Sainty	Transaction Characteristics
Upstream Supplier	Shanghai Xingditong Communication Technology Co., Ltd.	Sui Tianli holds 90%shares (actual controller); controls Jiangsu Xingditong, Ningbo Xingditong, etc., andis associated with Shanghai Electric Communication andother enterprises	Supplies communication equipment parts	Share the same controller with downstream customers; Sui Tianli's side dominates transaction pricesand logistics
Upstream Supplier	Beijing Saipu Industrialand Information Investment Management Co., Ltd.	Sui Tianli controls 94% shares; controls Aerospace Shenhe, Chongqing Tianyuand other enterprises	Supplies private network communication equipment	Belongs to the same control system as downstream customers, forminga capital closed-loop
Upstream Supplier	Jiangsu Huihong Group	Haslong-term cooperation with Sui Tianli's related	Supplies communication equipment-	Funds fow back to downstream enterprises

3.4.3 Failure of the Internal Control Mechanism and In-Depth Binding between Management and External Entities

Jiangsu Sainty had serious defects in its internal control mechanism in the private network communication business. Its key processes were out of control, and the management was deeply bound with the external entities, i.e., the related enterprises controlled by Sui Tianli.

In terms of key business processes, the core processes of customer review and good ownership verification were in name only. The customer qualification review was not actually implemented. The upstream and downstream customers were all related parties controlled by Sui Tianli, but they were not included in the management of related parties. The verification of goods ownership relied only on formal goods ownership transfer orders and did not verify logistics documents such as third-party transportation records and warehousing certificates, resulting in actual goods ownership being controlled by external entities, and Jiangsu Sainty did not truly obtain control of the goods. With the help of this out-of-control process, it fabricated transactions to overstate revenue in 2020 and 2021, among which the overstated revenue accounted for more than 75% of the revenue of the communication equipment business, becoming the main means of financial fraud.

In terms of management, the management was fully involved in the financing trade led by external entities. The business negotiations, contract signing, pricing, logistics arrangements, etc., were all dominated by personnel from Sui Tianli's side, and the business personnel of Jiangsu Sainty only cooperated in the implementation. The management even provided credit enhancement for the financing of related parties through illegal external guarantees. Such guarantees did not go through internal approval procedures and were not disclosed in the financial reports, forming major off-balance sheet risks.

4. Analysis of the Causes of Audit Failure via the GONE Theory

4.1 Greed

The connotation of greed in the GONE theory is reflected in the aggressive profit-seeking tendency of the fraud subject to maximize individual utility under the imbalance of governance constraints. The interest-binding mechanism of Jiangsu Sainty in 2020--2021 amplified the greedy motives of management and became the core driving force of financial fraud.

(1) Aggressive equity incentive model: From the perspective of the company's two phases of equity

incentive plans, the performance indicators set were highly demanding: the first phase required the nonrecurring net profit from 2020 to 2022 to increase by 20%, 40%, and 60%, respectively, compared with that in 2019; the second phase required the revenue from 2021 to 2023 to increase by 15%, 30%, and 45%, respectively, compared with that in 2020. However, the historical average annual growth rate of companies' traditional trade business was only 3%, and the indicators far exceeded the scope of normal operating capacity. The plan also noted that if the management failed to meet the performance standards, the shares granted under the plan would be repurchased and cancelled, and the income would be zero without any other additional losses; if the standards were met, the management could obtain shares at a low exercise price of 7.08 yuan per share and achieve wealth appreciation through the stock price premium brought by performance growth. Owing to limited risks and unlimited returns, the management was directly prompted to have a profit-seeking and greedy psychology of meeting the standards even by breaking the compliance bottom line to achieve the performance goals and obtain high returns.

(2) Strong binding between compensation and performance: According to the 2020--2021 annual reports of Jiangsu Sainty, the management's compensation system was directly linked to the revenue growth rate and net profit targets. If the company's annual revenue growth rate exceeded 15%, the management's bonus would increase by 40%; if the net profit met the target, the equity incentive could be additionally unlocked. From 2020--2021, the management of Jiangsu Sainty fabricated a communication equipment business to overstate revenue and profits, attempting to maximize personal interests in the short term.

4.2 Opportunity

Opportunity refers to the objective conditions for the fraud subject to commit illegal acts and avoid supervision. From 2020--2021, Jiangsu Sainty had defects in its corporate governance structure, loopholes in the related-party transaction system, and failure of internal and external audit functions, which constituted a set of conditions for the implementation of fraud.

