

Analysis on Luckin Coffee Financial Fraud

JIE ZUO

EXECUTIVE SUMMARY

As a Chinese company listed in the United States, Luckin Coffee only spent 17 months from its establishment to IPO, setting a new record for the world's fastest IPO and attracting the attention of international investors. In January 2020, Muddy Waters, an internationally famous short-selling agency, exposed the financial fraud of Luckin Coffee, which temporarily pushed Chinese companies into the storm. Corporate financial fraud not only damages the image of the enterprise itself, but also increases the risk of investors, creditors and other stakeholders, destroys the financial order, reduces the efficiency of the capital market, and is not conducive to the healthy development of the economy. This paper selects Luckin Coffee, a typical enterprise, as the case study object to introduce and analyze its financial fraud in detail. First of all, this paper briefly introduces the corporate background of Luckin Coffee and analyzes the main factors leading to the corporate crisis. Then the ethical analysis framework is used to analyze the financial fraud case of Luckin Coffee, and the conclusion of the impact on stakeholders is drawn. Finally, suggestions are given to the review regulator and the enterprise itself.

Introduction

Luckin Coffee was established in June 2017 and commenced operations in October of the same year. The company achieved a milestone on May 17, 2019, when it was successfully listed on NASDAQ, marking the quickest IPO for a startup company. Unfortunately, due to financial misconduct, Luckin Coffee was officially delisted on June 29, 2020, setting a new record for the fastest delisting.

The financial fraud scandal involving Luckin Coffee has garnered significant attention in China. Following nearly two months of investigation, the Ministry of Finance and other government agencies released a report on July 31, 2020. The report concluded that between April 2019 and the end of that year, Luckin Coffee artificially inflated its transaction volume by 2.246 billion yuan and falsely boosted revenue by 2.119 billion yuan through fictitious gift certificate transactions. This accounted for 41.16% of the reported revenue. Additionally, the company overstated costs and expenses by 1.211 billion yuan, leading to an inflated profit of 908 million yuan.

Luckin Coffee experienced rapid expansion following its IPO, surpassing competitor Starbucks with over 4,500 stores by the end of 2019. However, concerns have arisen regarding the sustainability of Luckin's growth model, which heavily relies on subsidizing users.

Muddy Waters, a well-known short-seller, shocked the market on Jan. 31, 2020, when it published a monthslong investigation by an anonymous party that claimed Luckin had inflated its revenue and expenses. Luckin responded to the report on Feb. 3, 2020, alleging that the data presented in the short selling report was "materially inconsistent" with data from its own systems. Each order placed by a customer with Luckin Coffee is automatically recorded in the company's system and paid for through a third-party payment service provider. As a result, all of the company's key operating data can be tracked in real time, including the number of items sold per day in stores, the number of items sold per unit, and the effective selling price, and can be verified.

In response to mounting public scrutiny, Luckin Coffee did not disclose the findings of the independent special committee's investigation and admit to fraudulent activities until April 2, 2020. The company's announcement revealed that Ernst & Young identified fraudulent transactions spanning from the second quarter to the fourth quarter of 2019 during their audit of Luckin's financial results. Subsequently, Luckin established a special committee comprising three independent directors and engaged external legal and accounting professionals to conduct a thorough investigation into the fraudulent activities, ultimately confirming the financial misconduct.

Analysis of the key factors leading to the crisis

2.1 Unbalanced shareholding structure of the Company

Luckin Coffee utilizes a Variable Interest Entity (VIE) structure to go public in the United States. This structure allows the offshore listed entities to have control over the domestic operating entity in China through contractual agreements, bypassing the need for approval from Chinese regulatory authorities for listing. However, the overseas listed entity essentially serves as a shell company. Due to challenges in regulatory coordination between China and the U.S., enforcing sanctions and penalties from securities regulators in the listed jurisdiction can be difficult. When foreign shareholders control the domestic entity through contractual agreements rather than equity ownership, it becomes challenging to protect the rights and interests of foreign shareholders if the actual controller of the domestic entity breaches the contract.

At the same time, Luckin Coffee equity is highly concentrated. Through the dual-class equity setting, Luckin Coffee's founding team and venture investors have 89.5% control with 46.1% of the equity. Through continuous additional issuance, stock placement and equity pledge financing, they can obtain control benefits and have the power to manipulate financial data to push up the valuation and stock price in the secondary market.

