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Executive Summary

In recent years, many financial fraud enterprises punished by the CSRC have sounded alarm to the financial investment market. Facing the market chaos caused by financial fraud, how to find and prevent financial fraud deserves the attention of the whole society.

Through the in-depth analysis of the financial fraud cases of Kangmei pharmaceutical industry, this paper summarizes the cases, puts forward specific measures to prevent financial fraud, and provides reference for the healthy development of China's financial market. In this paper, the method of literature study and case study is used to study the case of Kangmei pharmaceutical fraud.

Chapter 1, it briefly introduces the research background and significance of financial fraud of Kangmei pharmaceutical, as well as the research methods and contents involved. Case analysis combines financial statement analysis method and financial ratio analysis method to reveal the process of fraud to analyze the means and reasons of financial fraud of Kangmei pharmaceutical. This paper analyzes the financial fraud cases of Kangmei pharmaceutical industry, which is conducive to enhance the prevention of financial fraud, enhance the risk awareness of investors, and better guide the social audit activities. In the long run, it is conducive to maintaining the order of the economic market and promoting the orderly development of enterprises in the capital market. The most important significance is to protect investors.

Chapter 2, firstly gives definition of the earning management and then from the the pursuit of personal profit maximization, political incentive, pressure factors and promotions pressure those aspects to discuss those incentive and pressure.

Chapter 3, from 3 factors to give suggestion for UK corporate governance to avoid the regularity of such accounting scandals, which is the improve internal governance and reduce earnings management through excellent internal governance, the other is external governance to play a major role to play the supervisor roles, the last one is to improve the effectiveness of capital market information

Chapter 1 Financial Fraud Company Analysis

1.1 Company Background

Kangmei Pharmaceutical Co., LTD., referred to as "Kangmei Pharmaceutical" (Shanghai Stock Exchange: Stock code 600518). In 1997, Chinese private entrepreneur Mr. Ma Xingtian was founded in Guangdong. Formerly known as Guangdong Kangmei Pharmaceutical Co., LTD. In 2000, demutualization began. It is a large-scale private enterprise integrating the supply and marketing of TCM medicines, TCM decoction pieces, TCM medicinal materials and medical instruments in the Chinese pharmaceutical market.



Figure 1 ST kangmei stock information

Kangmei Pharmaceutical is an enterprise with the largest production scale and the largest variety in the TCM decoction slice industry. Its main products include Kangmei Tetra, Kangmesanol, Kangmei Oximepine, Kangmei Penine, etc. In 2007, Kangmei began its strategic layout, insisting on the industrialization of TCM decoction pieces as the core, and gradually extending its application to the upstream and downstream of the industrial chain. For example, the establishment of traditional Chinese medicine logistics port and medicinal materials processing base, firmly grasp the upstream resources of medicinal materials. In the first quarter of 2008, the company achieved a 43% year-on-year growth in sales revenue and a 172% year-on-year growth in net profit, reaching a profit of 0.08 yuan per share. At the same time, in 2008, SFDA forced the implementation of GMP certification management of TCM decoction pieces industry, and 70% of domestic

enterprises did not pass, so the whole market concentrated on leading enterprises, Kangmei Pharmaceutical became the first batch of domestic leading enterprises through the certification, and the largest production capacity of decoction pieces. In 2008 and 2009, the annual production capacity reached 6,700 tons and 10,000 tons respectively, with year-on-year growth of 60% and 49% respectively. The gross profit increase was 98 million yuan and 140 million yuan respectively. Then the company achieved rapid growth. Continued to 2014, 2015, Kangmei Pharmaceutical revenue and net profit have achieved positive growth. The operating revenue reached 15.949 billion yuan and 18.066 billion yuan respectively; Net profit attributable to shareholders of listed companies was 2.285 billion yuan and 2.756 billion yuan respectively, with year-on-year growth of more than 20%.

