



The Risk Auditing for Accounting Standard Reform Through a Corporate Governance Perspective: A Case Study in Luckin Coffee

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ABSTRACT

This study investigates how risk auditing, accounting standards, and corporate governance influence accounting reforms in China's Luckin Coffee. Data were collected through in-depth, semi-structured interviews with 30 audit professionals from nine accounting networks. The gray correlation coefficient technique was used to assess the risks associated with Luckin Coffee, focusing on material misstatements at the financial reporting level. The analysis involved risk evaluation, judgment matrix consistency checks, and gray relational, descriptive, correlation, and content analyses. The findings reveal that: 1) The risk of material misstatement at the financial statement level was $R1=0.473$, and the risk at the hierarchical level was $R2=0.527$. 2) The highest audit risk factors, ranked by gray correlation degree, include: 1) Information system risk (0.754), 2) Management fraud risk (0.744), 3) Industry risk (0.733), 4) Revenue recognition (0.729), 5) Sales expenses (0.719), 6) Policy risks (0.719), 7) Supply chain management (0.585), 8) Business model risk (0.581), 9) Regulatory risk (0.546), and 10) Consumer acceptance (0.494). Corporate governance issues identified include: 1) Audit Committee neglect, and 2) Failure of the Nominating and Governance Committee. The study highlights key challenges in accounting standards reform: 1) Lack of effective monitoring, 2) Insufficient external oversight, and 3) Inadequate regulation of innovative retail models. The audit process for new retail business models poses unique regulatory challenges due to differences in distribution channels and customer service. This research contributes to achieving long-term goals of justice, peace, and economic progress.

KEYWORDS

Accounting standard reform; corporate governance; gray correlation analysis; material misstatement risk; justice; and strong institutions; decent work and economic growth.

INTRODUCTION

To improve the governance of listed companies, China issued the "Corporate Governance Guidelines for Listed Companies" in 2021. The guidelines cover key areas such as the basic principles of corporate governance, methods for protecting investor rights, and the code of conduct and professional ethics that senior management, including directors, supervisors, and managers of listed companies, must follow. On December 29, 2023, the new Company Law was officially passed. The Legislative Affairs Commission of the Standing Committee of the National People's Congress revised the law based on four main objectives: first, deepening the reform of state-owned enterprises and enhancing the modern enterprise system with Chinese characteristics; second, optimizing the business environment to stimulate market innovation; third, improving the property rights protection system and strengthening legal safeguards for property rights; and fourth, improving the fundamental framework of the capital market to promote its healthy development. Additionally, the "Several Opinions of the State Council on Strengthening Supervision, Preventing Risks, and Promoting the High-Quality Development of the Capital Market" (the new "Nine Articles"), issued on April 12, 2024, reaffirmed the fundamental goal of "effectively protecting the legitimate rights and interests of investors, especially small and medium-sized investors."

Changes in accounting standards impact the cost of capital by altering the quality of accounting information. Li (2023) and Daske et al. (2008) found that the mandatory implementation of IFRS significantly reduced the cost of equity capital. However, scholars also acknowledge that, compared to the implementation of IFRS, they prefer the improvement of capital market efficiency to result from a company's own efforts to enhance execution and governance mechanisms (Rattanapun, 2022; Rattanapun et al., 2021, 2018). At the same time, the importance of national-level institutions is emphasized. Hail and Leuz (2007) argue that liquidity has improved significantly, while Christensen et al. (2013) contend that changes in the institutional enforcement environment have a greater impact on liquidity than the adoption of standards. Additionally, the impact of changes in accounting standards on micro-enterprises mainly affects three areas: executive compensation, investment efficiency and debt financing, as well as other factors such as dividend distribution, taxation, and corporate governance.

Research objectives

1. To study risk auditing of Luckin Coffee in China.
2. To study accounting standards reform model of Luckin Coffee in China.
3. To study corporate governance practice of Luckin coffee in China.
4. To study corporate governance practice drive accounting standards reforms of Luckin coffee model in China.

LITERATURE REVIEW

This research is grounded in several foundational theories, including Information Asymmetry Theory (Akerlof, 1970), Stakeholder Theory (Freeman, 1984), Contract Theory (Rousseau, 1762), and Risk-Based Audit Theory (SAS No. 78, 1993). These theories provide a comprehensive

framework for understanding the complex dynamics at play in the context of corporate governance and auditing. Together, these theories offer valuable insights into the mechanisms that drive corporate behavior and governance practices.

