

# Analysis of Risk and Prevention Related to Asset

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**Abstract:** Asset appraisal occupies an important position in the market economy of cash. The legal compliance development of the asset appraisal business requires procedural work such as revising contracts and basic matters, making plans, conducting research and data collection so that businesses and other users of asset appraisal reports can obtain reliable appraisal reports. However, due to the impact of profit-seeking, institutional independence, report use beyond the scope, macroeconomic environmental fluctuations and other factors, asset appraisers may produce a lot of legal risks when conducting value evaluation and estimation activities, which will make enterprises, evaluation institutions and other asset appraisal participants bear certain civil liability and economic losses. Therefore, in order to ensure the sustainable and healthy development of the asset appraisal industry, it is necessary to actively explore the preventive measures of various asset appraisal risks. This paper focuses on the connotation of asset assessment risk, discusses many problems in specific operation and how to effectively establish asset assessment risk prevention system.

**Keywords:** Assets; Assessment; Risk; Prevention

## Preface

The continuous improvement of laws and regulations related to domestic asset evaluation is of great help to the establishment of the asset appraisal system. However, the procedures, standards and specific standards of domestic assets evaluation started relatively late, leading to there are still certain risks for the asset evaluation institutions and the parties involved in the asset evaluation business. Once the lack of asset evaluation risk management, all responsible persons responsible for enterprises and institutions will inevitably assume legal responsibility. Therefore, industry practitioners should identify and explore risks in the main environment involved in the asset assessment business, and study preventive measures according to relevant international practices and domestic industry characteristics.<sup>[1]</sup>

## 1. Evaluation the status of the industry

According to incomplete statistics, there are more than 15,000 evaluation institutions in China, about 140,000 appraisers, and about 700,000 evaluation professionals. Assessment the healthy development of the industry plays a very important role in socio-economic progress. The evaluation industry is no longer just evaluating fixed assets, but also touches on the environment, resources, art and other fields. However, with the development of the market economy and the continuous improvement of the legal system, the evaluation institutions and personnel still evaluate according to the traditional model, the evaluation level lags behind the actual demand, and even violates the legal provisions, from being supervised and punished, assuming civil responsibility to being investigated for criminal responsibility. In addition, the lack of supervision of the industry is insufficient, and the cases investigated for criminal responsibility are often regarded as incidents of individual institutions and individual employees, which cannot be further investigated for responsibility and problems are found, which is extremely detrimental to the development of the industry.

## 2. Risk of the asset appraisal business

In general, in academia, there is no broad consensus on the connotation of risk in asset risk assessment. From a macro point of view, the asset assessment risk mainly includes two aspects. One is to prevent the risk of damage, incapacity, or damage. On the other hand, the risk is mainly due to the lack of ability to resist interference to relevant environmental factors and unable to effectively carry out scientific and objective asset evaluation. In addition, their own evaluation experience, evaluation ability, evaluation methods and the necessary evaluation support system are not perfect, which directly lead to the increase of asset evaluation risk. In detail, the external risk of asset evaluation risk is mainly the external factors that affect the scientific nature and impartiality of asset evaluation. Such as the external pressure and the environment, the inevitable market risks. In addition, the internal risks faced by the asset appraisal are mainly caused by the subjective conditions of the asset appraisers, including professional ethics, integrity consciousness, legal literacy, etc. In short, the risk of asset appraisal is the main factor affecting the asset appraisal. How to avoid risks from the connotation of asset evaluation is the main research hot topic in the field of asset evaluation.

### 2.1 Enterprise asset assessment risk

Due to the incomplete information provided by the enterprise, the insufficient contract control force and other reasons, the risks of the unreliable enterprise asset evaluation report occur frequently. The information exchange between the enterprise and

