Research on Internal Control Information Disclosure of Real Estate Industry—Taking Taihe Group as an Example

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After the outbreak of the Enron incident in the United States, China's attention to internal control information disclosure has gradually increased. As a pillar industry of the national economy, real estate industry internal control system is sound, which has an important impact on social stability and healthy economic development. Therefore, this paper selects a company in the real estate industry, through the analysis of its internal control information disclosure, finds out its existing problems, and puts forward practical and feasible suggestions.

Keywords: internal control, information disclosure, real estate industry

Introduction

The government's regulatory measures for the real estate industry continue to strengthen; the real estate industry is increasingly fierce; and because the industry itself is too dependent on resources, business cycle is long and the industry is facing greater risks, the effectiveness of internal control of real estate listed companies, whether investors are still the focus of listed companies themselves. Through the research on the internal control information disclosure of real estate listed companies, it can better serve the capital market and serve the healthier development of real estate listed companies. Therefore, this paper selects the representative Taihe Group in the real estate industry as the research object, analyzes the problems existing in its internal control, and thus better promotes the healthy development of the real estate industry.

Literature Review

Spira and Page (2010) use internal control information disclosure as a management tool to illustrate current UK internal control information disclosure requirements. By discussing the concept of internal control information disclosure, the origin and evolution of internal control information disclosure can be traced back. By comparing and analyzing recent examples of internal control information disclosure, taking into account the corporate investors that may be affected by internal control information, it determines the scope of disclosure of internal control information. Lin (2019) takes the internal control self-evaluation system of GEM listed companies as the research object, analyzes the status quo of self-evaluation of listed companies on GEM, summarizes the existing problems, and further proposes the self-evaluation of listed companies on GEM.

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Chi and Zhu (2009) studied the internal control self-evaluation reports and annual financial reports of 475 listed companies in Shenzhen Stock Exchange in 2008. Describe the disclosure of internal control information of listed companies, analyze the problems, and put forward corresponding suggestions. Wang (2011) listed companies need not only better financial support, business situation, and development potential, but also complete and effective internal control system. Yang and Yu (2014) listed companies play a vital role in China's economic development and promote economic development. Internal control can reflect the company's operating conditions and disclose the company's problems in various periods, which is an important part of enterprise management. Chen (2015) listed internal control is a method used by enterprises to manage. Through the internal control data, financial statements, audit statements, and so on, the problems of internal control are analyzed.

Analysis on the Internal Control of Taihe Group

Company Profile

Taihe Group is a large well-known listed company with diversified development in real estate, finance, culture, and other fields. Taihe was founded in 1996. In 2010, backdoor Fujian Sanming Pesticide Group Co., Ltd. successfully listed, formally entered the mainboard market of China's securities, and became the only real estate enterprise to achieve listing nationwide in that year, realizing diversified management.

Current Situation of Internal Control

In recent years, Taihe Company has developed rapidly. External information users have strong demand for internal control information of Taihe Company. Therefore, Taihe Company basically discloses relevant internal control information in accordance with the requirements of the norms. It mainly includes: the organizational structure of the company, human resources, corporate culture, internal audit, the risk assessment, use of funds raised, internal control of related transactions, control activities, information and communication, and company's self-evaluation of internal control.

Internal Control Problems in the Company

(1) The five elements of internal control are ignored, and defects are rarely disclosed from the Taihe Company's internal control construction. Taihe Company's internal control risk assessment is not in place; the internal control construction is not perfect; the control activities are not comprehensive. In the internal control self-evaluation report of Taihe Company, when elaborating the risk assessment, it explains that the company faces industrial system risks, financial risks, and operational risks, and can timely identify risks and make adjustments, but does not specify the content of each risk and specific measures.

(2) The management lacks the motivation to voluntarily disclose internal control information. Taihe Company is listed since the company's internal control information disclosure content is not much, which only in recent years begins to disclose its internal control information. The content and quantity disclosed to the public is only in response to the requirements of laws and regulations issued by the Shenzhen Stock Exchange and five ministries and commissions, which belong to passive disclosure. In addition to the above disclosure report, it is difficult to find Taihe Company disclosed information on internal control.

(3) The quality of the information disclosed is not high, and the content is more important than the substance through looking through the internal control self-evaluation report of Taihe Company from 2013 to 2017, which can be seen that the disclosure content of Taihe Company is basically formalized, the substantive

issues are downplayed, and the content is very simple. Basically elaborated the content is the company according to the stipulation, which has improved the company's internal control system. Company management is in a passive state for information disclosure.

Internal Control Information Disclosure Recommendations

Corporate Level

The sound and effective implementation of internal control cannot be separated from a good governance structure, and to achieve high-quality disclosure of internal control information cannot be separated from the sound and effective implementation of internal control. In order to establish a good governance structure, the company should do the following:

First, enhance management's awareness of voluntary disclosure. The management of Taihe Company should realize the importance of establishing a sound internal control system and improving the quality of internal control information disclosure to optimize the image of the company in the eyes of external information users and attract the attention and trust of investors. In addition, the management of Taihe should strengthen communication with external information users.

Secondly, improve investors' attention to disclosure of internal control. Investors of internal control information demand are divided into institutional investors and retail investors. Compared with institutional investors, retail investors are weak in financial data analysis, but they are an important part of investors. Therefore, for these retail investors, listed companies should do a better job in disclosing internal control information and pass on the effective and clear internal control to them. It will make investment decisions with retail investors using the internal control information disclosed by enterprises.

Third, improve the system of the board of supervisors. The board of supervisors is created by the general meeting of shareholders and is led by the general meeting of shareholders. It has supervisory responsibility to the board of directors, but this kind of supervision only exists in theory. In our country, the board of supervisors is often unable to get rid of the influence of management, and most of its members are internal staff of the company, and the board of supervisors is nothing.

Fourth, clarify the reporting responsibility of the board of directors. The main purpose of internal control information disclosure is to enable investors to obtain information related to internal control from the report and enhance the transparency of the company. It is an important way for the board of directors to transmit important internal control information to shareholders, such as risk assessment related internal control information, internal supervision related information, and the company's attitude towards risk and internal control management.

Social Dimension

First, strengthen the legal construction of internal control information disclosure. In China, the construction of internal control started relatively late, and the regulation of internal control is still at the level of rules and regulations. In order to safeguard the interests of investors, establish a good corporate image, and rectify the order of market economy, we should establish and improve the strict legal system of internal control information disclosure. At the same time, it puts forward different internal control requirements and objectives for different industries, and improves the internal control disclosure of the industry. It also formulates relevant internal control laws for the various processes involved in the operation of enterprises.

Second, strengthen the supervision and punishment of internal control information disclosure. At present, China's capital market is in the primary stage of development, and the various systems matching the capital market supervision are still imperfect, and the cost of violating regulations of disclosure of internal control information of real estate listed companies is low, which results in some real estate listed companies which cannot strictly abide by the relevant provisions. To a certain extent, this has affected the analysis of internal control of real estate listed companies by investors in capital market. Therefore, the supervisory departments such as the Securities Regulatory Commission and the Ministry of Finance should increase the punishment for the violation of internal control information disclosure.

Thirdly, establish a real-time announcement system of regulatory information results. In order to protect the interests of stakeholders, the regulatory authorities should not only continuously strengthen the supervision of internal control information disclosure, but also implement a real-time announcement system for the results of internal control information disclosure in order to improve the transparency of supervision. The announcement of supervision results can be carried out through certain channels and ways, such as the media, designated professional journals, or official websites. In addition, after punishing some companies with serious violations of laws and regulations, the supervisory department should also follow up and check.

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