Accounting standard

The accounting standards followed by Luckin Coffee involve a series of specific accounting principles, systems, policies, and estimation methods in its financial reporting, disclosures, and processes (Kuchukova, 2023). These guidelines aim to ensure that Luckin Coffee's financial information accurately and completely reflects its financial position, operational results, and cash flows, providing a reliable foundation for decision-making by investors, creditors, government agencies, and other stakeholders (Rashid et al., 2019; Rattanapun, 2022). Since Luckin Coffee conducts all its transactions online and has no physical stores to collect cash, the company collects and stores all financial data digitally. This model focuses on attracting and retaining customers, a key aspect of the new retail business model, which can be vulnerable to fraud. The security, accuracy, and completeness of such a business's financial position are closely tied to the regular controls of its internal management systems. Therefore, it is important for auditors to ensure that key elements, such as employee authorization, system access rules, and business continuity, are properly controlled within this new retail model. In the case of Luckin Coffee's financial fraud, the consistency of transactions within its network was disrupted due to manual manipulation, with pick-up numbers no longer following an incremental pattern but instead changing randomly. The failure to establish an appropriate cyber-regulatory body to address risks arising from this emerging data collection method, along with Luckin Coffee's reliance on the Internet for all information inputs, likely contributed to the heightened risks faced by the company (Urrea et al., 2024).

Previous literature indicates that the economic consequences of accounting standards are far-reaching. Chen (2020) classified these consequences into two categories: direct economic consequences, which affect the quality of accounting information, and indirect economic consequences, which influence stakeholder behavior. Direct economic consequences include factors such as the comparability, timeliness, and transparency of accounting information, while indirect economic consequences encompass the impact on analysts, auditors, corporate behavior, and the capital market (Armstrong et al., 2010; De George et al., 2013; Florou & Kosi, 2015; Gao & Sidhu, 2018; Tan, 2011).

Corporate Governance

Corporate governance in this paper refers to Luckin Coffee's efforts to optimize its internal control mechanisms, clarify the division of responsibilities among management, adjust financial planning and decision-making, and strengthen information disclosure and investor relations management. These efforts aim to improve financial transparency, enhance investor confidence, restore market credibility, and lay a solid foundation for the company's long-term development. The highly publicized financial malpractice case of Luckin Coffee has exposed improper financial data manipulation by the top management of a listed company, including

serious acts such as fictitious sales, inflated results, and other financial misconduct (Wu et al., 2019). In a competitive market environment, management faces immense pressure to achieve rapid growth and gain market share, which can lead to unethical decisions and behaviors (Qi & Rattanapun, 2024; Rattanapun, 2021; Rattanapun et al., 2022).

Theoretically, the effectiveness of a company's internal governance is closely linked to the supervisory function of the board of directors, the internal control mechanisms, and the level of information disclosure (Kehinde et al., 2020). According to principal-agent theory, the board of directors should act as a supervisor between the agent (management) and the shareholders. However, if the board lacks independence and effectiveness, agency problems will emerge. In the case of Luckin Coffee, the manipulation of financial data by top management affected the company's value and reputation, harming shareholders' rights and interests, which exemplifies a Type I agency conflict. The internal governance of Luckin Coffee reveals several deficiencies. First, the equity and board structure provided opportunities for fraud. The case highlighted the inadequacy of the board's supervision, as independent directors failed to effectively fulfill their oversight duties, and there was insufficient review and feedback on the company's decision-making and financial reporting. Second, the internal control system was flawed. Luckin Coffee management used connected transactions to inflate operating income and falsify sales figures by as much as 2.2 billion yuan from Q2 to Q4 of 2019, reflecting serious regulatory loopholes and a risk of financial data manipulation. The lack of an adequate internal review and checks-and-balances mechanism exacerbated financial risks. Third, the company's information disclosure was not transparent, as there was significant information asymmetry between management and the public. Luckin Coffee's management took advantage of this to mislead and deceive the public through false propaganda across multiple channels (Wu et al., 2019).

Wang et al. (2020) proposed to divide corporate governance by the boundaries of internal and external firms, in which external governance includes laws and regulations, market governance, media governance, institutional culture governance, and stakeholder governance. Market governance mainly plays a governance role through the product market competition mechanism, manager reputation, corporate control competition and financial markets. In this study, Wang, (2022) found that financial fraud in Kangmei Pharmaceuticals, on the ethical level, mainly stemmed from the moral deficiencies and excessive greed of the company's executives, as well as the lack of comprehensive professional ethics education for the accounting staff, poor external regulation, and the lack of a social environment.