In order to provide the outside world with "beautiful" financial statements, maintain and improve the value of the capital market, Kangmei Pharmaceutical has adopted a series of earnings management and even financial fraud:

1.2 Financial fraud aspects:

1.2.1 False Securities

In April 2019, Kangmei Pharmaceutical issued an accounting error correction announcement, which pointed out that there were discrepancies in the operating income, operating cost, other expenses and payment of Kangmei Pharmaceutical before 2018, and accordingly adjusted the financial report of 2017. Among them, the 2017 annual financial statement inflated 30 billion money funds caused the real capital market and the outside world shock. In May 2019, China Securities Regulatory Commission (CSRC) investigated Kangmei Pharmaceutical Co., LTD. (Kangmei Pharmaceutical Co., LTD.), indicating that the financial reports of the year 2016 to 2018 disclosed by Kangmei Pharmaceutical Co., LTD were materially false. Kangmei falsely increased deposits by using fake bank documents, falsified income by forging business vouchers, and transferred part of funds into related accounts to buy and sell shares of the company. On August 16, 2019, China Securities Regulatory Commission (CSRC) said that Kangmei Pharmaceutical was suspected of falsely increasing its operating revenue by forging and fabricating value-added tax invoices and falsely increasing monetary funds by forging and altering certificates of deposit.

Finally, Kangmei Pharmaceutical said that in 2017, its operating revenue was overbooked by 8.898 billion yuan, and its operating cost was inflated by 7.662 billion yuan. Meanwhile, in 2016, the operating revenue and net profit after deduction were reduced by 6.948 billion yuan and 1.499 billion yuan respectively, while the total assets and net assets were reduced by 1.572

billion yuan and 1.401 billion yuan respectively.

1.2.2 Earnings management

Since 2014, Kangmei Pharmaceutical began to use accounting earnings management, which was mainly manifested in the deviation between operating cash flow and corporate performance.

Year	2012	2013	2014	2015	2016	2017	2018
Operating Cash Flow	10	16.74	11.32	5	-23	-48.40	-31.92
Change%	/	67.4%	-32.37%	-55.06%	-560%	-110.43%	34.05%

Figure 2: Kangmei Pharmaceutical Operating Cash Flow
From 2012 to 2018(10 Millions RMB, %)

According to Kangmei's financial bulletin, net profit attributable to the parent and operating income grew in both directions from 2016 to 2017. But its essence is caused by a series of cash-related "accounting errors" such as "cash received from sales of goods and services" exceeding 10.3 billion yuan, as well as the operating income of 14.8 billion yuan in two consecutive years. The former may exist in charge or objective accounting method choice of the problem, but the inflated operating income belongs to accounting fraud and financial fraud, has simply gone beyond the scope of earnings management. In order to fill the huge funding gap, Kangmei Pharmaceutical planned to "non-public offering of no more than 60 million preferred shares in 2014, and no more than 523,594,050 shares in 2015, raising funds of 6 billion yuan and 8.1 billion yuan respectively. In 2016, Kangmei issued three short-term financing bonds with a total amount of 7.5 billion yuan. In 2017, six medium-term bills or short-term financing bonds were issued, with the designed amount reaching 11 billion yuan. In 2018, more than 18 billion yuan was issued through medium-term notes or short-term financing notes. As of November 29, 2018, Kangmei business has pledged 99.53% of its total shares of the company.

At the end of 2018, China Securities Regulatory Commission found that the authenticity of Kangmei Pharmaceutical's financial report was questionable. Suspected of false statements and other illegal activities. On April 19, Kangmei Pharmaceutical announcement disclosed that, due to errors in accounting account funds, monetary funds in the 2017 annual financial results of 29.944 billion yuan, Kangmei Pharmaceutical final monetary funds from the adjustment of 34.15 billion yuan, reduced to 4.2 billion yuan. December 28, 2018, the company received the China Securities

Regulatory Commission "Notice of investigation", and Kangmei Pharmaceutical launched an investigation. On May 17, 2019, China Securities Regulatory Commission notified Kangmei Pharmaceutical of financial report fraud, suspected of false statements and other illegal and irregular behaviors. In 2021, Kangmei Pharmaceutical applied for bankruptcy reorganization to local authorities. On December 29, 2021, the bankruptcy reorganization of Kangmei Pharmaceutical was declared closed, and all debts had been 100% repaid. On January 26, 2022, *ST Kangmei replaced its chairman.