Luckin Coffee maintained the rapid growth of false income, and then improved its secondary market valuation, which was convenient for realizing control gains through additional issuance and shareholding reduction, which was the motivation of Luckin Coffee's fraud.

The VIE structure, dual share structure and other unreasonable ownership structure make it easier for major shareholders and core executives to realize interest transfer through financial fraud and related party transactions, thus damaging the interests of minority shareholders and increasing the income of financial fraud.

However, domestic and foreign regulatory cooperation is not smooth, foreign minority shareholders through legal proceedings to protect themselves is difficult to enforce the law, so that the expected cost of fraud subjects is low. The combination of the above factors led to the systematic financial fraud of Luckin Coffee.

2.2 Failure of the company's internal control -- Opportunities for financial fraud

Internal control is a fundamental aspect of corporate governance mechanisms and a crucial factor in ensuring the accuracy and impartiality of financial statement information. Both China and the United States have regulations in place that mandate listed company management to implement internal control mechanisms for financial reporting and disclosure, with the aim of guaranteeing the reliability and comprehensiveness of disclosed information.

Unfortunately, Luckin's internal control deficiencies paved the way for financial misconduct to occur.

Luckin Coffee was classified as an emerging growth company due to its sales falling below the threshold outlined by U.S. startup laws in the year leading up to its IPO. As a result, it was exempt from the audit certification requirements of Section 404 of the Sarbanes-Oxley Act concerning internal control over financial reporting for emerging growth companies.

Additionally, the allocation of responsibilities and authority between Luckin's Chief Financial Officer (CFO) and Chief Operating Officer (COO) was found to be inadequate, leading to vulnerabilities that were exploited for financial fraud.

At the same time, the company's audit committee structure also has defects. After Luckin Coffee went into the public, the director of the audit committee was still Liu Erhai, an executive director, major shareholder and one of the actual controllers. Although it meets the requirements of regulations, the audit committee is chaired by an executive director without financial background, and the audit committee lacks independence.

2.3 Failure of mutual constraints of multiple governance mechanisms

Junlian Capital, DelightCapital, and Centurium Capital, early investors in Luckin, were closely connected to the company's founding team but did not effectively oversee its operations.

Additionally, institutional investors suffered losses without conducting proper due diligence. Institutional investors typically have the ability to influence corporate decisions through significant shareholdings, making them a crucial component of the corporate governance framework. In the U.S. capital market, institutional investors hold over 50% of shares, with 158 institutional investors collectively owning 460 million shares, representing 24% of Luckin's stock.

The top 10 institutional shareholders include Global Capital Research Investors Fund, Lone Pine Capital, Alkeon Capital, Bank of America, Melvin Capital, UBS, Darsana Capital, Credit Suisse, Janus Henderson, and Sylebra Capital. Despite many institutional investors investing in Luckin Coffee, their due diligence processes did not alert them to the risks of fraud. Most institutions also failed to divest their holdings in Luckin Coffee before the fraudulent activities were uncovered. This herd mentality among institutional investors compromised their objectivity and independence, leading to significant losses when the stock price plummeted. This highlights the limited effectiveness of institutional investors in governing corporate financial fraud.

Thirdly, creditors were not warned. Luckin's major shareholders had pledged a large proportion of their shares. Ms. Qian, Mr. Lu and their sister had pledged a total of 24.1% of their shares as of the end of 2019, according to Luckin's disclosed prospectus, a rate as high as 49.1%, when Luckin's stock market value was about \$2.5 billion. Luckin's difficulties and

the default of its major shareholder's equity pledge loans show that lenders were not aware of the risks of fraud and capital chain rupture.

Fourthly, intermediaries have a stake in publishing biased research. After the Muddy Waters bet against Luckin, the co-lead underwriters of Luckin's IPO issued research reports disputing the allegations. It's hard to look at the company critically because the stakes are high because of their business with Luckin, including major shareholder stock pledges.

Fifthly, bear institutions fierce game to identify right and wrong. Bear institutions analyze and discuss based on objective third-party data, and under the promotion of economic interests, reflect the game of various forces in the market, fully release information, which plays an important role for the market to understand the actual operating conditions of Luckin Coffee.

Finally, VIE structure and regulatory vacuum of Chinese concept stocks. Chinese companies listed overseas with VIE structure are overseas companies, which cannot be supervised by China's securities regulatory authorities in accordance with the Securities law. A group of U.S. law firms filed a class-action lawsuit against Luckin in the U.S. District Court for the Southern District of New York, alleging that Luckin made false and misleading statements in violation of U.S. securities laws.