Audit material misstatement risk

Audit material misstatement risk refers to the possibility that a company's financial reports contain significant errors before they are reviewed (Ajay et al., 2023). This risk is not artificially created or manipulated; it is real and unavoidable, and the goal is to detect and identify it. This risk can be divided into two categories: at the financial statement level and at the recognition level (Rashid et al., 2019). Generally, the risk of material misstatement at the financial statement

level is related to broad factors, such as the deterioration of the company's business environment, a market downturn, and the influence of senior leadership on the internal control system, all of which can directly impact the accuracy of financial reporting (Oluwatosin et al., 2024). In contrast, the risk of material misstatement at the determination level focuses on specific items, such as complex financial accounting processes, the uncertainty surrounding accounts that need to be overestimated or underestimated, and other issues that may affect the judgment of individual items (Reid et al., 2020).

In practice, when assessing the risk of material misstatement, it is essential to consider both the internal and external operating environments and to continuously account for the impact of operational risk on the risk of material misstatement. Goh and Li (2011) argued that a company's internal control is a critical factor that should not be overlooked in this assessment. Chambers and Odar (2015), building on the concept of audit risk related to material misstatement, used a Bayesian classification algorithm to enhance the accuracy of the assessment and explored its applicability and relevant considerations. Shafiee et al. (2018) emphasized that the external environment is equally important and cannot be ignored when evaluating the risk of material misstatement.

In today's complex social and economic environment, the interplay of various factors makes it difficult for certified public accountants to maintain complete objectivity and fairness in assessing the audited entity, which undoubtedly increases auditing risk. Under operational pressure, managers may resort to financial fraud by manipulating financial statements to conceal the true financial position of the company.

As a result, the risk of material misstatement at the financial statement level is closely tied to operational risk. In examining the impact of information technology on the design of audit procedures, Lin et al. (2018) developed a risk assessment index system tailored to the "Internet +" era. This system not only retains the core elements of traditional risk assessment but also introduces operational implementation risk indicators, scientifically assigning values to these indicators through hierarchical analysis.

Through a thorough review of the relevant literature, it is evident that the selection of risk assessment methods is a crucial aspect of analyzing the risk of material misstatement that may arise during the auditing process of new retail enterprises. Some scholars prefer methods such as in-depth interviews, fuzzy comprehensive evaluation, and hierarchical analysis for their research, while others favor the gray correlation analysis method. Some experts argue that, compared to other subjective weighting methods, the gray correlation analysis method offers greater accuracy and objectivity, showing higher effectiveness when comparing the weights and ordering of risk factors in the audit risk indicator system within the context of the internet environment.

From an auditing perspective, most scholarly studies still rely on traditional auditing models, which fail to fully account for the unique characteristics of new retail companies. Start-up new retail companies often conceal numerous risk factors that could significantly disrupt the

audit process. Globally, experts have engaged in detailed discussions on the definition, patterns, causes, and prevention strategies of audit risk, providing valuable insights for this paper's analysis of material misstatement risk in the new retail industry. However, research on the assessment and prevention of audit material misstatement risk specifically in new retail businesses remains insufficient.

RESEARCH METHODOLOGY

This research employs a qualitative design, analyzing documents from 2014 to 2024, as well as the annual financial reports of Luckin Coffee in China. The gray correlation coefficient technique is used to provide valuable reference data for subsequent research. The risk of material misstatement at Luckin Coffee was assessed through electronic and semi-structured interviews with 30 audit professionals from accounting networks and associations. The semi-structured interviews employed content analysis to draw conclusions regarding the advancement of accounting standards reform for Luckin Coffee in China.

The population of this study consisted of audit experts from Luckin Coffee in China. There are 20,000 auditors across Luckin Coffee stores in China, with operations spanning both online and offline channels. All audit experts involved in this study had more than 15 years of experience.

Figure 1.

The above flow chart explains the research process used in this study.



The sample size for this qualitative study was determined using semi-structured interviews to assess the risk of material misstatement at Luckin Coffee. Data was collected through electronic and paper interviews with 30 audit professionals from nine accounting networks and associations. A total of 30 valid responses were received. Of these, 20 were from five Tier 1 super cities and four Tier 1 cities in China, and the remaining six audit professionals were from other regions. All 30 audit experts had more than 15 years of experience.

This study used semi-structured in-depth interviews, content analysis, and the SPSS software package to analyze the collected data. Descriptive statistical analysis, reliability analysis, gray relational analysis, and content analysis were performed.

RESULTS

The results showed that the risk factors that had a significant impact on the risk of material misstatement in Luckin Coffee's audit were mainly the risk from information systems and the risk from management fraud. Table 1 shows an assessment of the risk of material error reporting at the Luckin Coffee financial reporting level.