1.2.3 Financial fraud

In the financial statement of Kangmei Pharmaceutical, from 2015 to 2017, the company's accounts respectively had 15.8 billion yuan, 27.3 billion yuan and 34.1 billion yuan of monetary funds, but at the same time, the most surprising thing is that Kangmei Pharmaceutical still has a large number of loans during this period. And the interest expense of Kangmei Pharmaceutical is much more than the amount of interest income of Kangmei Pharmaceutical. For example, according to the financial annual report in 2018, the company's operating revenue in 2018 was 19.356 billion yuan, up 10.11% year on year, and its net profit was 1.135 billion yuan, down 47.20% year on year. At the same time, Kangmei Pharmaceutical issued a "Notice on the correction of previous accounting errors", the notice said: Kangmei Pharmaceutical due to the purchase payment, engineering payment and business payment to be confirmed accounting errors, resulting in the company's accounts receivable less than 641 million yuan, inventory less than 19.546 billion yuan, construction under construction less than 632 million yuan. There were also errors in the accounting of the company's account funds, resulting in an overcalculation of 29.944 billion yuan in monetary funds.

The 30 billion yuan in monetary funds was simply described as an accounting error in the company's announcement to correct accounting errors. After the news came out, the whole A-share market was shocked. In the whole China A share market, Kangmei Pharmaceutical financial fraud is the history of the highest amount of financial fraud, set A record of A share enterprise financial fraud amount. At the same time, is also A share market enterprise financial fraud should be the most egregious attitude. CSRC pointed out: "Kangmei pharmaceutical financial fraud is premeditated, organized, long-term, systematic implementation of financial fraud, malicious deception of investors", "wanton, no fear of the rule of law, fear of investors, loss of the bottom line of integrity, touch the legal red line, shaken the foundation of the listed company information disclosure system" bad financial fraud events.

In May 2020, China Securities Regulatory Commission issued the decision of administrative punishment. It was found in the administrative punishment that Kangmei Pharmaceutical's 2016 Annual Report inflated monetary funds by 22.5 billion yuan; The 2017 Annual Report inflated

monetary funds by 29.9 billion yuan; In the 2018 Annual Report, 36.2 billion yuan of fictitious monetary funds was added, representing a cumulative increase of 88.6 billion yuan in the past three years. At the same time, the company has not disclosed the non-operational related transactions of 11.619 billion yuan occupied by the controlling shareholder and its affiliates during the period as required. Kangmei pharmaceutical's financial fraud facts, the relevant personnel have also been punished. The administrative punishment at that time was to order Kangmei Pharmaceutical to correct the situation, give a warning, impose a fine of 600,000 yuan, impose penalties ranging from 100,000 yuan to 900,000 yuan on 21 responsible persons, and ban six main responsible persons from the securities market for 10 years to life.

According to practical experience, accounting and auditing work are complex and cumbersome. Under the cover of false invoices, false bills, etc., unless the listed company really has no other way, the listed company will not make this choice and take great risks. If Kangmei performance is not good, it will face bad negative consequences such as ST or even delisting, so through the use of earnings management and financial fraud can beautify the financial statements, to the external and uninformed stakeholders a great illusion. For example, the gross profit of Chinese medicinal materials trading business of Kangmei Pharmaceutical can reach 24%, far higher than the industry level. Such financial data will naturally transmit the false phenomenon of Kangmei Pharmaceutical's excellent performance and good development to outside financial report users. As a rule of thumb, a 10% gross profit margin in pharmaceutical distribution is pretty good. And the book inventory is as high as 15.7 billion yuan, among which inventory goods account for the largest proportion, reaching 7.5 billion yuan, although through financial fraud, Kangmei Pharmaceutical basically maintained the stable inventory turnover rate, but in fact the inventory turnover rate is not high, and in the context of years of continuous decline in the income of trade business, the annual provision of inventory price decline is only less than 30 million yuan. None of these numbers support the status quo. So much inventory of Kangmei Pharmaceutical is stored in the company's warehouse, and no one in the financial department or even the warehouse manager has counted and made the inventory, which is contrary to common sense. Investors are naturally suspicious of such ludicrous financial statements in the capital markets. Even in 2019, Kangmei Pharmaceutical insisted that its inventory amount was as high as 31.408 billion yuan, and the inventory price was prepared to fall from 65.38 million yuan in the previous year to 600 million yuan.