(1) Defects in corporate governance structure: An analysis of Jiangsu Sainty's ownership structure revealed that Jiangsu Sainty International Group dominated corporate governance, with an absolute controlling stake of 51.16%, whereas the shareholdings of other shareholders were highly scattered, and the highest shareholding ratio of the top ten noncontrolling shareholders was only 1.62%, forming an ownership structure of "single control and reutilization". This structure enables the controlling shareholder's main strategic demands, such as state-owned enterprise operation assessment and market value management goals, to be directly transmitted to management through personnel appointment and removal rights, making the achievement of aggressive performance indicators the core prerequisite for management to maintain career security and obtain promotion opportunities. However, owing to the low shareholding ratio leading to the dilution of voting rights and the supervision cost being higher than the potential benefits, other minority shareholders generally have the mentality of enjoying benefits without taking corresponding responsibilities, and it is difficult to form effective external checks and balances. This objectively provided low-risk expectations for management's profit-seeking behavior.

In addition, the company had a structure where the chairperson and general manager positions were held by the same person. Gao Song, the then-chairperson, concurrently served as the general manager from 2017--2020. Moreover, internal directors account for more than 60% of the board of directors, and independent directors do not lead key special committees such as audits and compensation and account for less than 30%. The decision-making level cannot form effective supervision and checks and balances on the management, enabling the management to arbitrarily bypass the formal decision-making process to promote high-risk businesses. In 2020, the company's communication equipment business jumped from a sporadic business accounting for only 5% of the revenue to a core business. This business involved large-scale capital advances and multilevel related-party transactions, but it was not fully demonstrated by the board of directors or deliberated by the general meeting of shareholders. It was initiated only by the decision of the general manager's office meeting, and the core details of the transaction were not disclosed to independent directors. This simplified decision-making model reflects the institutional defects of fraud.

(2) Loopholes in related-party transactions: In 2020--2021, the company conducted 12 related-party transactions with upstream and downstream enterprises, such as Aerospace Shenhe and Nanjing Huaxun, controlled by Sui Tianli, with a total amount of more than 5 billion yuan, accounting for 80% of the revenue

of the communication equipment business. Its fraud opportunities were reflected in the transaction structure, pricing mechanism and information disclosure: first, the transaction structure was designed through multilevel nesting, and the related relationship between transaction subjects was deliberately obscured through the transfer of more than 3 intermediate companies, covering the false transaction closed loop of self-purchasing and self-selling, making the transaction substance difficult to verify; second, the pricing mechanism was unfair, and the disclosure was defective. The transaction price deviated from the market fair price by 15%-20%, but the annual report did not fully disclose the related-party relationship and pricing basis, forming an operating space for interest transfer, and failed to fulfill the obligation of fair argumentation. Third, the information disclosure had selective omissions. The core transaction details, such as the capital flow and goods ownership transfer of related-party transactions, were not disclosed, and information asymmetry was used to avoid external doubts, weakening the market's ability to judge the authenticity of transactions.

(3) Failure of internal and external audits: The internal audit of Jiangsu Sainty failed to perform its duties and failed to effectively play the role of internal supervision of the company. In terms of the reporting path, the internal audit department reported directly to the general manager rather than under the leadership of the board of directors, resulting in an inherent lack of independence. This led to audit work being easily affected by management's intentions, and the objectivity of the supervision function was damaged. In terms of the audit scope, 20 projects were planned to be audited from 2020--2021, but only 12 were actually completed. The high-risk communication equipment business was not included in the audit scope, and the supervision of core risk areas was not conducted. Moreover, Tianheng, as the external audit institution for Jiangsu Sainty's annual financial statements, further amplified the company's fraud opportunities due to its audit failure.

4.3 Need

The need in the GONE theory is the motivation driver for the fraud subject to commit illegal acts, which is manifested as the coupling of factors such as financial pressure, performance constraints and interest demands. The fraud needs of Jiangsu Sainty from 2020--2021 can be analyzed in three dimensions: performance assessment, financial pressure and industry competition anxiety.