Ethical Frameworks Application

3.1 Agency theory

The principal-agent theory was put forward by economists Berle and Means after analyzing the problems existing in the operation mode of traditional family businesses. This theory also studies the relationship between shareholders and professional agents from various aspects, and modern corporate governance theories also agree with this theory in many aspects. Feng (2004) also found through research that listed companies had the problem of excessive equity concentration, and this problem was relatively common. After this kind of problem occurs, on the one hand, there will be the entrustment problem between shareholders and agents, and on the other hand, there will also be the interest problem between large shareholders and small shareholders. In order to ensure that their interests are not harmed by large shareholders, minority shareholders often seek the help of agents, which will generate agency problems among minority shareholders and operators. Therefore, he emphasized that enterprises should strengthen the constraints on operators and clearly divide the interests between major shareholders and minority shareholders.

However, due to the existence of managerial defense behavior and the asymmetry of information between the principal and the principal, the agent may pursue his own personal interests regardless of the interests of the principal. Therefore, the emergence of principal-agent relationship promotes a set of incentive mechanisms to restrain and motivate the behavior of agents, ensure that the interests of agents are consistent with those of enterprises, and thus reduce the behavior of management defense to better meet the interests of enterprises.

In the financial fraud case of Luckin Coffee, the equity of Luckin Coffee was concentrated in the hands of Lu Zhengyao, Qian Zhiya and others, members of the Shenzhou Department. Liu Jian, the fraudler announced by Luckin Coffee, was the director and chief operating officer of Luckin Coffee. From the perspective of management defense theory, Liu Jian did have the motive of fraud, but from the perspective of principal-agent theory, Liu Jian's ability to commit financial fraud at Luckin Coffee, where ownership is so concentrated, also suggests that some shareholders are involved in the financial fraud.

3.2 Stakeholder theory

Freeman (1984) believed that stakeholders are those who can influence the realization of a business organization's goals or are influenced by the process by which a business organization achieves its goals. Clarkson(1994) believed that stakeholders invest some kind of tangible capital, human capital, financial capital or other valuable things in enterprises, so as to bear some form of risk. It can also be said that they bear the risks arising from entrepreneurial activities. These two views both emphasize that stakeholders have certain investment in the operation of enterprises and bear corresponding risks or are affected by them.

The current stakeholder theory emphasizes that the management activities of enterprises should not only satisfy the rights and interests of shareholders, but also comprehensively consider the interests and demands of other stakeholders, and not only take into account the financial status of enterprises, but also take into account the social responsibility of enterprises. In the process of operation, if an enterprise only pursues the interests of shareholders and economic benefits, it is very likely to disclose false information in order to create an illusion that benefits itself, so that the information disclosure process becomes a game among stakeholders.

According to the written punishment decision of the State Regulatory Administration on Luckin Coffee, between April and December 2019, for short-term interests, Luckin Coffee cooperated with Beijing Youtong Technology Development Co., Ltd. and a number of affiliated companies to conduct financial fraud against Luckin Coffee and other affiliated companies. Among those who provided false information, there were major shareholders of Luckin Coffee. In order to make Luckin Coffee obtain more benefits, they cooperated together to create false information and seek benefits for themselves while ignoring the interests of other stakeholders, which damaged the interests of minority shareholders.

Impact on Stakeholders

4.1 Employees and consumers

The potential outcomes of the "Luckin Incident" could have significant implications for both employees and consumers. As of December 31, 2019, Luckin operated 4,507 stores and employed tens of thousands of individuals. The future trajectory of this incident remains uncertain, with possibilities including delisting, insolvency, or even bankruptcy liquidation. In such scenarios, employees would face the harsh reality of unemployment, while consumers who had made prepayments, such as through top-ups, may struggle to recover their losses. Beyond the financial implications, Luckin's actions have also eroded the trust of both employees and consumers, leading to negative societal repercussions.