However, relevant items did not exist in the 2020 annual report. The book inventory of 30.1 billion yuan at the end of the year was set aside 21.1 billion yuan of depreciation reserve, and the inventory of Kangmei Pharmaceutical was only about 9.04 billion yuan.

In addition to misrepresenting inventory, Kangmei Pharmaceutical also

failed to disclose other receivables related to the use of funds by controlling shareholders and their affiliates. From January 1, 2016 to December 31, 2018, Kangmei Pharmaceutical provided a total of 11.619 billion yuan of non-operational funds to the controlling shareholders and their related parties without approval or strict authorization procedures. These funds were used to purchase shares, repay the principal and interest of financing on behalf of the controlling shareholder and its affiliates, advance the release of the pledge, pay the purchase price, etc., which are not stated in the announcement. It was not until 2018, when Kangmei Pharmaceutical was investigated and other receivables of 8.879 billion yuan were disclosed for the first time in the company's annual report to the controlling shareholder and its related parties, that the misappropriation of the funds first surfaced.

1.2.4 Kangmei Pharmaceutical Earnings Management and Financial Fraud Beneficiaries

Kang Mei Pharmaceutical earnings management is even financial fraud, the most essential reason is the actual control in order to achieve personal interests to maximize. In Kangmei's case, the founders, Ma Xingtian and his wife, were effectively the only beneficiaries. As of March 31, 2019, the company's other receivables of 9.395 billion yuan, namely the major shareholder has not returned the monetary funds embezzled. The major shareholder of the company invests the misappropriated funds in other projects and becomes the actual controller and beneficiary of other investment projects.

In addition, from 2016 to 2018, the company accumulated inflated operating revenue of 27.515 billion yuan and inflated operating profit of 3.936 billion yuan. During the same period, its operating revenue grew by 19.79%, 22.34% and 27.88% year-on-year, creating an overall picture of prosperity. In the excellent performance, Kangmei pharmaceutical stock price soared. From the beginning of 2016 to the first half of 2018, Kangmei Pharmaceutical company's share price nearly doubled, far outperforming the A-share market. When the company was performing well and the stock price rose rapidly, the actual controller Ma Xingtian and his wife and their related parties began to crazily pledge the stocks of listed companies to withdraw funds for their own investment and other purposes. That is, when the company's stock price is at a relatively high level, the hands of all the stock equity pledge to cash out. From 2016 to 2018, Kangmei Pharmaceutical obtained funds up to 32 billion yuan, 34 billion yuan and 34.7 billion yuan respectively through bank loans, bond issuance and investment. So, what exactly was the embezzled money used for.

After cashing out, Ma Xingtian and his wife, focusing on Kangmei Industry, expanded the large health industry and invested in many projects such as Kangmei Health Town and Kangmei Health City all over the country. For example, in 2017, Ma Xingtian controlled Kangmei Industry funded the

establishment of Kangmei Health Town Investment Co., LTD. In July of the same year, Kangmei Industry invested 6.8 billion yuan to build Kangmei Town, covering an area of 2000 mu. In May 2018, Kangmei Industry invested 2 billion yuan to build Kangmei Lijiang Health Town in Lijiang, Yunnan Province. Although Health Town Investment is the core asset of Health founder Ma Xingtian, the company is far more profitable than Health Pharmaceutical. But Ma Xingtian has passed the business on to his children. Ma Xingtian launched the company in October 2018. Kangmei, which eventually went into bankruptcy reorganization, had long since become a hollowed-out shell.

