

Case Study of Financial Fraud at Dongfang Group and Implications for Auditing

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Abstract: In 2025, Orient Group Co., Ltd. was subject to administrative penalties by the China Securities Regulatory Commission (CSRC) and had a mandatory delisting procedure initiated for major violations after it was found to have inflated its operating revenue by 16.13 billion yuan over four consecutive years through financing-based trade and circular trade schemes, marking yet another major financial fraud case in the A-share market. This paper provides a comprehensive review of the fraud's background, methods, and consequences, and employs the Fraud Triangle theory to analyze its motives. It focuses on examining why Dahua Certified Public Accountants issued "unqualified opinions" for three consecutive years from 2020 to 2022, and concludes by offering insights and recommendations from an auditing perspective to prevent similar fraud.

Keywords: Oriental Group; Financial Fraud; Trade Financing; Audit Failure; Audit Implications

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1. Introduction

While distorting the efficiency of resource allocation, financial fraud also erodes the very foundation of market integrity, representing a chronic ailment of capital markets. The occurrence of financial fraud in listed companies is often linked to multiple factors, including economic downturns, failed governance mechanisms, and limited audit scope^[1]. On February 28, 2025, the China Securities Regulatory Commission (CSRC) announced the interim progress of its investigation into the financial fraud case involving Orient Group Co., Ltd. (Stock Code: 600811), pointing out that the company's financial information from 2020 to 2023 contained serious inaccuracies and was suspected of major financial fraud^[2]. On March 16, 2025, the CSRC formally issued the "Notice of Proposed Administrative Penalties," revealing the details of this systematic fraud involving over 16 billion yuan^[2], and on the same day initiated the major violation and non-compliance procedures for mandatory delisting. The scale of the fraud, its duration, and the evident failure of the audit all make this case a case study of significant value. In recent years, a series of financial fraud cases, including that of Kangmei Pharmaceutical, have fully exposed common issues such as the failure of internal controls in listed companies and the severe divergence between audit opinions and actual circumstances^[3].

2. Overview of the Dongfang Group Financial Fraud Case

2.1 Company Background

Orient Group Co., Ltd. was established in 1992 and listed on the Shanghai Stock Exchange in 1994, becoming the first

privately owned listed company in Heilongjiang Province. The company's primary business spans multiple sectors, including modern agriculture and health foods, oil and gas and new energy, information security, finance, port and transportation, and new urbanization development. In 2020, 2021, and 2022, it ranked 81st, 90th, and 84th, respectively, on the "Top 500 Private Enterprises in China" list. Its actual controller, Zhang Hongwei, previously served as Vice Chairman of China Minsheng Bank.

2.2 Summary of Fraudulent Activities

According to the CSRC's "Notice of Proposed Administrative Penalty" and subsequent regulatory documents, from 2020 to 2023, Dongfang Group engaged in long-term agricultural financing trade and circular trade without actual goods movement^[2] by artificially adding operational steps or fabricating business chains. This was done to maintain market share in agricultural product trade, meet financing needs, and satisfy performance evaluation requirements. Once risks arise in financing-based trade, which ties up substantial funds, the company faces significant losses and may even encounter a liquidity crisis. The aforementioned fictitious sales transactions resulted in false statements in the company's annual reports for four consecutive years. The specific inflated figures are shown in Table 1:

Table 1: Inflated Operating Revenue and Operating Costs of Dongfang Group from 2020 to 2023

Year	Inflated Revenue (100 million yuan)	Percentage of Disclosed Revenue (%)	Inflated Operating Costs (100 million yuan)	Percentage of Disclosed Costs (%)
2020	38.97	25.18	38.75	23.74
2021	48.65	32.04	48.44	29.57
2022	63.92	49.26	63.80	44.39
2023	Aug. 25	1:56 PM	8.24	11:45
Total	161.30	—	160.73	—

Note: Based on Table 1, the company's actual revenue for 2020 was approximately 15.477 billion yuan (38.97/25.18%), and actual cost of sales was approximately 16.323 billion yuan (38.75/23.74%). Since actual costs exceeded actual revenue, this indicates that the core business was operating at a significant loss. This anomalous signal should be given special attention during the audit process.

As shown in the table above, the scale of fraud at Dongfang Group peaked in 2022, with inflated revenue accounting for 49.26% of disclosed revenue that year—meaning nearly half of the reported revenue was fabricated. The cumulative inflated revenue over four years reached 16.13 billion yuan, ranking among the largest fraud cases in the history of the A-share market. This transaction model, characterized by a "closed loop of trade and capital flows but missing logistics," is a typical feature of financing-oriented trade^[4].