4.2 Investors

When making stock investment, investors mostly take the annual report data disclosed by listed companies and the financial data disclosed in other periods as the basis. However, investors are faced with the problem of serious information asymmetry in the whole investment process. Listed companies understand their actual operating conditions, while ordinary investors can only obtain information through various financial software and other ways. Moreover, the obtained information is also publicly available to the public by the listed company, so it is unknown whether it is true or not. Whether the financial information published by listed companies is true and accurate greatly affects the investment consequences. Luckin Coffee whitewashing the statements by falsely increasing income and expenses, which made the majority of investors obtain wrong accounting information. Investors analyzed the false financial information as the investment basis, which was bound to produce wrong judgment, and then believed that Luckin Coffee had high comprehensive competitiveness and certain investment value, so they bought the shares of Luckin Coffee Company. In order to obtain a higher return on investment. However, after the fraud incident surfaced, investors had to face a sharp drop in Luckin's stock price, which also meant that a large number of investors would lose their investments.

According to data from Wind, as of the end of 2019, Luckin had 158 institutional investors holding 460 million shares, representing 23.93% of the company's shares. However, by April 8, 2020, Luckin's total market value had plummeted from 66 billion yuan at the end of 2019 to 7.84 billion yuan, marking an alarming 88.12% decline. The circulating market value also dropped to 3 billion yuan, which is less than one-third of its value at the close of 2019.

Date	EUR Mn/¥	EUR Mn/\$	FCM/¥	FCM/\$
2019-12-31	6,598,993.30	945,929.49	1,148,907.43	164,689.58
2020-04-08	784,151.31	110,538.82	301,724.42	42,532.94

4.3 Supply Chain Enterprises

In addition, the recent scandal involving Luckin Coffee will have severe repercussions on its associated supply chain companies. One such company is Luckin Roasting (Tianjin) Co., LTD., which was established in May 2019 with a registered capital of 200 million yuan. Other companies affected include Swiss coffee machine maker Sherry & Franca, syrup supplier Fabry, dairy supplier Fonterra, green coffee bean trader Mitsui & Co, roaster Taiwan Yuanyou, and grain merchant Louis Dreyfous, one of the industry's major players.

The transactions between these suppliers and Luckin Coffee involve significant payables. However, given the scale of Luckin's sales and the number of its stores, there is a risk that these payments may not be settled in a timely and comprehensive manner. The "Luckin Incident" not only disrupts the construction of robust supply chain relationships but also poses significant financial risks for the suppliers involved.

If Luckin's financial fraud scandal leads to a debt crisis, the suppliers will face difficulties in circulating the customized equipment and goods they have produced exclusively for Luckin (such as custom coffee machines and product packaging). This situation will inevitably result in substantial economic losses for the suppliers.

4.4 Impact on domestic and foreign capital markets

Law, justice and good faith are the basis of the healthy operation of the capital market. Financial fraud violates the principle of good faith trading, touches the bottom line of the law, and seriously disrupts the order of the capital market.

Furthermore, the ramifications of the Luckin Coffee scandal have extended to China's capital market, leaving a detrimental impact. Despite being listed in the United States, Luckin Coffee, as a Chinese company, has garnered significant attention within the industry. The scandal has not only tarnished the company's reputation but has also set a negative precedent for the domestic capital market. Consequently, investors and the public are questioning the effectiveness of the domestic securities market's supervision and examination system, leading to a decrease in investor confidence and hindering the healthy development of the securities market. The China Securities Regulatory Commission has promptly responded to the incident, closely monitoring the situation and strongly condemning the financial fraud perpetrated by Luckin Coffee.

Additionally, the repercussions of this scandal extend beyond the domestic market and have a negative impact on the capital markets of the country where Luckin Coffee is listed. Accurate accounting information serves as an essential reference tool for countries to carry out macroeconomic control and formulate policies. The financial fraud committed by Luckin Coffee not only hampers the healthy development of foreign capital markets but also adversely affects the economic and social development of other nations.

4.5 Impact on Luckin Coffee's reputation and market value

4.5.1 Reduced corporate reputation and financing difficulties

Luckin Coffee, as an up-and-coming player in the coffee industry, has garnered praise in the domestic market for its innovative retail model in China. The company's subsidized business model has allowed it to provide cost-effective products to customers, gaining popularity among consumers. However, the company's substantial subsidies and marketing expenses have placed significant financial strain on Luckin Coffee. Unfortunately, the exposure of the financial fraud has dealt a severe blow to the company's reputation and goodwill. As a result, Luckin Coffee has incurred substantial losses and now faces a dire need for continuous financing to sustain its operations. The tarnished image of the company has made it extremely challenging for Luckin Coffee to secure the necessary funds, further exacerbating its financial difficulties.