(1) Rigid constraints of performance assessment and financing goals: From the perspective of revenue and profit indicators, from 2020--2021, the company faced dual pressures from the hard constraints of the SASAC (State-owned Assets Supervision and Administration Commission) assessment and the threshold of capital operation. The SASAC required the revenue growth rate of state-owned enterprises to be no less than the industry average, but the growth rate of Jiangsu Sainty's traditional trade business was only 2% in 2020, which was lower than the industry average of 8%. Therefore, the total revenue growth rate was increased to 18% when the communication equipment business was constructed to fill the assessment gap. From the perspective of the capital chain, Jiangsu Sainty faced the risk of capital chain breakage and urgently needed financing. The balance of short-term loans of the company reached 1.5 billion yuan from 2020--2021, whereas the monetary funds shown in the 2021 audit report were only 805 million yuan. The coverage multiple of monetary funds to short-term loans was only 0.54 times, far lower than the industry safety line of more than 1 time. The proportion of short-term loans to total liabilities was approximately 65%, which was significantly greater than the industry average of approximately 40% in the same period, and the solvency was significantly insufficient. From the perspective of cash flow, the 2021 audit report revealed that the net operating cash flow was -933 million yuan. In terms of inventory turnover, the inventory turnover rate in 2021 was 6.72 times, which was calculated on the basis of the operating cost. The turnover days were approximately 54.3 days, which was significantly lower than the industry average of 80 days. Among them, some transactions had revenue but no substantial cash flow, and capital circulation efficiency was weakened. The CSRC clearly noted that Jiangsu Sainty deliberately created the illusion of stable revenue growth by overstating 10.333 billion yuan of revenue and 934 million yuan of total profits from 2009--2021, in exchange for bank renewal of loans and financing, and covered up the risk of capital chain breakage.

(2) Anxiety about industry competition and strategic transformation: As a traditional trade enterprise, Jiangsu Sainty has experienced profit compression and business structural decline in recent years due to overcapacity. The 2021 audit report revealed that the gross profit margin of companies' traditional trade business was 11.92%, which was significantly lower than the industry average gross profit margin of emerging trade formats such as cross-border e-commerce. Enterprises seize market share through high-margin businesses, resulting in the continuous narrowing of the market space for companies' traditional businesses.

Among them, the garment export industry, as the company's core business, experienced a decrease in revenue of 18% annually from 2020--2021, and the gross profit margin decreased from 12% to 5%. Profitability declined sharply, which became a direct motivation for management to seek new business breakthroughs.

However, the new business layout claimed by the company was essentially a fraud package. The 2021 audit report mentioned the layout of new fields, such as "monitoring chemicals and nuclear power steel", but did not disclose the specific proportion of revenue. Combined with the CSRC's determination that "most are fictitious transactions of related parties", it can be inferred that the actual revenue proportion of new businesses was less than 10%. Compared with the performance of similar state-owned trade enterprises, Jiangsu Sainty's transformation breakthrough was actually a growth illusion created through false trade.

Table 3: Revenue of similar state-owned trade enterprises from 2020--2021

Year	Company	Revenue (100 million yuan)	YoY Growth(%)	Core Business
2020	Xiamen ITG	3510.89	32.38	Supply chain management business (accounting for 95%) benefited from the rebound of bulk commodity prices, with total import and export volume increasing by 88.19%YoY
2020	Zhejiang Orient	150.35	38.65	Financial and quasifinancial businesses (trust, futures) contribute main profits, with trade business accounting for less than 10%
2020	Jiangsu Guotai	3013.78	3.57	Foreign trade business was significantly impacted by the epidemic, while the cross- border e-commerce sector grew against the trend by 40%
2021	Xiamen ITG	4647.56	32.38	Supply chain business revenue increased by 38.14%YoY,and the "Belt and Road"trade scale was nearly 80 billion yuan
2021	Zhejiang Orient	169.63	12.82	Profits from trust and futures businesses increased by 40.88%YoY,and the proportion of trade business further shrank to 7%
2021	Jiangsu Guotai	3939.25	30.71	Foreign trade business fully recovered, supply chain service revenue increased by 45%YoY,and the cross- border e-commerce sector revenue exceeded 20 billion yuan

It can be observed from Table 3 that the performance differentiation of state-owned trade enterprises is essentially due to the difference in business models: Xiamen ITG relies on the depth of the supply chain, Jiangsu Guotai relies on the optimization of the foreign trade structure, and Zhejiang Orient turns to financial holding. All three are in contrast to the false growth driven by Jiangsu Sainty's fictitious business.

4.4 Exposure

In GONE theory, "E" stands for Exposure, which refers to the possibility that financial fraud is discovered and punished. Its core connotation is that fraudsters weigh the probability of their acts being discovered by regulatory authorities, audit institutions, etc., and the intensity of punishment they may face if discovered. The data from the Administrative Penalty Decision on the Financial Fraud Case of Jiangsu Sainty disclosed by the regulatory authorities reflect the problems of regulatory lag and a low possibility of exposure.

Lag in regulatory inspection: Tianheng issued unqualified audit reports in April 2021 (2020 annual report) and April 2022 (2021 annual report), but special regulatory inspection was not launched until June 2022, resulting in the 2020 fraud being hidden continuously. The overstated revenue in 2020 was 1.494 billion yuan, accounting for 34.13% of the disclosed revenue in that year, and 70% of the counterparty transactions were related parties of Sui Tianli, i.e., the communication equipment business. Such an abnormally sharp increase in the proportion of revenue from concentrated related-party transactions could have been blocked through targeted verification within 3 months after the annual report disclosure. However, Tianheng, the audit institution, did not list this business as a "high-risk area", and the regulatory authorities did not question it, which together allowed the fraud to continue.