Test the consistency of the judgment matrix

The expert's weighting of the risk assessment indicator system for material misstatement in Luckin Coffee's audit is shown in Table 1.

Table 1.

Luckin Coffee significant misstatement risk indicator system

Target layer	Level indicators	1 Weight W	Secondary indicators	Weight W _i
Risk of material misstatement (R)	Risk of material misstatement at the financial statement level (R1)	0.333	Regulatory risk (R11)	0.0952
			Policy environmental risks (R12)	0.2381
			Industry risk (R13)	0.1429
			Information System risk (R14)	0.2857
			Business model risk (R15)	0.1905
			Risk of management fraud (R16)	0.0476
	Determination of the risk of material misstatement at the hierarchical level (R2)	0.667	Revenue recognition (R21)	0.4000
			Sales expense (R22)	0.3000
			Level of supply chain management (R23)	0.2000
			Consumer acceptance (R24)	0.1000

The relevant data for the remaining 30 experts was obtained in the same manner, resulting in a total of 30 valid questionnaires. The results of these 30 questionnaires were

averaged arithmetically to derive the index system for assessing the risk of material misstatement at Luckin Coffee, as shown in Table 2.

Table 2.

Luckin Coffee significant misstatement risk indicator system summary

Target layer	Level indicators	1 Weight W	Secondary indicators	Weight Wi
Risk of material misstatement (R)	Risk of material misstatement at the financial statement level (R1)	0.473	Regulatory risk (R11)	0.213
			Policy environmental risks (R12)	0.386
			Industry risk (R13)	0.154
			Information System risk (R14)	0.247
			Business model risk (R15)	0.254
			Risk of management fraud (R16)	0.263
	Determination of the risk of material misstatement at the hierarchical level (R1)	0.527	Revenue recognition (R21)	0.436
			Sales expense (R22)	0.239
			Level of supply chain management (R23)	0.087
			Consumer acceptance (R24)	0.235

Establishment of evaluation sample matrix

After sorting out the results of the questionnaire and AHP, the weight allocation between the two evaluation indexes and the first evaluation index on the basis of the first evaluation index can be determined. The specific weight distributions are as follows:

$W = (0.333, 0.667)$

$W1 = (0.213, 0.386, 0.154, 0.247, 0.254, 0.263)$

$W2 = (0.436, 0.239, 0.087, 0.235)$

Methods for determining quantitative models

For ease of operation in the analysis process, the risk levels of the standard hierarchy are divided into five levels: lowest (0.1) to highest (0.9). This division reflects the judgment and weighting of various criteria throughout the evaluation process. Given that this decision-making mechanism involved numerous subjective elements and allowed for a degree of flexibility, an experience-based subjective evaluation method was used to assign a corresponding score to each element. The data was then aggregated to produce the results shown in the following tables.

Table 3.*Risk of material error (R); Risk of material misstatement at the financial statement level (R1)*

Error	Financial statement level	Mean	SD
R11	Regulatory risk (R11)	0.387	0.123
R12	Policy environmental risks (R12)	0.567	0.130
R13	Industry risk (R13)	0.600	0.211
R14	Information System risk (R14)	0.460	0.108
R15	Business model risk (R15)	0.547	0.169
R16	Risk of management fraud (R16)	0.593	0.124
Total		0.527	0.152

Table 4.*Risk of material error (R); Identify the level of risk of material misstatement (R2)*

Error	Financial statement level	Mean	SD
R21	Revenue recognition (R21)	0.593	0.124
R22	Sales expenses (R22)	0.560	0.147
R23	Level of supply chain management (R23)	0.420	0.276
R24	Consumer acceptance (R24)	0.307	0.141
Total		0.470	0.172

Table 5.*Risk of material error (R)*

Error	Financial statement level	Mean	SD
R1	Risk of material misstatement at the financial statement level (R1)	0.527	0.152
R2	Identify the level of risk of material misstatement (R2)	0.470	0.172
Total		0.504	0.160

Calculating the correlation coefficient of Audit the risk assessment of material misstatement

The reference series and the comparison series were evaluated, and the gray correlation between the evaluation values of each expert was calculated. Let $X(K)$ represent the correlation level between the first comparison sequence index $XI(K)$ and the reference sequence index $XO(K)$.

Table 6.*The results of correlation degree calculation*

Evaluative items	correlation	ranking
Regulatory risk (R11)	0.546	9
Policy environmental risks (R12)	0.719	6
Industry risk (R13)	0.733	3
Information System risk (R14)	0.754	1
Business model risk (R15)	0.581	8
Risk of management fraud (R16)	0.744	2
Revenue recognition (R21)	0.729	4
Sales expenses (R22)	0.719	5
Level of supply chain management (R23)	0.585	7
Consumer acceptance (R24)	0.494	10

The calculation of the results are as follows (see Figure 2).