4.5.2 Decline in share price and evaporation of market value.

On April 2, 2020, Luckin Coffee made a public statement acknowledging its involvement in a financial fraud amounting to 2.2 billion yuan. This revelation caused significant turmoil both domestically and internationally. The impact was immediately reflected in the company's stock price, which plummeted by as much as 81% at the market opening. This unprecedented decline led to the activation of six circuit breakers and resulted in a staggering loss of approximately 35 billion yuan in market value. Subsequently, on April 7, Luckin Coffee was compelled to announce a trading halt, with trading remaining suspended until the company could fulfill additional disclosure requirements mandated by Nasdaq.

Further compounding their woes, on June 27, Luckin Coffee disclosed its intention to file for delisting on June 29. Consequently, the company's stock price concluded at \$1.38 per share, representing a nearly 90% decline from its initial offering price.

Action and Recommendation

5.1 Recommendations to review regulatory bodies

Based on the above analysis of Luckin's financial fraud case, this paper argues that effective actions can be taken from the government, industry and social supervision levels in order to curb the financial fraud of listed companies.

5.1.1 Regulation of government

Government supervision should consider the changes of the macro environment of the whole securities market, mainly starting from the formulation and improvement of the legal system. With the continuous improvement of China's international status, Chinese entrepreneurs have played an increasingly important role in international trade. How to regulate the business activities of these enterprises more effectively, the most important point is to focus on the legal level. For example, China's new Securities Law has added a clause of "long-arm jurisdiction" : If securities issuance and trading activities outside the People's Republic of China disrupt the order of the domestic market in the People's Republic of China and damage the legitimate rights and interests of domestic investors, they shall be dealt with and investigated for legal responsibility in accordance with relevant provisions of this Law. This is a targeted adjustment of the legal system based on the changes in the external environment, which is conducive to the government's supervision and management of these foreign-related enterprises. In the future, on this basis, relevant legal systems can be further improved, the possibility of cross-border securities supervision can be explored, and information sharing and supervision cooperation can be actively carried out with other countries, so as to better protect the legitimate rights and interests of domestic and foreign investors.

5.1.2 Regulation of industry

The supervision of the securities market in the United States highlights the importance of industry self-discipline and CPA audits in safeguarding investor interests. In the case of Luckin's financial fraud, although the 2019 annual audit report by Ernst & Young, the auditing firm for Luckin, has not yet been released, the implementation of the Sarbanes-Oxley Act in the United States serves as a strong reminder to enhance the internal control systems and information disclosure quality of listed companies, drawing lessons from the Enron scandal. In our country, it is crucial to strengthen the oversight function of certified public accountants to enhance the credibility of financial statements issued by listed companies.

Additionally, the modern audit model primarily focuses on risk assessment. However, the Luckin incident provides a valuable case study for the CPA industry. It underscores the necessity for CPAs to carefully evaluate the relationship between a company's business model and associated risks during the auditing process. By considering the rationality and potential risks of a company's business model, CPAs can effectively assess the likelihood of material misstatements in the financial statements of listed companies, thus reducing the possibility of audit failures.

5.1.3 Regulation of society

In addition to industry supervision, social supervision is also an important way to prevent financial fraud. The exposure of Luckin's financial fraud is largely attributed to Muddy Waters' detailed and logical short selling report, which is a reflection of the effect of social supervision in the US securities market. Although the development of China's securities market is not yet mature and the information disclosure system needs to be further strengthened, the short selling mechanism similar to that of the U.S. securities market has not been implemented for the time being. However, with the continuous improvement of China's financial innovation and securities market, an industrial chain related to short selling will be gradually formed in the future, so as to improve the supervision gap in related fields. Therefore, all sectors of society can fully explore the feasibility of relevant systems at the legal level based on the actual situation of the development of China's securities market. In addition, the important protection of the US securities market also includes the class action system. The high compensation in the relevant fraud judgment and the potential bankruptcy risk of the company greatly deter the listed companies in the US stock market and inhibit the company's financial fraud. Therefore, the Chinese government departments can consider the national conditions and further improve the similar representative action system in China. We will lower the threshold for investors to initiate lawsuits and encourage investors to use laws to protect their own rights and interests.

5.2 Recommended actions taken by Luckin Coffee

5.2.1 Establish a balanced equity mechanism

Firstly, appropriate transfer of shares to the management so that the management becomes the shareholders of the company. Being both a manager and a shareholder is more conducive for managers to maximize the interests of the company. Reduce the situation that managers seek and violate the interests of the company for their own interests from the source. In order to achieve this, enterprises should first form a perfect mechanism, and the board of directors and audit supervision should be effectively involved in it to increase the supervision power over managers, so as to prevent managers from moral hazard or adverse selection.