After the case analysis of Kangmei Pharmaceutical accounting earnings management and financial fraud, an important fact can be found: accounting earnings and financial fraud can beautify the enterprise's financial statements, to the outside world and the capital market to convey the image of a high-quality enterprise. However, earnings management and financial fraud also have huge risks, such as warning penalties, administrative penalties, fines and even banned from the capital market. Behind this, part of the reason is that earnings management and even financial fraud have a strong incentive effect on management subjects, such as compensation incentives, profits, investment and financing. But at the same time, there are many stressful factors. For example, government regulation, promotion of professional managers and capital market value of professional managers. In the next chapter, we will continue to discuss the incentives and pressures behind behaviors such as earnings management and even financial fraud.

Chapter 2. Earnings Management

2.1 Definition

Earnings management is a behavior that the enterprise authorities adjust and control the accounting income information reported by the enterprise on the basis of following accounting standards, so as to maximize the interests of the subject (Waqas et al., 2018). In essence, it is the "disclosure management" that enterprises obtain some private interests through purposeful control of external financial reports in the process of disclosing information to the outside world.

According to the definition of earnings management, the subject of earnings management is the enterprise management authority, including the board of directors and managers, because the disclosure of accounting report information has a significant impact on the interests of the board of directors and managers (Ying and Michael, 2012). The object of earnings management is the earnings information reported by enterprises, that is, accounting income. The method of earnings management refers to the comprehensive use of various accounting means and non-accounting means

to adjust the accounting income of enterprises within the scope allowed by accounting standards, specifically the selection of accounting standards, measurement methods, etc. In general, earnings management is the process of the judgment and accounting choice made by the enterprise management when preparing financial reports and "constructing" transaction items to change financial reports in order to mislead other users of accounting information to understand the business performance of the enterprise or influence the results based on accounting data contracts.

2.2 Incentive factors

2.2.1 The Pursuit of Personal Profit Maximization

An important feature of the development of modern enterprises is the separation of ownership and management rights. The owners and major shareholders of the company do not directly participate in the operation and management, and the daily management of the company is completed by professional managers. Therefore, the goals of managers and business owners are not necessarily consistent, and they both seek to maximize their personal interests. In order to solve this kind of principal-agent problem, enterprise owners will adopt incentive mechanism to restrain and urge managers' behaviors and minimize opportunistic behaviors. On the one hand, this incentive mechanism can indeed restrain managers and unify the goals of managers and enterprise owners. However, on the other hand, it aggravates the negative side of the problem of accounting earnings management, because the compensation of the operator (that is, the professional manager represented by the manager) is directly linked to the performance of the enterprise within a certain period.

In this case, managers will seek more compensation and promotion. For example, at the end of each fiscal year, managers' bonuses are directly related to performance. If the performance is lower than the lower limit of agreed performance indicators, the manager cannot get bonus; Those whose performance is above the upper limit of agreed performance indicators cannot be rewarded. Therefore, many managers artificially through reasonable accounting means to reduce the current year's net profit and other performance indicators, waiting for the next fiscal year's huge bonus. Similarly, if the performance exceeds the upper limit of the performance index, the manager will also dispose of the excess profit through accounting method. Because the performance indicators of the next year are based on the performance indicators of the current year, and normally are raised, reducing the performance indicators through accounting treatment can not only get all the bonuses, but also reduce the pressure of operation and management in the next fiscal year.

2.2.2 Political Incentive

Many studies have shown that enterprises are an important part of the

social system. As a market regulator, the government provides a good environment for business operation. At the same time, enterprises will also obtain government support in many ways (such as politically related emission reduction, reasonable tax payment, charity, etc.). Through earnings management, enterprises can reasonably adjust profits to meet many requirements and conditions of the government, such as the government's investment attraction, tax incentives, etc. For example, as long as smes limit their profits within a certain range, they can enjoy tax incentives provided by the government to avoid excessive taxation, which is also to protect and encourage smes. With these political economic incentives, the enterprise management subject will naturally choose to conduct earnings management on the enterprise financial statement data in many ways.