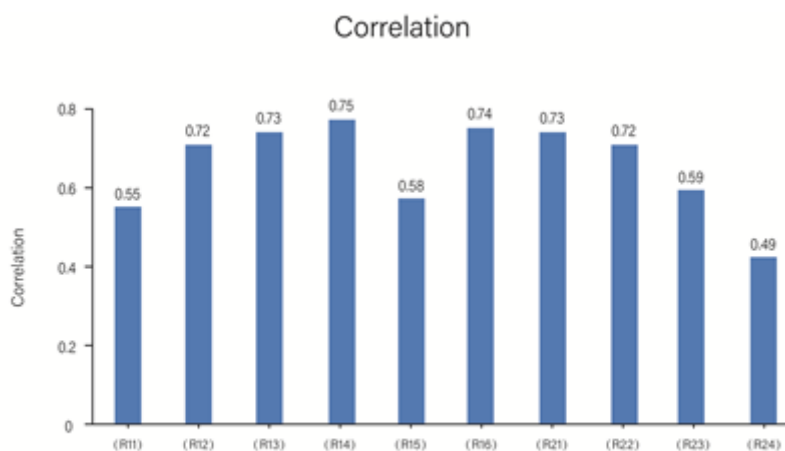
Figure 2.*Correlation Analysis*

Figure 2 shows the correlation degree results.

Combined with the calculation results of the correlation coefficient weighted processing, the final gray correlation degree value was obtained. The range of gray correlation was [0, 1], with a higher value indicating a stronger interaction with the reference sequence, meaning a higher rating. As shown in the graph, for the 10 evaluation items related to the risk of major misstatement, R14 had the highest comprehensive evaluation with a correlation of 0.75, followed by R16 with a correlation of 0.74.

DISCUSSION

Risk of material misstatement at the financial statement level ($R1=0.473$) and Determination of the risk of material misstatement at the hierarchical level ($R2$) =0.527.

Financial fraud can lead to significant misstatement risks, so identifying significant misstatement risk items can also help identify financial fraud risk items to some extent. Generally speaking, financial statement items with a correlation coefficient between 0.1 and 0.3 have a low risk of significant misstatement, items with a correlation coefficient between 0.3 and 0.5 have a medium risk, and items with a correlation coefficient between 0.6 and 0.8 have a high risk of significant misstatement. This differs from Fangjun's (2022) correlation model analysis, which is based on gray correlation analysis of industry financial indicators. He attempted to identify financial statement items that might have significant misstatement risks by analyzing the correlation coefficients of financial ratios, financial data, and the average of the industry's best values corresponding to Luckin Coffee through the gray relational model.

The gray correlation degree calculation of audit risk results in arranged in highest order:

The following are arranged in highest order: 1) Information System risk ($R14, 0.754$), 2) Management fraud risk ($R16, 0.744$), 3) Industry risk ($R13, 0.733$), 4) Revenue recognition ($R21, 0.729$), 5) Sales expenses ($R22, 0.719$), 6) Policy environmental risks ($R12, 0.719$), 7) Level of supply chain management ($R23, 0.585$), 8) Business model risk ($R15, 0.581$), 9) Regulatory risk ($R11, 0.546$), and 10) Consumer acceptance ($R24, 0.494$).

Fangjun (2022) conducted a gray correlation analysis on industry financial indicators such as total assets, main business income, operating profit, net profit, and shareholder equity of Luckin Coffee. It was concluded that if the correlation coefficient obtained from the gray correlation analysis exceeds 0.5, it is considered to indicate a significant risk of misstatement. The reason for this is that, in gray relational analysis, the model assumes that the weights of each indicator are equal. Additionally, the indicators associated with significant misstatement risks identified in Xiong Fangjun's gray relational analysis are fewer than those identified in the gray relational analysis in this study. Lastly, the perspective of Xiong Fangjun's gray relational analysis differs from that of this study.

Corporate governance analysis:

The description of the internal control structure is "intended to be established", indicating that there is no corresponding internal control management organization within Luckin Coffee, and from the exposure of the financial fraud incident and its subsequent response strategy, its internal control must be in a very bad state. 1) Dereliction of duty by members of the Audit Committee 2) Failure of members of the Nominating and Corporate Governance Committee.

This is consistent with the conclusion of Xiong Fangjun's (2022) study, who also believes that the management of Luck Coffee lacks integrity, overriding internal control, and inflating sales revenue, operating costs, and operating profit margins by fabricating a large number of related party transactions, and customers and misleading consumers through false advertising. This is

enough to prove that the management of Luckin Coffee has not fulfilled its "fiduciary responsibility" well, and relevant internal control is missing or invalid.

