

Analysis on Internal Control of Listed Companies--Take Kangmei pharmaceutical as an example

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ABSTRACT. *The emergence and development of internal control is closely related to the survival and development of enterprises, and is the product of the development of organizational operation and management activities of enterprises to a certain stage. Internal control is an effective way for enterprises to prevent external risks, prevent internal fraud, improve business performance and achieve development and growth. The establishment of a sound internal control system has become an important force to promote the production and development of an enterprise. Throughout the development process of the vast majority of excellent enterprises in the world, internal control has played an extremely important role. But if the lack of internal control, it will make the enterprise from thriving gradually to sunset. Kangmei pharmaceutical is a profound example. This paper analyzes the internal control of Kangmei pharmaceutical, points out the existing problems, and puts forward the corresponding solutions.*

KEYWORDS: *Internal control, Kangmei pharmaceutical, Problems, Measures*

1. Introduction

Looking at the world, many once excellent enterprises and even industry tycoons gradually withered, and finally ended up in bankruptcy liquidation or merger and acquisition. A great reason is that effective internal control is not carried out, so that the internal control defects gradually accumulate to an uncontrollable degree. The bankruptcy of Hong Kong's Peregrine, the decline of Huaxia Securities Company, the bankruptcy of British Baring Bank, the melamine incident of Sanlu Group and the financial fraud of Kangmei Pharmaceutical Co., Ltd. are all due to the unsound internal control system, which makes the enterprise go from glory to destruction. Kangmei Pharmaceutical Co., Ltd. is a large-scale private pharmaceutical enterprise, but it has major internal control defects. There are more than ten accounts inconsistent with the actual situation in the annual report published by Kangmei Pharmaceutical Co., Ltd., and the monetary fund was recorded as much as 29.944 billion yuan. As a result, the Securities Regulatory Commission (CSRC) made a decision of administrative penalty and market ban, ordered to correct, given a

warning, and imposed a fine of 600000 yuan on 21 responsible persons, and imposed a 10-life ban on 6 principal responsible persons.

2. Brief introduction of Kangmei pharmaceutical

Kangmei Pharmaceutical Co., Ltd. was established in 1997 and listed on Shanghai Stock Exchange in 2001. The company ranks among the top 500 Chinese enterprises, the top 2000 global enterprises and the top 100 tax payers in Guangdong Province. It is a modern large-scale pharmaceutical enterprise and national key high-tech enterprise, which takes the production of Chinese herbal pieces, chemical raw materials and preparations as the leading factor, and integrates the production, research and development of drugs and the marketing of medical devices. The company adheres to the core values of “cherishing the world with love and boundless love” and the business philosophy of “moving the world with love and managing health with heart”. Under the guidance of the national strategy of revitalizing Chinese medicine, the company takes the lead in laying out the whole industry chain of traditional Chinese Medicine, with Chinese herbal pieces as the core, and smart pharmacy as the starting point, to comprehensively create a “big health + big platform + big data + big service” system, and become Chinese medicine The whole industry chain precision service-oriented “wisdom +” big health industry listed enterprises, national high-tech enterprises. The enterprise tenet of Kangmei Pharmaceutical Co., Ltd. is: always committed to the cause of human health and unremitting pursuit of creating a better life. In 2018, Kangmei Pharmaceutical Co., Ltd. was investigated by China Securities Regulatory Commission (CSRC) for suspected illegal information disclosure, and the CSRC made a decision on administrative punishment and market ban.

3. Five elements of internal control

The five elements of internal control are: internal environment, risk assessment, control activities, information and communication and internal supervision. The internal environment provides enterprise discipline and structure, shapes enterprise culture, and affects the control consciousness of enterprise employees, which is the basis of all other internal control elements. Risk assessment is to analyze and identify the possible risks to achieve the set objectives, mainly including goal setting, risk identification, risk analysis and risk response. Control activities generally include incompatible positions Separation control, authorization approval control, accounting system control, property protection control, budget control, operation analysis control, performance evaluation control, etc. information and communication is an important condition for the implementation of internal control, which is the timely and accurate collection and transmission of information related to internal control, so as to ensure the effective transmission of information inside and outside the enterprise Internal supervision includes daily supervision and special supervision.

4. Problems in internal control of Kangmei pharmaceutical

(1) Internal environment

There are many defects in the governance structure of Kangmei pharmaceutical industry, and there are many related transaction parties. Internal audit department monitoring is not in place, corporate governance is not standardized, making the company's internal environment has many drawbacks, seriously affecting the implementation of internal control. The internal environment is the basis of the implementation of internal control, which plays a fundamental role in the establishment and implementation of internal control, including governance structure, organization setting and distribution of rights and responsibilities, internal audit, human resources policy, corporate culture, etc.