2.3 Penalty Outcome

The China Securities Regulatory Commission (CSRC) imposed severe penalties on Dongfang Group and the relevant responsible parties pursuant to Article 197, Paragraph 2 of the Securities Law. As shown in Table 2:

Table 2: Major Penalties in the Orient Group Financial Fraud Case

Penalty Recipients	Position	Fine Amount (10,000 yuan)	Market Ban
Oriental Group Co., Ltd.	Listed Company	1,000	—
Zhang Hongwei	Controlling Shareholder	1,000	Lifetime
Sun Mingtao	Then-Chairman and President	500	Lifetime
Dang Rongyi	Then-Chief Financial Officer	350	5 years
Kang Wenjie	Secretary to the Board	300	—
Dai Shengli	Then-Vice President	250	—
Zhang Huiquan	Director and Vice President	200	—
Lü Tingfu, Liu Yanmei	Chairman of the Board of Supervisors, then-Supervisors	150 each	—

At the corporate level, regulatory authorities issued a decision ordering Dongfang Group to rectify its violations, issuing a warning, and imposing a fine of 10 million yuan. Actual controller Zhang Hongwei was fined 10 million yuan, and then-Chairman Sun Mingtao was fined 5 million yuan; both were subject to a lifetime ban from the securities market. The China Securities Regulatory Commission officially issued Administrative Penalty Decision No. [2025] 57 on April 29, 2025. The company's shares were delisted on April 30, 2025, due to meeting both the delisting criteria for falling below par value (closing price below 1 yuan for 20 consecutive trading days) and the criteria for mandatory delisting due to major violations.

3. Analysis of the Motivations Behind Dongfang Group's Financial Fraud

Analyzing this case based on the Fraud Triangle theory reveals the motives for the fraud through three dimensions: pressure, opportunity, and rationalization.

3.1 Pressure Factors

Dongfang Group faced financial pressures on multiple fronts. At the operational level, the company's core business continued to contract, resulting in net losses for three consecutive years from 2021 to 2023. At the same time, the company bore a heavy debt burden. As of February 2025, the total principal balance of new bank loans that had matured but remained unpaid by the company and its subsidiaries amounted to 1.737 billion yuan, accounting for 10.41% of the company's total net assets attributable to shareholders of the listed company as of the most recent audited financial statements^[2]. The combination of factors—including narrowing financing channels, slow asset disposal, and cash inflows falling short of expectations—has left the company facing a severe liquidity crisis. To maintain its status as a listed company, meet financing needs, and fulfill performance targets, management developed a strong motive for fraud.

3.2 Opportunity Factors

A key condition for the long-term perpetration of fraudulent activities was the severe failure of the company's internal control system. Zhang Hongwei, the actual controller, was deeply involved in the company's operations and directly organized and decided on the conduct of the fictitious trade business. Chairman Sun Mingtao, who also served as president, held highly concentrated power, resulting in a lack of effective checks and balances. The fact that the fraud went undetected for four years reflects that the supervisory mechanisms within the corporate governance structure were virtually non-existent, and the effectiveness of internal controls was severely lacking^[5]. As pointed out in a commentary by the Shanghai Securities News, "The fact that fraud went undetected for four years reflects a failure of the listed company's internal control system."

3.3 Excuses

In the "Announcement on Correction of Prior Accounting Errors" disclosed in February 2024, the company deliberately characterized its financial fraud as "accounting errors," attempting to mask systemic fraud with technical adjustments^[2]. This rhetorical strategy of rationalizing financial fraud as a means to "maintain market share" and "expand business scale" reflects management's moral self-justification.

4. Analysis of the Causes of Audit Failure

4.1 Overview of the Audit Firm

Dahua Certified Public Accountants LLP has served as the auditor for Orient Group since 2011, marking 14 years of collaboration between the two parties. Dahua is one of China's leading accounting firms, ranking 10th in the industry and 7th among domestic firms in the 2023 comprehensive evaluation of accounting firms. However, despite its size and reputation, the firm committed serious professional misconduct during its audit of Orient Group. It is worth noting that Dahua has frequently faced penalties for audit negligence in recent years, receiving multiple regulatory fines due to inadequate execution of audit procedures in annual report audit projects for companies such as Three Squirrels and Zhongwei Electronics.

4.2 Serious Discrepancy Between the Audit Opinion and Actual Circumstances

Over the four fiscal years from 2020 to 2023, Dahua issued "unqualified audit opinions" for Dongfang Group's 2020, 2021, and 2022 annual reports, issuing a "qualified opinion" only for the 2023 annual report. In other words, the audit firm still issued an unqualified opinion for the 2022 fiscal year—the period in which Dongfang Group's financial fraud was most severe (with inflated revenue accounting for 49.26% of disclosed revenue). This severe discrepancy between the audit opinion

and the actual financial condition constitutes a classic case of audit failure.

4.3 Specific Causes of the Audit Failure

First, the independence of the audit work was compromised. A partnership spanning 14 years resulted in overly close economic ties between the audit firm and the auditee, severely undermining independence and objectivity. Empirical research has shown that excessively long audit engagements tend to weaken auditors' professional skepticism and foster "audit dependency"^[6].