Table 4: Penalty situation of financial fraud cases announced by the CSRC from 2020--2024

Item	2020	2021	2022	2023	2024	Total
Number of Penalties (cases)	44	63	78	101	99	385
Total Penalty Amount (10,000 yuan)	6,579	76,693	48,992	126,343	576,359 (Ever grande accounts for 80% of fines and forfeitures)	834,996
Maximum Penalty (10,000 yuan)	595	48,387	3,270	15,100	425,850	-
Average Penalty Amount (10,000 yuan)	-	1,217	628	1,251	5,822	Approximately 807
Median Penalty (10,000 yuan)	-	200	405	570	1,190	Approximately 300
Average Year of Penalty-related Incidents	2016.3	2016.9	2018.5	2018.6	2019.9	-
Penalty Lag Duration (years)	Most cases occurred in 2016,with an average lag of 4 years	Most cases occurred in 2017, with an average lag of 4 years	Most cases occurred in 2018,with an average lag of 3.5 years	Most cases occurred in 2018, with an average lag of 4 years	Most cases occurred in 2019-2020,with an average lag of 4.5 years	Average lag of 4 years

The above data in Table 4 verify that in recent years, the penalty intensity of the CSRC has shown a steady upward trend. Although it declined in 2023, the penalty intensity increased sharply in 2024. However, in terms of the penalty lag period, similar to the Sainty case in this paper, the regulatory resources of the CSRC are heavily tilted toward historical backlog cases. The reason is related to the backlog cases in the past decade. Investors continued to trade within the lag period of 3--4 years after the disclosure of false financial reports, and the losses were already irreversible when the penalty was implemented. The regulatory lag also led to a delay in the identification of new threats, resulting in regulatory vacuums.

5. GONE-Oriented Preventive Measures for Audit Failure

On the basis of the four core elements of the GONE theory and combined with the case characteristics of Jiangsu Sainty's financial fraud and Tianheng's audit failure, targeted preventive measures can be formulated from the dual-subject perspective of the enterprise (Jiangsu Sainty) and the accounting firm (Tianheng) to better prevent similar fraud behaviors.

5.1 Greed

5.1.1 Enterprise Side (Jiangsu Sainty)

(1) Optimize the equity incentive and compensation mechanism: Eliminate the drawbacks of the "high return, low risk" aggressive assessment that may exist in the current equity incentive and compensation mechanism, effectively play the positive guiding role of the incentive mechanism in the long-term development of the enterprise, break the previous single and isolated performance assessment model, and establish an indicator system closely linked to the actual internal and external development. Link the performance target setting of equity incentives with dual benchmarks. On the one hand, the industry average growth rate and the benchmark level of leading enterprises are taken as external references, and core indicators such as revenue and profit are dynamically adjusted to avoid inflated targets that are divorced from industry fundamentals. On the other hand, taking the reasonable range of the enterprise's historical growth rate in the past 3--5 years as an internal reference, fully considering the enterprise's own resource endowment, the growth law of core businesses and strategic planning ensures that the performance targets are both challenging to stimulate team motivation and achievable to avoid short-term speculative behaviors. At the same time, nonfinancial indicators, such as R&D investment intensity, customer satisfaction, and the core talent retention rate, are introduced to supplement the assessment to form a comprehensive evaluation dimension and guide

the incentive objects to focus on the long-term value creation of the enterprise rather than just the improvement in short-term performance.

Moreover, to strengthen the behavioral constraints on the incentive objects and prevent the risk of violations such as financial fraud, a compliance one-vote veto clause is clearly added to the equity incentive plan. The clause clearly stipulates that if the incentive object has violations of laws, regulations and corporate rules such as financial fraud, data falsification, insider trading, and misappropriation of corporate interests during the equity incentive assessment period, regardless of whether the performance indicators are met, the equity incentive qualification will be immediately cancelled, the granted but unexercised equity will be invalidated, the unpaid incentive compensation will not be paid, and the already obtained income will be fully recovered. In addition, subsequent disciplinary measures need to be added, such as recording the violation in the personal professional integrity file, conducting internal sanctions in accordance with the regulations, and transferring the case to the judicial organ for serious cases. In addition, a compliance retrospective review mechanism should be established. Even if the incentive object has completed the exercise or received compensation, if violations during the assessment period are found later, the retrospective procedure can still be initiated to ensure that the compliance constraints run through the entire cycle of equity incentives.