Secondly, the introduction of foreign investors should be timely based on the actual situation of enterprises. In this way, diversified equity structure can be formed to avoid the situation that equity is highly concentrated in the hands of a small number of shareholders. In general, it is suggested that enterprises choose carefully and make reasonable arrangements.

5.2.2 Improve the company's board of directors system

Luckin Coffee has a phenomenon that core members control the entire board of directors. But in fact, not only Luckin Coffee exists this phenomenon, many companies generally have insider control of the board of directors. It is well known that the board of directors with supervisory and decision-making power determines the daily business operation and future development of the company.

Based on this, the company should improve the board system as soon as possible. In reality, controlling shareholders often appoint executive directors, and this phenomenon is not suitable to be changed and difficult to be changed. In view of this phenomenon, it is suggested to take independent directors as the starting point. Secondly, the nomination committee of the board of directors should fully perform its duties to investigate and select independent board candidates, and introduce the principle of withdrawal into the selection

criteria, that is, it is clear that the selection list cannot include stakeholders and close relatives of executive directors.

This is an important measure to avoid the collusion of independent directors and executive directors from the source. In addition, the principle of separation of positions should be practiced to avoid the overlap between the management and the board of directors. Strive to separate the management from the board of directors in terms of personnel structure, separate the management right from the control right, ensure that the two high-level organizations can form the role of supervision and control, and jointly perform their duties, and prevent financial fraud from the source.

5.2.3 Improve the company's internal control

First of all, the internal environment should be improved to ensure that the internal control environment formed by the enterprise is accessible to everyone. Internal control activities should be jointly participated by all employees. It is suggested that the company constantly improve the management mechanism, implement the training work, and promote the effective implementation of the company's overall development strategy. Finally, the implementation effect of internal control activities is integrated into the company's performance appraisal system, so as to truly push all employees to implement this work.

Secondly, the distinction of duties between departments, positions and personnel should be made clear. The principle of position classification is a basic principle of enterprise internal management. Not suitable for the position, refers to the two positions it is best not to be held by one person. If one person holds the same job, it is not only easy to cover up each other's shortcomings and mistakes, but also the possibility of risks. Responsibility for authority approval, business undertaking, property management, financial record and internal audit and supervision. These positions should be filled by different employees. After functional definition, the management department and employees review, verify and control each other, so as to prevent the situation that each link of the company's transactions is controlled by one person, which is conducive to reducing financial reporting errors and preventing employees from cheating.

Thirdly, the company should implement performance appraisal and strictly implement the accountability system. Performance appraisal should clearly take internal supervision as the basis, introduce the results of internal supervision into the performance appraisal system, and use them as relevant elements and indicators to investigate the responsibility for losses found in the supervision process, formulate feasible standard procedures and basis specifically, and ensure that all links of the enterprise can implement the internal supervision work. In addition, based on the consideration of verifiable implementation results, Chinese concept stock companies should properly manage the process of implementing internal control and relevant materials..

5.2.4 Cultivate the core competitiveness of the enterprise

First of all, enterprises should correctly position their products and markets. Enterprises should correctly grasp the real demand of the market, accurately position customer groups, and carry out reasonable innovation on the premise of focusing on product taste and quality, so as to turn customers' short-term demand into long-term love. After the financial fraud incident, Luckin Coffee began to deepen its cultivation in the domestic market, constantly

working on the taste and quality of its products. At present, Luckin Coffee has attracted more and more customers in the domestic coffee market, and the customer stickiness is constantly improving, which fully shows that only by correctly grasping the product and market, the enterprise can get real development.

Secondly, the company should learn from the experience of successful enterprises while innovating. While maintaining its own innovation, enterprises should learn from the leading players in the standard industry, learn from each other's strengths, and explore the decisive factors for long-term development of enterprises. From the successful experience of many enterprises, enterprises should pay attention to respect culture while innovating, and make steady progress on the road of exploration and expansion based on their own reality. At present, Luckin Coffee has slowed down the pace of expansion while maintaining the original positive factors, and occupies a certain share in the domestic coffee market through product improvement and innovation, which is believed to be inseparable from the reflection and learning of the management after the financial fraud incident.

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