(2) Risk assessment

Kangmei pharmaceutical industry is lack of risk awareness and has not carried out effective risk assessment. Its short-term loans increased sharply in three years, and the current liabilities almost doubled. Such a high debt repayment risk did not arouse the vigilance of Kangmei pharmaceutical. The lack of risk management led to the subsequent financial problems of Kangmei pharmaceutical. Risk assessment is to identify and systematically analyze the risks related to the realization of internal control objectives in business activities and reasonably determine risk response strategies. Therefore, it is an important link in the implementation of internal control, which can not be ignored in an enterprise.

(3) Control activities

The unclear division of labor and the lack of a clear division of labor make it difficult to prevent and timely detect the errors and fraud in the process of performing its functions and powers. Kangmei Pharmaceutical Co., Ltd. has major defects in the management of related party transactions and capital management, as well as the situation of related party capital flow, which violates the relevant provisions of capital management norms and related party transaction management system. Control activities are the combination of specific business and matters, the use of corresponding control policies and procedures to implement control.

(4) Information and communication

Information transmission is not smooth, and departments lack of timely communication. Timely and accurate disclosure of information is one of the obligations of listed companies. However, Kangmei Pharmaceutical Co., Ltd. has falsified its financial statements disclosed to the outside world, with 14 items of accounts inconsistent with the actual situation, of which the monetary capital was recorded as much as 29.944 billion yuan. If Kangmei Pharmaceutical Co., Ltd. publishes information in a timely and open manner, and all departments actively communicate with each other, defects will be found and corrected in time. In the process of operation, enterprises need to identify, obtain accurate information and communicate with each other. The information system not only deals with the information generated within the enterprise, but also deals with the information

related to external matters, activities and environment.

(5) Internal supervision

The relevant supervision departments of Kangmei Pharmaceutical Co., Ltd. did not supervise the internal control in place, and the board of directors and managers did not play a role in mutual supervision. Therefore, the supervision system of Kangmei pharmaceutical did not find any major defects such as financial report fraud and related party transaction fraud in the daily supervision work, and did not report and correct it in time. Internal supervision is to supervise and inspect the establishment and implementation of internal control, evaluate the effectiveness of internal control, and correct the defects found in internal control in time. Therefore, it is an important guarantee for the implementation of internal control and the control of internal control.

5. Countermeasures for the improvement of Kangmei pharmaceutical industry

(1) Improve the internal control system, strengthen the supervision of the company's key business and major risks, and avoid major business risks. Reasonable development of control procedures, determine the key points of control, make up for management loopholes, and effectively play the role of internal control. It is an inevitable choice for every enterprise to establish a good internal control system and take internal control as an important means of enterprise development.

(2) Clarify the rights and responsibilities, implement the responsibilities, and strengthen the accountability mechanism. Establish and improve the internal post responsibility system, improve the authorization system, clarify the division of responsibilities, and give full play to the function of financial control.

(3) Strengthen supervision and perfect supervision organization. By strengthening the supervision in all aspects, the survival and development of Kangmei pharmaceutical industry will gradually become normal, reshape the good image of the enterprise and restore public confidence.

(4) To strengthen the awareness of risk control, Kangmei pharmaceutical should improve and strictly manage the related party transaction according to the actual situation of the enterprise, refine the related party transaction system, and strengthen the implementation and supervision. Kangmei pharmaceutical industry should strengthen risk assessment and risk management in the process of operation, carry out risk assessment as soon as possible, determine the risk areas, and prevent the disease in the bud.

6. Conclusion

The importance of internal control in enterprise management is more and more recognized by enterprise managers. It has become an effective barrier for enterprises to prevent and resist risks. Strengthening internal control is an effective measure and method for enterprises to realize management modernization, and establishing and

perfecting internal control is an inevitable requirement of enterprise development. With the continuous development of market economy, the competition among enterprises is becoming more and more fierce, and internal control will play a more and more important role. Kangmei pharmaceutical should incorporate the internal control into the development strategy of the enterprise, and the management should consciously formulate relevant measures to establish and improve the internal control system of the enterprise. If the internal control system of Kangmei Pharmaceutical Co., Ltd. is properly established and can be in line with the actual situation of the enterprise, the enterprise will achieve twice the result with half the effort, help Kangmei pharmaceutical industry to gradually become normal, reshape its good image and save customers.

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