(3) Decouple the strong binding between compensation and short-term performance: reduce the weight of short-term indicators such as revenue and net profit in the compensation assessment and add long-term indicators such as cash flow authenticity, business compliance, and the long-term strategy implementation rate to guide management to focus on real operations rather than false performance.

5.1.2 Accounting Firm Side (Tianheng)

(1) Establish a management mechanism for customer revenue dependence: Set an upper limit on the proportion of audit revenue from a single customer, such as no more than 5% of the firm's annual total revenue, to avoid relaxing audit standards due to overreliance on a single customer. If the proportion of customer revenue is close to the upper limit, a cross-departmental review procedure should be initiated to independently assess the audit risk.

(2) Directly link audit project compensation with the "lifelong accountability for audit quality" system. Clearly, 10%-15% of the revenue from each audit project should be set aside as a special quality guarantee fund. This fund shall be stored in a special account and managed exclusively. After the completion of the audit project, it will be gradually cashed out according to the audit quality tracking results in a certain subsequent period. If audit failure is found at any stage after the completion of the audit project through regulatory verification, social supervision feedback, or subsequent risk exposure, not only the quality guarantee fund corresponding to the project shall be fully deducted but also the relevant certified public accountants shall be recovered according to the degree of loss caused by the audit failure and the severity of the violation, on the basis of a certain proportion of the paid compensation, to ensure that the responsibility is directly linked to the economic consequences. At the assessment orientation level, it is necessary to completely reverse the tendency of some accounting firms to overpursue business scale. The use of the "customer renewal rate" and "business expansion volume" as the core assessment indicators for certified public accountants is clearly prohibited to prevent certified public accountants from compromising the audit process to win customer renewal and expand their business share. Instead, indicators directly related to audit quality, such as compliance with audit procedures, the sufficiency of audit evidence, the accuracy of risk identification, and the authenticity of report disclosure, are taken as the core assessment content to guide certified public accountants to focus on improving audit quality and preventing audit risk, fundamentally ensuring the independence and professionalism of audit work, and maintaining the authenticity and reliability of information disclosure in the capital market.

5.2 Opportunity

5.2.1 Enterprise Side (Jiangsu Sainty)

(1) Reconstruct the corporate governance structure: Solve the problems of the "dominant shareholder" and "concurrent holding of the chairperson and general manager". At least 2 strategic investors with a shareholding ratio of not less than 5% are introduced to enhance the voice of minority shareholders. The chairperson is prohibited from concurrently serving as the general manager, independent directors are required to account for

no less than 1/3, and the audit committee and compensation committee are led by independent directors. New businesses accounting for more than 10% of the revenue must be deliberated by the board of directors and a special opinion issued by independent directors.

(2) Standardize the whole-process management of related-party transactions: Strengthen the ability to identify the related enterprise network and conduct in-depth verification of the actual controllers and ownership structures of upstream and downstream enterprises. All related-party transactions disclose the transaction substance, pricing basis, capital flow, goods ownership transfer and other core information. Related-party transactions with an amount exceeding 50 million yuan should be deliberated by the general meeting of shareholders, and related shareholders should abstain from voting.

(3) Strengthening the independence and coverage of internal audits: Build an internal audit system with independent supervision and comprehensive coverage. The reporting path of internal audits should be adjusted, the traditional structure where the internal audit department is subject to management should be broken, and it should clearly be stipulated that the internal audit department no longer reports to the enterprise's management but directly connects with the audit committee of the board of directors. The formulation of the audit plan, major findings during the audit process, and issuance of the audit report must be directly responsible for reporting to the audit committee of the board of directors. At the same time, the internal audit department is given relatively independent autonomy in terms of personnel appointment and removal, budget, and work implementation to prevent the management from interfering with the audit work due to their own interest demands and to ensure that the internal audit can conduct supervision objectively and fairly without being affected by the pressure of operating performance or short-term interest goals. Focus on high-risk areas in enterprise operations, expand the coverage of internal audits, and establish a mandatory audit list for high-risk businesses. High-risk businesses such as a sharp increase in the proportion of revenue, rapid expansion of new businesses, frequent related-party transactions, and disposal of major assets should be included in the internal audit scope. At least one special audit is clearly required for such high-risk businesses every year. During the audit process, the focus is on verifying the authenticity, compliance, effectiveness of risk control measures and accuracy of financial accounting of the business. After the audit, the special audit report formed shall not only be submitted to the audit committee of the board of directors for deliberation but also be fully disclosed to all shareholders through public channels such as the enterprise's annual report and shareholder meeting materials to ensure that shareholders can timely and fully understand the operation status and risk control effect of the enterprise's high-risk businesses and effectively improve the supervision penetration of internal audits and the right to know shareholders.