the asset appraisal institution is not comprehensive, or the unilateral disclosure of the enterprise is incomplete, there may be lack of authenticity in the evaluation data collection link, finally issue the risk assessment report to the institution of the evaluation, and even lead to the direct economic losses of the evaluation participants, thus leading to high losses of the enterprise. For example, due to the intentional disclosure of incomplete financial information, the evaluation report overestimate, inconsistent review and evaluation and other phenomena, resulting in the recovery of economic stakeholders involved in the use of the report, so that the enterprise and the evaluation institutions jointly bear the losses. Due to the insufficient review of the contents of the entrustment contract of the asset appraisal business, the enterprise cannot fully grasp the true nature of the entrustment contract, and the implementation of the entrustment contract is not optimistic, which increases the risk of ineffective performance of the contract, improper use of the report and unreliable report. For example, the contract does not explain the reason for choosing the evaluation method, which makes the asset evaluation report obtained by the enterprise less reliable. Due to the profit-seeking impact of enterprises and evaluation institutions, the evaluation report issued by appraisers has added a certain subjective color, resulting in the evaluation conclusion being divorced from reality and creating the risk of reviewing and investigating the asset appraisal report.<sup>[2]</sup>

## **2.2 Asset appraisal agency risk**

The risk of asset appraisal institutions lies in the improper internal management and the mismatch between the appointment and dismissal of asset appraisal personnel, which makes the enterprise's allocation of inappropriate asset appraisal personnel, resulting in unreliable evaluation. If the asset appraisal institution does not improve its professional risk management institution and risk management process, it will lead to the asset appraisal institution does not have enough risk control ability for the asset appraisal business of different appraisal purposes. At the same time, the internal supervision mechanism of the institution is weakened, leading to the occasional occurrence of the practice risk of asset appraisers. At present, some practice rules and ethics of appraisers are in the stage of continuous improvement. While self-discipline, the domestic asset appraisal industry started late, and there are uncertainties in the asset evaluation professional environment, which makes the asset appraisers go beyond the scope of the civil responsibility capacity, and then lead to the task of improper risk business.

## **2.3 Other asset assessment report user risk**

The enterprise discusses insufficient in the process of contract signing, and the employee's explanation of the use risk beyond the scope is insufficient, and the client or property owner occasionally exceeds the scope exposes asset evaluation institutions and other stakeholders to various risks. The appraisers did not strictly implement the evaluation procedures in the business entrustment process, leading to the lack of integrity of the evaluation process. Therefore, enterprises cannot fully recognize the risk of using reporting beyond the scope, which aggravates the risk of corporate violations and the risk of institutional financial supervision and punishment. For example, asset assessment reports blur use restriction statements, leaving companies to notice the risk of using reports out of coverage. Individual asset appraisal institutions cater to the goal of enterprises in reducing service costs, and the enterprise asset appraisal report is beyond the scope of contract use. At the same time, the market environment has an obvious impact on the time series of the evaluation report, making it possible for enterprises to violate the industry standards and legal provisions, and increase the legal risk of enterprises.

## **2.4 Asset assessment of external environmental risk**

At present, the acceleration of the marketization process of asset evaluation business and the improvement of regulatory laws and policies do not keep up with the development of marketization, which makes external environmental risks in the asset assessment industry. While the monopoly of large institutions is obvious, the market pricing mechanism has a clear impact on the competition of small and medium-sized institutions. At the same time, institutions excessively pursue profit margins, which increases the risk of unreliable reports issued by individual small and medium-sized institutions, and ultimately affects the healthy development of the industry. The asset evaluation objects involve land use right, mining right, motor vehicle property rights, enterprise value, insurance value, etc. Industry health is supervised by various parties, the regulatory boundary is not clear, and the risk of industry punishment is increased. At present, the industry standards and legal system of the asset appraisal business are still in a state of continuous revision. At the same time, the expansion of the number of asset appraisal institutions leads to inevitable multi-conflicts of interest and information exchange difficulties in the working environment of asset appraisal personnel, which leads to occasional risks such as business speculation, preset evaluation value, deliberate production of evaluation reports, and the decline of the quality of evaluation reports. For example, digital currency, cryptocurrency, land and scarce resources exist, and there are no direct practical standards for individual evaluation reports, which lacks the sufficient objective basis for the conclusions of the evaluation report.

# **3. Asset industry criminal liability risk**

## **3.1 Information asymmetry tries**

During the asset evaluation process, the asset appraiser cannot scientifically judge the existing information and relevant data due to interference from the external environment. In addition, due to the poor communication links, it is easy to cause the missing judgment and wrong judgment phenomenon in the asset evaluation. Therefore, in the future process of asset assessment risk response, it is necessary to strengthen and improve the information communication mechanism, especially the information sharing mechanism.