Analysis of the advancement of accounting standards reform:

There is a lack of a 1) strong monitoring organization 2) lack of external oversight 3) lack of monitoring of new retail business models. This conclusion is consistent with the findings of Peng Di Han (2023), who also believes that the regulatory authorities should improve the information disclosure system, the quality of information disclosure, and conduct real-time monitoring. For enterprises that do not comply with the regulations on information disclosure, relevant measures should be taken in a manner. At the same time, investors should be guided to pay attention to both financial and non-financial indicators of enterprises, which is conducive to giving reasonable valuations.

The audit process for new retail business models

The process poses unique challenges to the regulatory system due to the significant changes in distribution channels, customer service performance, and other aspects of the new business model compared to traditional business models. The emergence of new business models has brought new challenges to auditing. Traditional audit procedures generally involve checking the documents submitted by the audited entity to determine whether the book records are consistent with the actual situation, but this audit procedure is not foolproof. Muddy Waters deployed more than 2,000 employees to monitor Luckin's stores and directly collect data from customers, concluding that Luckin had fabricated business data. It is not feasible for traditional audits to spend extensive time, manpower, and resources monitoring the audited entity as short-selling institutions do, making it difficult to uncover some deeply concealed problems. Therefore, Peng Dihan's (2023) research suggests that today's audits could consider making full use of big data technology, which allows audits to be conducted without the constraints of time and place. This not only reduces the information collection workload of auditors but also enables the use of big data for data analysis. The risk of incomplete audit sampling data will be greatly reduced, leading to more accurate results.

Corporate governance practices of new retail business models drive accounting standards reforms

1) Luckin's corporate governance practices in China, Improve the corporate governance system:

To build a strong internal corporate governance system, we should adhere to the fundamental concepts of compliance with laws and regulations, as well as integrity in business operations. These concepts should be integrated into Luckin Coffee's corporate vision, embedded in the brand's corporate culture, and incorporated into the long-term development goals of Luckin. This ensures that they become a code of conduct that the main bodies of internal governance follow by example, thereby effectively supporting short-term decision-making.

Secondly, we need to achieve a balance of power and responsibility among shareholders, the board of directors, the board of supervisors, independent directors, and management. This

will ensure the separation of powers and effectively avoid the situation of "one-share dominance" by insiders. Major decisions and the development of Luckin should involve collective discussion and decision-making, with a hierarchical approval process from bottom to top. At the same time, we need to focus on the long-term value of the business, review the company's brand vision, and, based on coordination and linkage between business management and financial planning, improve internal control and risk management to enhance the level of internal corporate governance.

Thirdly, regarding the appointment and removal of the board of directors, we should not only focus on the structural design of the board but also on selecting the chairman and the members of special committees in various professional fields. This ensures that major decisions are studied and discussed in advance to achieve scientific and efficient decision-making. Financial data and information should be disclosed to independent directors in a timely manner, and independent directors should be organized to regularly conduct internal research to become familiar with the company's operational status. The opinions and suggestions of independent directors should be valued to ensure that they can fulfill their roles effectively.

Finally, Luckin should strengthen its awareness and prevention capabilities by establishing an independent and efficient crisis public relations department to conduct risk assessments and respond quickly. In the event of a crisis, the company should maintain composure, avoid using habitual "people-pleasing" tactics, and promptly disclose information to manage public relations. This will reduce the risk of a stock price decline and maintain stock price stability in response to doubts. When errors occur, the company should be honest and calm with the media and the public, showing sufficient sincerity, offering apologies, and accepting corresponding responsibilities.

2) The corporate governance practice of Luckin Coffee model has promoted the reform of accounting standards in China:

In the era of mobile Internet, the focus of the new retail business model is on "people," with consumers placed at the forefront. The continuously evolving demands of consumers serve as the value orientation for the innovation of new retail business models. In identifying the operational risks of new retail, it is essential to understand the logic of their business models, analyze how they attract customers and maintain customer loyalty, and assess whether this approach can be sustained.

Due to the large number of Internet users and unique transmission paths, enterprises often acquire customers by offering low-priced or even free products or services in the early stage, quickly capturing market share. They then extend the value chain or introduce derivative value-added services to recover their initial cost investments. This sustainable business model can maintain user loyalty and monetize traffic.