2.3.Pressure Factors

2.3.1 Delisting Risk

In China's A-share market, although the new regulation cancelling the requirement of ST for two consecutive years of losses, it stipulates that listed companies will be ST when their net profit losses and operating revenue is less than 100 million yuan. If they have two consecutive years of net profit losses and operating revenue is less than 100 million yuan, they will be directly delisted and the link of listing restoration is cancelled. Under the old regulations, if a listed company's net profit or non-net profit is negative for three consecutive years and the accounting firm is unstable, it will become ST. Under the new regulations, it will become ST if the net profit is negative for one year and the operating revenue is less than 100 million yuan. Therefore, many enterprises will adjust their net profit and operating income level through earnings management to avoid ST or even delisting.

2.3.2 Capital Market Value

Compared with non-listed companies, one of the biggest advantages of listed companies is that they can obtain financing from the open and legal capital market, through which they can obtain the funds needed for the development of enterprises. But financing from the capital market also brings great pressure to enterprises. In a rational and efficient capital market, capital will flow out of low-quality enterprises and projects to high-quality ones and realize the most efficient use of capital. Many poorly performing companies, for example, have low liquidity and are hard to sell. High-quality enterprises, however, have large stock price changes and high liquidity (such as China's Kweichow Moutai, Yunnan Baiyao, etc.).

Enterprise brand image plays an important role in the capital market. Listed companies with stable performance and excellent performance belong to high-quality enterprises, which can naturally obtain the trust and favor of more capital owners. At the same time, there are many third-party and other external rating agencies in the market, which will rate the assets, performance

and credit status of enterprises. Such rating results directly affect the investment and financing activities of enterprises in the capital market. Therefore, enterprises have great incentive and pressure to carry out targeted earnings management to improve the value of enterprises in the capital market.

For example, many enterprises have been operating poorly for several years, but their profits have soared in one year. Managers are more likely to ask accountants to reduce their profits in one year and then spread them out over subsequent years. The advantage of doing so, on the one hand, can show the outside world the enterprise performance level is relatively stable. On the other hand, it should avoid a year in which the profit is not as good as the surging profit in the following accounting years, so as to present the negative situation of declining revenue growth and declining return on assets and net assets in the financial report. Because of this situation, external users of financial report information are easy to simply assume that the enterprise is not operating well and its performance is declining because they do not understand the specific situation.

2.3.3 Promotion Pressure

As mentioned above, in rational, efficient capital markets, capital flows to good resource owners. Every professional manager is clearly priced in the capital market. If a professional manager works in an enterprise and the performance of the enterprise is poor, it will seriously cause bankruptcy or delisting of the enterprise, which will seriously damage the value and future employment of the professional manager. Because professional managers have term limits, if they can achieve the best corporate performance during the term, the reputation and value of professional managers can be greatly improved. Due to these pressure factors, professional managers will pursue short-termism and try their best to improve the performance of their enterprises during their term of office. Even a few negative events can greatly reduce the market value of professional managers. Therefore, under such pressure, professional managers will try their best to avoid mistakes and try their best to use earnings management to improve enterprise performance.

Chapter 3 Earnings Management Constrained by British Corporate Governance Structure and Suggestions

3.1 Governance Structure and Earnings Management

Studies have shown that there are many correlations between corporate governance structure and earnings relationship management. Executive compensation is directly proportional to earnings management range, that is, the higher the executive compensation, the greater the intensity of earnings management. Naturally, it is easy to explain, because executives all hope to improve corporate performance through earnings management so as to

obtain more salaries and bonuses. The proportion of executive shareholding is inversely proportional to earnings management. The higher the proportion of executive shareholding, the lower the degree of earnings management. This is also easy to explain, because the larger the proportion of senior executives' shares, the more consistent the interests of senior executives and enterprise owners, in this case, the principal-agent risk decreases. Compared with the capital markets of many emerging countries, the UK capital market is more rational and efficient, so the executive compensation incentives have gradually changed from the initial short-term incentives such as fixed salary, performance pay and bonus to long-term incentives such as stocks and options.