## **3.2 Objective environment**

The whole social and economic development cannot be separated from the environment, and risk assessment from the environment. In the process of asset evaluation, China's overall external operating environment is in the period of economic transformation. Especially under the impact of economic reform and other related reforms, asset assessment will be affected by external interests and reform pressure. Therefore, how to further standardize the external objective environment of asset evaluation is an important condition to improve the objectivity and fairness of asset evaluation.<sup>[3]</sup>

## **3.3 Subjective cause**

In the process of asset appraisal, their subjective conditions and working experience will directly affect their objectivity and impartiality in the asset appraisal. In particular, some asset appraisers lack the necessary professional ethics and integrity consciousness, and the objectivity and fairness of asset evaluation are fraudulent to different degrees. These all affect the effectiveness and reliability of the asset assessment. Therefore, in the future process of asset assessment risk prevention and control, it is necessary to strengthen its subjective thinking and professional ethics awareness.

### **3.4 Assessment practitioners have weak legal awareness, and the assessment is more arbitrary**

Many practitioners have not received systematic legal training. In the process of career assessment, most practitioners have learned the basic legal knowledge and have a certain legal awareness. However, a considerable number of employees are not aware of the mandatory and binding force of the law, but they remain random in the evaluation process. In practice, the appraisal institution lacks to verify the authenticity of the evidence materials, leaving a hidden danger of criminal responsibility.

### **3.5 Bidding dering model**

At present, most of the bidding methods are the lowest price, that is to say, the lowest price in the bidding process. The lowest price is understandable when the qualification is satisfied with the requirements and basically the same is ignored, but the core element of the evaluation business is the standardization of the form and procedure of the evaluation object and the non-standardization of the substance. Unless all the evaluation objects are homogeneous and the evaluation agency cost can be determined, the evaluation reports issued by all evaluation agencies have the same effect, and the best model is the lowest price model. However, the evaluation institutions are very different, with no two identical to the same, so the bidding mode of the lowest bidder is not suitable for selecting the most appropriate evaluation institutions. And the selected evaluation institutions cannot make high-quality reports based on cost reasons.<sup>[4]</sup>

### **3.6 Evaluation of industry classification**

Most evaluation institutions can not meet the corresponding professional requirements of market segments. The evaluation industry involves many categories, and the classification is not scientific and clear. There has always been such an embarrassing situation, many companies can comment on everything, dare to comment on anything, but very unprofessional. Cross-border problems are serious, and the assessment report has only breadth without depth.

## **4. Countermeasures against risks related to asset assessment**

### **4.1 Systematic legal knowledge training for assessment practitioners**

The basic principle of asset evaluation is objective, fairness and justice, which is also the basic principle of the law. How to achieve objective, fairness and justice, in addition to the evaluation of the industry itself, but also need to conduct systematic legal knowledge training for the evaluation practitioners. The purpose of the training is to let the appraiser understand and master the legal knowledge relevant to the appraiser, and understand the procedural provisions and relevant responsibilities of the Evaluation Law. Laws and regulations on asset assessment are becoming more and more detailed, and even non-judicial evaluation business must be conducted in accordance with the procedures prescribed by law. But the reality is that the vast majority of evaluation practitioners have not conducted systematic legal learning, master and master the legal knowledge is limited, and cannot meet the needs of evaluation. The evaluation industry is facing more and more risks to the law, whether criminal responsibility, civil responsibility or administrative punishment, all involve the understanding and application of laws and regulations.