On the other hand, if enterprises lack new business growth points to continuously attract users, the cost of acquiring traffic in the early stage may be difficult to recover. As a result, enterprises may falsify statements due to the need for market value management and

refinancing. New retail enterprises, such as Luckin Coffee, use substantial user subsidies to attract traffic in the early stage. Later, they aim to meet user needs with high-quality products, rich content, or derivatives, cultivating user consumption habits and maintaining loyalty while monetizing traffic.

The risk associated with Luckin Coffee's product positioning makes it difficult to realize cost recovery, and the pursuit of profit maximization also provides the motivation to overstate income. These types of new retail enterprises face operational risks in achieving the company's strategy and objectives due to inappropriate business formulation, with their sales revenue being a key area of audit risk.

According to the modern audit risk model, an effective means of reducing audit risk is to reasonably design and implement further audit procedures. When auditing new retail enterprises, it is particularly important to adjust the nature, scope, and timing of audit procedures based on the nature of their operational risks.

Zhu Qiaoling (2020) believes that sales revenue is the key audit risk for new retail enterprises. These enterprises typically have a large number of C-end customers, with operating income paid immediately, leaving little room for accounts receivable. Moreover, it is unlikely that a single operating income would reach a significant level of importance. Therefore, it is not in line with the cost-benefit principle for certified public accountants to perform audit procedures on numerous small amounts of income, making it difficult to review each sales revenue item individually.

Instead, it is necessary to use technology-assisted tools to analyze the original business data, increase the implementation of field investigation audit procedures at their business premises, verify the actual consumption amounts and volumes at the terminal, and confirm whether the enterprise is only reporting financial data. Fraudulent behaviors such as order brushing can be difficult to identify solely through financial data, so these techniques can help detect and respond to risks, thereby improving the quality of the audit.

CONCLUSION

This research addresses audit risk, corporate governance, and accounting standard reform. The summary of the research is as follows.

- 1) Risk of material misstatement at the financial statement level ($R_1=0.473$) and Determination of the risk of material misstatement at the hierarchical level ($R_2=0.527$).
- 2) The average risk of material error (R) is 0.504, with a standard deviation of 0.160. Divide by (1) Risk of material misstatement at the financial statement level (R_1) = Mean 0.527 SD -0.152). Identify the level of risk of material misstatement (R_2) = Mean =0.470, SD = 0.172.
- 3) The correlation degree calculation results in arranged in the following order: 1) Information System risk (R_{14} , 0.754), 2) Management fraud risk (R_{16} , 0.744), 3) Industry risk (R_{13} , 0.733), 4) Revenue recognition (R_{21} , 0.729), 5) Sales expenses (R_{22} , 0.719), 6) Policy environmental risks

(R12, 0.719), 7) Level of supply chain management (R23, 0.585), 8) Business model risk (R15, 0.581), 9) Regulatory risk (R11, 0.546), and 10) Consumer acceptance (R24, 0.494).

4) Gray correlation of the reference sequence and the comparison sequence, for the risk of major misstatement 10 evaluation items, R14 comprehensive evaluation of the highest, the correlation of 0.75, followed by R16, the correlation of 0.74.

5) Risk of audit material misstatement at the financial statement level calculated by gray correlation, the selected indicators were ranked in descending order of correlation: information systems risk, management fraud risk, industry risk, business model risk, and regulatory environment risk.

6) Risk of audit material misstatement at the financial statement level calculated by gray correlation, the selected indicators were ranked in descending order of correlation: revenue determination risk, cost of goods sold risk, level of supply chain management, and consumer acceptance.

7) The financial fraud of Luckin Coffee reflects the lack of control activities and insufficient monitoring of key control points. The control activities of the enterprise should be closely integrated with the risk assessment, in order to avoid and reduce the risk to take appropriate control activities and ensure that the control activities are effective and can be implemented.

8) Corporate governance analysis, the description of the internal control structure is 'intended to be established', indicating that there is no corresponding internal control management organization within Luckin Coffee, and from the exposure of the financial fraud incident and its subsequent response strategy, its internal control must be in a very bad state. 1) Dereliction of duty by members of the Audit Committee 2) Failure of members of the Nominating and Corporate Governance Committee.

This study concludes that in the process of auditing financial reports, Luckin Coffee can decide the auditing organization and personnel as well as the related costs on its own. In this way, the supervision from the outside of the enterprise is influenced by the enterprise itself, and the reviewer has interests related to the person being reviewed, so its supervision is not strong enough.

9) Analysis of the advancement of accounting standards reform, it is lack of a strong monitoring organization 2) Lack of external oversight 3) Lack of monitoring of new retail business models

10) The audit process for new retail business models poses unique challenges to the regulatory system due to the significant changes in distribution channels and the performance of customer service and other aspects of the new business model compared to traditional business models. However, the audit risk of new retailers does not fall outside the core scope of risk-based audit theory. Therefore, this will be an area where accounting standards reform needs to be strengthened.