Second, deficiencies in substantive procedures. Based on the typical characteristics of trade finance^[4], there were several obvious audit clues in Oriental Group's 2020–2022 annual reports that Dahua did not give sufficient attention to: ① Abnormal gross profit margins: Trade finance typically has extremely low gross profit margins (1%–2%), but the gross profit margin of Oriental Group's agriculture-related trade segment exhibited unreasonable fluctuations during the years of fraud; ② Missing logistics documents: Had inventory counts or verification of title transfer documents been conducted, it would have been discovered that a large number of transactions consisted solely of contracts and invoices, with no corresponding warehousing or transportation records; ③ High concentration of counterparties with unclear relationships: Upstream and downstream entities under common control or with hidden affiliations formed a closed-loop through the return of funds. Had these clues been investigated, they would have raised significant doubts regarding the commercial substance of the transactions. Oriental Group's fraudulent methods involved typical financing-oriented trade and circular trade schemes, characterized by closed-loop cash flows and trade flows with missing logistics documentation. Had the auditors rigorously verified logistics documents and warehousing records, and conducted thorough due diligence on upstream and downstream counterparties, they should have identified doubts regarding the authenticity of the transactions. Dahua failed to maintain the necessary professional diligence in its risk assessment and substantive procedures.

Third, the quality control system failed. Judging from the frequent penalties imposed on Dahua in recent years, its violations have involved issues such as inadequate execution of internal control audit procedures and significant deficiencies in risk assessment and internal control testing procedures. This indicates that the firm has systemic problems in areas such as project quality review and internal supervision.

5. Audit Implications and Recommendations

5.1 Strengthen Audit Independence and Promote Audit Rotation

This case once again demonstrates that excessively long audit engagements may compromise audit independence^[6]. Regulatory authorities should further promote the implementation of audit rotation systems and establish reasonable time limits on the consecutive service periods of accounting firms for the same listed company. At the same time, audit risks associated with long-term clients should be assessed periodically, and firms should establish robust internal monitoring mechanisms to ensure independence.

5.2 Strengthen Special Audit Procedures for Trade Financing

Financing-related trade has become a major area for financial fraud among listed companies. When auditing companies involved in large-scale trade transactions, certified public accountants should focus on the commercial substance of such transactions and verify whether the flow of goods, transfer of ownership, and flow of funds form a genuine closed loop. Maintain a high level of vigilance regarding transactions where both parties are affiliated or where there are related-party relationships between upstream and downstream entities. Fully utilize audit methods such as observation, inspection, confirmation, and analytical procedures; where necessary, conduct penetrative verification of counterparties to identify financing-related trade and fictitious trade practices such as "empty-run" or "paper transactions"^[7]. Specific measures may include: obtaining and verifying complete documents evidencing the transfer of goods (such as delivery notes and warehouse receipts); conducting background checks on counterparties to screen for instances where they simultaneously act as both customers and suppliers; and verifying whether the delivery locations, quantities, and timelines specified in purchase and sales contracts are logically consistent.

5.3 Improving the Evaluation and Audit of Internal Controls in Listed Companies

The effectiveness of a company's internal controls serves as the first line of defense against fraud. The Orient Group case demonstrates that when actual controllers can dominate business operations without restraint, internal controls become a mere

formality. When conducting internal control audits, auditors should focus on the balance of power within the governance structure—particularly the extent to which actual controllers interfere with business operations—and fully incorporate the results of the control environment assessment into the design of substantive procedures^[5].

5.4 Strengthening Oversight of the Auditing Industry and Accountability

Strengthening the accountability of intermediary institutions is a key measure to curb audit failures. Regarding financial fraud, the China Securities Regulatory Commission (CSRC) has explicitly stated that it will “strengthen multi-pronged administrative, civil, and criminal accountability.” In this case, Dahua has already been added by investors as a co-defendant in a securities false statement liability dispute. Moving forward, penalties for inadequate audits must be further increased, the costs of non-compliance for audit firms must be raised, and a genuine deterrent must be established.

5.5 Enhancing Auditors’ Ability to Identify Fraud Risks

Auditors should gain a deep understanding of the auditee’s business model and industry characteristics, maintaining a high level of professional sensitivity to abnormal financial signals^[3]. Nearly half of Oriental Group’s 2022 operating revenue was inflated, yet this went undetected for an extended period. This highlights the need for auditors to fully consider the auditee’s operational pressures and performance fluctuations during the risk assessment phase, and to perform extended audit procedures on abnormal changes in key indicators such as revenue and gross profit.

6. Conclusion

The Dongfang Group financial fraud case is one of the more typical cases in the A-share market in recent years, involving a large amount of funds, a long duration, and particularly egregious circumstances. Over a four-year period, the company inflated its operating revenue by 16.13 billion yuan through systematic fraudulent means. Meanwhile, the auditing firm, Dahua Certified Public Accountants, issued unqualified audit reports for all three fiscal years from 2020 to 2022. This case exposes multiple issues, including governance failures in listed companies, insufficient due diligence by intermediary institutions, and lagging regulatory detection mechanisms. From an audit perspective, strengthening audit independence, refining specialized audit procedures for financing-related trade, improving the internal control evaluation system, and increasing accountability for audit failures are essential steps to prevent similar cases from occurring. Only by transforming every crisis into an opportunity to improve systems can we solidify the foundation of integrity in the capital market.

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Conflict of Interests

The authors declare that there is no conflict of interest regarding the publication of this paper.

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