5.2.2 Accounting Firm Side (Tianheng)

(1) Optimize the risk identification and assessment process: Establish a dynamically updated database of fraud risk characteristics, systematically sort out common fraud behaviors and high-risk transaction models in enterprise operations, and structurally decompose and input the core characteristics of typical high-risk transactions such as self-circulating trade, multiple related-party transactions, use of unfair pricing, abnormal capital transactions, and fictitious business operations into the database to form a standardized risk characteristic indicator database. The database content is regularly updated and optimized according to the update of regulatory policies, the exposure of industry fraud cases, and the feedback of audit practices to ensure the timeliness and comprehensiveness of risk characteristic identification. Before the implementation of the audit, key information such as the customer's business model and financial data is input into the fraud risk characteristic database through data connections or manual input, and the intelligent matching algorithm is used to scan the risks of the customer's business and financial data and automatically identify the information points matching the high-risk characteristics in the database. If the scanning results show that 2 or more high-risk signals are triggered, the risk escalation mechanism should be activated immediately, and the regular audit process should be suspended and transferred to the enhanced manual special review link. A special review team composed of senior auditors, industry experts, and risk control specialists should conduct in-depth penetrating verification of the business segments and financial accounts involved in the high-risk signals by visiting the upstream and downstream enterprises of the customer, verifying the original transaction documents and good flow evidence, interviewing key personnel, and cross-verifying the financial data and business data. After the special review confirms that the risks have been fully identified and that response measures have been formulated, the subsequent audit work should be resumed to improve the accuracy of risk identification

and effectively reduce the probability of audit failure caused by risk omissions.

(2) Fill the gap in substantive audit procedures: For trade customers, enforce the three-flow verification of "goods ownership - funds - documents". The goods flow records are verified through third-party logistics enterprises, the complete path of funds from customers to enterprises and then to suppliers is tracked, and the match between the revenue recognition method and the business substance is verified. When previous accounting errors are corrected, it is necessary to verify the integrity of the adjustment scope to avoid omitting the uncorrected illegal revenue.

5.3 Need

5.3.1 Enterprise Side (Jiangsu Sainty)

(1) Balance performance assessment: The SASAC can dynamically adjust the existing assessment indicator system in combination with the different industry attributes and development stages of state-owned enterprises, appropriately reduce the weight of indicators focusing on scale expansion, such as the "revenue growth rate", and prevent state-owned enterprises from ignoring development quality in pursuit of short-term digital growth. Moreover, core indicators that can better reflect the actual business results of the enterprise, such as revenue quality and cash flow health, are added to accurately measure the authenticity and sustainability of the enterprise's revenue and evaluate the safety of the enterprise's capital chain and financial stability. This will guide state-owned enterprises in traditional industries to eliminate the development inertia of focusing on scale rather than efficiency and take the initiative to transform to high-quality development, focusing on the in-depth cultivation of core businesses and improving the competitiveness and risk resistance of the industrial chain. Considering that some state-owned enterprises may still face short-term performance assessment pressure in the early stage of indicator adjustment, to prevent them from falling into the predicament of illegal operations to maintain performance, state-owned enterprises can be guided to supplement funds and optimize performance through legal and compliant channels. For example, through business reorganization to integrate internal resources, noncore and low-efficiency businesses can be spun off, high value-added segments can be developed, and the efficiency of asset operation can be improved. State-owned enterprises can also use compliant financing channels, such as issuing corporate bonds, applying for policy loans, and introducing strategic investors, to expand capital sources and provide financial support for long-term development investments such as technology research and development and capacity upgrading, which not only relieves short-term performance pressure but also lays a solid foundation for the long-term development of the enterprise, ultimately realizing a positive interaction between performance assessment and the healthy development of state-owned enterprises.

(2) Promotion of the strategic transformation of real businesses: Enterprises should abandon the packaging of false new businesses and focus on achievable transformation directions. For example, to solve the problem of the low gross profit margin of traditional trade, emerging formats such as cross-border e-commerce and supply chain finance can be expanded. A special transformation fund should be established, innovation efforts should be increased, the proportion of R&D investment should be increased, financial data such as the revenue proportion and gross profit margin of emerging businesses should be regularly disclosed, the transformation progress should be announced, and the supervision of the enterprise community should be accepted. If the transformation cycle is long, they can honestly explain to investors and strive to understand short-term performance fluctuations.

5.3.2 Accounting Firm Side (Tianheng)

(1) Help customers identify and alleviate financial pressure: During the audit process, if financial pressure is found on the customer, take the initiative to prompt the customer of the risk and provide compliance suggestions such as optimizing the debt structure and reducing unnecessary expenditures. The financial health monitoring business should be developed, financial health reports should be regularly issued to customer management, the causes of abnormal financial indicators should be analyzed, attention should be given to long-term financial security, and long-term customer relationships should be maintained.