Recommendations

1) In regard to corporate governance, it is necessary to optimize the shareholding structure of the enterprise to avoid a dominant shareholding and to reduce the likelihood of fraud being

committed. Emphasis on the independence of the board of directors and strengthening the fulfilment of their duties.

2) Practitioners should determine the company's business strategy based on the company's objectives to avoid issues with the company's capital chain due to an unreasonable business strategy, which may create a motive for fraud and affect the company's continued operation.

3) Decentralized and tamper-proof blockchain technology should be used to improve the reliability of raw corporate data.

4) The company's internal control and auditing processes should be strengthened. Firstly, attention should be given to customer acquisition costs, customer loyalty, and capital composition. Close attention must also be paid to potential fraud issues at the top level of the company, including their motives, character, and any abnormal economic activities. Secondly, for this new type of business, auditing staff should pay special attention to the soundness of the systematic control over its internal information.

Thirdly, to identify and assess the risk of large-scale misreporting, auditors must use data analysis techniques to conduct comparisons and correlation studies across diversified data. This should include not only connections between financial information but also correlations between financial data and initial transaction records, or even between different transaction records. Lastly, auditors can introduce external information into the company by utilizing web scraping tools or accessing third-party data collection websites to bring in data from outside the company.

5) The company should establish a corporate culture of integrity and transparency.

6) To improve accounting standards, regulators should make various enhancements to strengthen the regulatory mechanism, improve the quality of practice for external auditors, and increase penalties for key executives who commit financial fraud through internal and external oversight bodies.

Further study

Luckin Coffee, as part of the new retail industry closely integrated with the Internet, is still a relatively new industry with a short development timeline and rapid growth. As a Chinese company listed abroad, instances of fraud are rare, but traditional methods of fraud prevention and control in the retail industry need to be further upgraded. Financial fraud governance remains a long-standing issue in the capital market, and relevant policies, laws, and regulations are gradually being strengthened and refined during the implementation process. Additionally, stakeholders are continuously improving their competitiveness while strictly adhering to legal and ethical standards. Therefore, this paper aims to draw the attention of scholars in related fields to financial fraud in the capital market, with the belief that the future environment of both domestic and foreign capital markets will become more positive and healthy.

Contribution

Theoretical significance

Deepen the understanding of the relationship between accounting standards and corporate governance: This study, through an in-depth analysis of the specific content of accounting standards changes and their impact on corporate governance practices, helps to reveal how accounting standards, as an external institutional environment, penetrate and influence the internal governance mechanisms of enterprises, thereby enriching and deepening the theoretical research on the relationship between accounting standards and corporate governance.

Broaden the perspective of corporate governance research: Traditional corporate governance research focuses on internal governance factors such as equity structure and board characteristics, while this study focuses on external institutional changes such as accounting standards, providing a new perspective for understanding corporate governance. This helps to build a more comprehensive and multidimensional corporate governance theory system.

Verify and expand relevant theoretical models: By empirically studying the specific impact paths and effects of accounting standard changes on corporate governance practices, we can verify or revise existing theoretical models, such as the relationship model between information disclosure quality and corporate governance efficiency, and provide empirical support for theoretical development in related fields.

Practical significance

Through in-depth analysis of the case of Luckin Coffee (China) Company, this study can provide strategic guidance for other enterprises in the face of accounting standard changes, help enterprises better understand the requirements of change, optimize internal governance processes, and improve the quality of information disclosure.

Improve corporate governance: The positive impact of accounting standard changes on corporate governance practices revealed in this study can motivate companies to actively adapt to changes in accounting standards, strengthen internal controls, and improve information disclosure systems, thereby improving corporate governance and enhancing market trust and competitiveness.

Promote the optimization of regulatory policies: The research results can provide reference for regulatory agencies to formulate and improve accounting standards and related corporate governance policies. By analyzing the actual effects of accounting standard changes, regulatory agencies can more accurately identify potential problems, optimize policy design, ensure the effective implementation of accounting standards, and promote the healthy development of the capital market.

Providing decision-making basis for investors: This study reveals the impact of accounting standard changes on corporate governance practices, helps investors more accurately assess the financial status, operating results and governance level of enterprises, and provides more comprehensive and objective information support for investment decisions.

Necessary information issues

This manuscript is original, has not been published before and is not currently being considered for publication elsewhere

The manuscript has been read and approved by all named authors. I further confirm that the order of authors listed above has been approved by all authors.

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