### **4.2 Improve the internal risk management plan of the asset appraisal institutions**

Asset evaluation institutions need to formulate complete and scientific internal risk management plans, effectively avoid business risks, and constantly improve risk information collection, risk type identification and risk response strategies. Improve the matching mechanism of appraisers. The asset evaluation institution shall, through the historical business data, customer research, evaluation report evaluation, evaluation ability evaluation, realize the hierarchical matching mechanism of business capabilities, so that the difficult business needs match with the competent asset appraisal personnel. In addition, for asset areas with unclear evaluation bases and evaluation methods, such as cryptocurrency assets, institutions need to conduct market research and industry associations to allow all professional forces to help institutions to release reliable reporting conclusions. Improve the institutional risk management organization, and the asset evaluation institutions should set up the risk management positions according to the risk management process, so that they can assume the responsibility of implementing the risk solutions. In order to optimize the internal professional environment, asset appraisal institutions should strengthen the training of all employees, so that asset appraisers can timely learn and master the revised practice laws and standards, so as to avoid the risk of practice violations and maintain the safety of institutional practice.

### **4.3 Strengthen the oversight of the asset assessment**

In order to improve the quality of asset evaluation, asset appraisal institutions should not only meet the needs of customer evaluation purposes, but also strengthen the construction of internal control mechanism to avoid their own administrative punishment and enterprises facing legal risks. Improve the internal control supervision mechanism, improve the quality of internal control information disclosure, and conduct a comprehensive pre-assessment of appraisers' business post supervision and enterprise contract signing supervision, so as to help institutions to find risk information and non-compliance factors in the evaluation process, and avoid the risks of industry violations. In order to strengthen the supervision of the business process of the evaluation institution, the evaluation institution shall improve the supervisor for the independent performance of their duties, so that they can undertake the basic responsibilities of ensuring the integrity of the evaluation contract and collecting the data and documents of the evaluation procedures. As well as the investigation and evaluation report, to ensure that the appraiser can be reliable and complete performance of the asset evaluation business process, fully protect the legitimate rights and interests of public institutions and enterprises.

### **4.4 Optimize the external environment of the asset appraisal institution**

In order to ensure that the evaluators can reliably carry out the evaluation activities, the agency itself and the supervision units of the government departments need to jointly optimize the external environment. To ensure the healthy development of market-oriented evaluation services. Asset appraisal institutions should strictly implement professional ethics, refer to the government guidance price, with asset appraisal report quality as the basis of service pricing, gradually integrate market pricing and government guidance pricing system, make the market play a role in resource allocation, put an end to the existence of “bad currency service”, so as to actively affect the healthy development of the industry. Ensure the independent operation of the industry regulators. Whether it is the asset evaluation business of real estate or the property rights evaluation business of motor vehicles, financial regulatory departments at all levels and non-financial supervision departments at all levels need to clarify their regulatory responsibilities, so that the Ministry of Housing and Urban-Rural Development and other regulatory departments, the Ministry of Commerce and the Ministry of Finance have a clear division of labor and seek the effective allocation of industry regulatory resources. Avoid systemic risk assessment. Industry associations should actively carry out business reliability research activities, especially for small and medium-sized institutions and large institutions, to give the same supervision status of the industry, and to maintain the benign reputation of the industry.

#### **4.5 Conduct a scientific information analysis**

In the information analysis, the information analysis results must be scientific and objective. Therefore, a reasonable project team is an effective and important guarantee for the results of the information analysis, and only in this way can the appropriate research method be chosen for the analysis. Form a reasonable project team structure. Asset assessment business usually involves a wide range of areas and requires different expertise for the team. In general, individual appraisers' knowledge reserves and capabilities are not sufficient to support their independent completion of asset assessment tasks. Due to the limited professional competence of an individual appraiser, it is impossible to conduct a comprehensive and adequate analysis of the information, leading to the occurrence of technical risks.

Conclusion: In order to improve the quality of asset appraisal report and avoid the risk of asset appraisal, asset appraisal institutions should not only consider internal factors, but also discuss the changes in the legal and policy environment of the market. By strengthening the construction of internal control mechanism, improving the internal risk management plan, we will explore scientific countermeasures to maintain the benign practice environment of institutions. Scientific asset evaluation is an important part of promoting economic development. Because of various factors, the asset assessment has a certain risk. On the basis of relevant research results, the main causes of asset assessment. Finally, this paper presents some constructive suggestions on the asset assessment risk prevention work system. For example, improve the collection process of asset evaluation information, do a good job in processing relevant information, effectively improve the comprehensive management system of evaluation institutions, and help reduce the risk coefficient of asset evaluation with the help of the necessary job training and supervision mechanism.

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