(2) Strengthening industry risk early warning: To help customers effectively avoid industry fluctuations and business decision-making risks, accounting firms can rely on their professional industry research teams

and big data analysis capabilities to provide customers with in-depth industry benchmarking analysis services of leading enterprises' business models on the basis of the current industry development status, market pattern and policy orientation, covering key dimensions such as the core business layout, profit model, cost control strategy and technology R&D direction of leading enterprises. Through multidimensional data comparison and qualitative analysis, the unique advantages and potential shortcomings of the customer in product innovation, supply chain management, customer service, operation efficiency and other fields can be combined with the customer's own business characteristics and resource endowments through multidimensional data comparison and qualitative analysis to help the customer eliminate the misunderstanding of blind benchmarking, clearly understand their true competitive advantages and market positioning, avoid the eagerness for quick success and instant benefits caused by excessive anxiety about industry competition pressure and fear of being eliminated by the market, prevent fraud and other violations in pursuit of short-term performance, guide the customer to view industry competition from a rational perspective, focus on improving their core capabilities, and achieve stable operation. When the customer plans to expand new businesses, it is necessary to further exert professional consulting value and assist the customer in carrying out the full-process business feasibility assessment, from market demand research to target customer portrait analysis, policy compliance review, technical feasibility demonstration, cost–benefit calculation, supply chain supporting capacity assessment, and then potential risk identification and response plan formulation, forming a complete feasibility analysis report, helping the customer fully grasp the market prospects and potential challenges of the new business, avoiding the risk of transformation failure caused by information asymmetry and blind decision-making, providing protection for the customer's new business expansion, and helping them achieve stable development with controllable risks while seizing market opportunities.

5.4 Exposure

5.4.1 Enterprise Side (Jiangsu Sainty)

(1) Establishing a fraud self-inspection and reporting mechanism: Strengthening the coordinated linkage and implementation of internal supervision forces. In self-inspection work carried out by the internal audit department and the board of supervisors, the authority boundaries and operating standards should be clarified, and self-inspection work should be upgraded from routine inspection to precise and regular prevention and control. Conduct in-depth self-inspections on the core business areas of the enterprise on a quarterly basis. From the financial data dimension, it is necessary to cover key links such as revenue recognition, cost accounting, expense reimbursement, and fund transactions, with a focus on verifying the authenticity of data, compliance with accounting treatment, and existence of abnormal transaction traces. The business process dimension focuses on the entire chain of procurement bidding, contract signing, project implementation, and customer management and investigates whether there are interest transfers, process loopholes, or illegal operations. During the self-inspection process, a combination of data penetration verification and onsite visit verification should be adopted to ensure that there are no dead ends in the problem investigation, and a special self-inspection report including a problem list, cause analysis, and rectification suggestions should be formed. To ensure the seriousness and authority of self-inspection work, the self-inspection results need to be submitted to the board of directors for multiple reviews, including reviewing the compliance of the self-inspection process, the accuracy of problem identification, and the feasibility of rectification measures. After passing the review, they should be disclosed to shareholders, regulatory authorities, and other stakeholders in a timely manner through designated channels in accordance with the enterprise's information disclosure rules, accepting multiparty supervision, avoiding self-inspection as a mere formality or internal digestion of problems, improving the enterprise's ability to identify and prevent internal fraud risks, and maintaining the healthy operation order of the enterprise.

(2) Take the initiative to cooperate with regulatory and audit inspections: Prohibit evading supervision through multilayer nested transactions, concealing related relationships, etc. During regulatory inspections or audits, provide complete transaction documents, fund flows, and logistics records in a timely manner. If errors are found in the previous financial data, take the initiative to initiate the correction procedure and explain the reasons to investors to reduce subsequent severe penalties caused by concealment.

5.4.2 Accounting Firm Side (Tianheng)

(1) Shortening the audit quality review cycle: In terms of the review cycle setting, the traditional long-term postreview model should be broken, and a rigid mechanism for completing the review within one quarter after the issuance of the audit report should be established to ensure that audit problems can be found and corrected quickly and avoid risk accumulation or long-term concealment of fraud due to review lag. For high-risk customers, the review intensity needs to be further increased, and a double review system should be implemented. The first review focuses on the integrity of audit papers, compliance with the implementation of audit procedures, and the sufficiency of audit evidence to ensure that there are no omissions in basic audit work. The second review focuses on conducting in-depth verification on high-risk areas, uses methods such as cross-review and key sampling to verify the matching degree between the audit conclusions and the evidence chain carefully, and investigates whether there are audit judgment deviations or potential fraud signs. Once problems are identified during review, a rapid response mechanism should be activated immediately. The review team and the audit project team should trace the root cause of the problem, reevaluate the audit risk, and adjust the audit opinion in a timely manner according to the tracing results to ensure that the finally issued audit report truly and accurately reflects the enterprise's financial status and operating results. This mechanism prevents audit quality risks caused by inadequate review and long cycles and effectively curbs fraud.