In terms of corporate internal governance and ownership concentration, Zhu(2010) studied Chinese enterprises and pointed out that the legal protection level of investors, the negative correlation between corporate control and earnings management, and the "inverted U-shaped" relationship between the shareholding ratio of controlling shareholders and English stocks. Luo(2012) studied the sample of A-share listed companies in Shanghai and Shenzhen from 2008 to 2010 and pointed out that gradually improving the corporate governance structure could reduce earnings management behavior. Leadership structure, board of directors and stakeholder governance play an important role. Jiang et al. (2019) studied A-share listed companies in Shanghai and Shenzhen and found that effective high-quality internal control can reduce the degree of earnings management. Moreover, the high-quality internal control of non-state-owned enterprises plays a stronger role in reducing earnings management than that of state-owned enterprises.

Meanwhile, there is a negative correlation between ownership concentration (such as the proportion of major shareholders) and earnings management. The conclusion is self-evident, the internal control of corporate governance, such as all decisions of the board of directors are reported to the general meeting of shareholders for review. At the same time, all actions of the board of directors and managers are subject to the supervision and restriction of the board of supervisors. In this way, major shareholders or actual controllers who want to conduct earnings management without audit or authorization will be strongly constrained, and naturally, the degree of earnings management will be reduced. At the same time, if the equity is too concentrated and the proportion of major shareholders is relatively high, it is easy to scientifically demonstrate and review in the decision-making process, and arbitrary behaviors are frequent. Therefore, the more concentrated the equity, the greater the propensity and possibility of earnings management. Through sorting out the existing research, it is found that corporate governance structure and earnings management has a great relationship. Perfect internal and external corporate governance can reduce earnings management behavior. Because good corporate governance can restrain

opportunistic behavior and opportunistic behavior. In these corporate governance structures, pay is designed to reduce earnings management, for example by reducing short-term pay incentives and focusing on long-term pay incentives. At the same time, within the company, the ownership structure should be appropriately dispersed to reduce the control of individual shareholders. Then, leadership and control also have great influence.

3.2 Suggestions

3.2.1 Improve the company's internal governance

British enterprises need to improve their internal governance and reduce earnings management through excellent internal governance. For example, give full play to the role of the board of directors, supervisory boards and management. Any decisions made by the company and any major management actions need to be carefully monitored and scrutinized, rather than left unchecked, where there is a sound structure but the structure does not work. Because the main body of earnings management is the management, so the incentive for the management is very important. It can reduce the earnings management behavior of the management to seek the maximization of their own interests by reasonably designing the compensation incentives of the management.

3.2.2 Improve external corporate governance

In addition to improving the internal governance structure and internal governance level, corporate governance also needs external governance to play a major role. External governance comes primarily from external stakeholders. First of all, the national regulatory agencies should play the role of auditing and supervision, and make appropriate provisions for corporate earnings management and punish violations. Secondly, other third-party institutions, such as accounting firms and law firms, should give full play to their auditing capabilities to make reasonable suggestions and reviews on earnings management problems of enterprises and timely stop unreasonable behaviors.

Finally, external investors should give full play to their supervisory functions. To the enterprise earnings management of unreasonable behavior or there are questions in time initiative inquiry. Only when external stakeholders play a role together, can external governance be better improved, the level of external governance be improved, and the earnings management behavior of enterprises be reduced.

3.2.3 Improve the capital market and improve its efficiency

Good capital market can carry out reasonable allocation of resources and eliminate inferior enterprises through market mechanism becomes an important choice. The information disclosure and punishment mechanism of

capital market can improve the effectiveness of capital market information. Earnings management for profit can bring a lot of benefits to enterprises in the short term, but in the long run, it will damage the long-term interests of enterprises. Therefore, the effective market can restrain the earnings management behavior and the degree of earnings management in the long run.

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