(2) Strengthening accountability and rectification after audit failure: In the case of audit failure, in addition to accepting regulatory penalties, the accounting firm should conduct comprehensive accountability for the project team internally. Cancel the annual excellent evaluation qualifications of the signed certified public accountants, suspend their practice for 1--3 years depending on the severity of the circumstances, and organize the whole firm to learn from the case lessons. The audit manual for audit defects that have occurred or may occur should be revised, and special training for all certified public accountants should be provided to avoid the recurrence of similar problems.

6. Conclusion

6.1 Research Conclusions

This paper takes the financial fraud case of Jiangsu Sainty audited by Tianheng Certified Public Accountants for 2020--2021 as the research object and constructs a "four-element - dual-subject" analysis framework on the basis of the GONE theory. The following core conclusions are drawn:

(1) The causes of audit failure are characterized by the coupling of dual subjects

The financial fraud of Jiangsu Sainty is the result of the joint action of the four elements of greed, opportunity, need and exposure. The audit failure of Tianheng is essentially due to the loopholes in its own GONE's four elements: overreliance on customer revenue amplifies the "greed" tendency, the lack of risk identification and substantive procedures provides "opportunity", the failure to promptly prompt customers of financial risk ignores the fraud motivation behind "needs", and the lag in audit quality review reduces the probability of "exposure", ultimately leading to audit failure.

(2) There are unique pain points in fraud and audit in the trade industry.

Trade enterprises are prone to commit fraud through methods such as "self-circulating trade without logistics", "abuse of gross method", and "multilayer nested related-party transactions". If audit institutions do not establish a special risk identification mechanism for industry characteristics and do not implement the three-flow verification of goods ownership—funds—document, they are likely to fall into the empty operation of audit procedures.

(3) The key lies in the collaborative prevention of dual-subject

It is difficult to completely eliminate audit failure only by the internal governance of the enterprise or the unilateral improvement of the accounting firm. It is necessary for the enterprise and the accounting firm to make simultaneous efforts around the four elements of the GONE. The enterprise needs to optimize the incentive mechanism, plug institutional loopholes, resolve real needs, and take the initiative to address problems. The accounting firm needs to control interest dependence, supplement audit procedures, help customers alleviate risks, and strengthen quality review, forming a full-chain prevention system of motivation restraint - opportunity blocking - demand guidance - exposure enhancement.

6.2 Theoretical Contributions

(1) Expanding the dual-subject application scenario of the GONE theory

Most existing studies analyze the single-party fraud of enterprises on the basis of the GONE theory. This paper extends this research to the “enterprise-accounting firm” dual subject, reveals the interaction mechanism between the two in the four elements of the GONE, fills the application gap of this theory in the dual-subject analysis of audit failure, and provides a framework reference for similar case studies.

(2) Enriching the theoretical explanation of audit failure in the trade industry

According to the business characteristics of “light assets and heavy circulation” in the trade industry, this paper extracts the mapping relationship between fraud characteristics such as self-circulating trade and related-party capital closed loops and audit responses, refines the unique audit risk points of the industry, and supplements practical content for the audit theory system in the subfield of the trade industry.

6.3 Future Outlook

The “dual-subject” preventive measures refined in this paper’s research on the case of Tianheng auditing Jiangsu Sainty on the basis of the GONE theory have strong practical value. If they can be piloted first in regional accounting firms and state-owned trade enterprises and then gradually promoted, they can not only effectively reduce the incidence of similar audit failures in the trade industry and improve the quality of financial information but also provide fraud characteristics and audit strategy references for subfields such as private network communication and bulk commodity trade and help regulatory authorities optimize resource allocation and shorten the verification cycle of high-risk businesses. With the coordinated implementation of these measures among enterprises, accounting firms and regulatory authorities, a positive interaction pattern of enterprises operating in compliance, accounting firms performing their duties with due diligence, and precise supervision will be promoted, prompting the trade industry to shift from “scale-oriented” to “quality-oriented”, reshaping the credibility of the auditing industry, ultimately optimizing the capital market ecology, enhancing the market’s trust in financial information, attracting high-quality resources to flow into the real economy, and realizing the healthy and vigorous development of the capital market and the trade industry.

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The authors declare no conflict of interest.

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