



POSSIBLE DEVELOPMENT OPPORTUNITIES FOR INTERNAL CONTROL IN A BANK

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Field of Study: Accounting and Auditing

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ANNOTATION

The article discusses the essence and modern content of internal control, as well as methods of its evaluation, efficiency standards, and development prospects in banking companies.

Key words

internal control, internal control system, internal audit.

The concept of internal control is crucial for the success of any company. It marks the beginning of creating an internal control system that aligns with the company's strategy.

The banking community has always recognized the importance of internal control issues. Banks have realized the need to implement various internal control systems as a result of their daily routine work aimed at reducing risks. Senior management worldwide is increasingly focusing on improving managerial control and risk control systems in corporate governance. Risk control, internal control, and corporate governance are closely interconnected. Risk assessment at the strategy development stage is essential for effective corporate governance. In turn, effective corporate governance ensures risk control. Furthermore, control and risk are interrelated, as control involves any actions by management, boards of directors, and other bodies involved in risk control and increasing the likelihood of achieving goals and fulfilling tasks.

A company engaged in civilized and socially responsible business utilizes an internal control system. It is important to emphasize two main components: strategic and operational. The internal control system should align with the company's strategy, organizational structure, and economic goals.

In the operational aspect, control must ensure that processes are executed in a manner that keeps measurement results within optimal values. This enables the company to gather information about the effectiveness of achieving its strategic goal. The company can compare its performance using the control system. It can see predefined values and correct deviations if they exceed acceptable thresholds.

A good internal control system helps monitor risks, assets, and liabilities, ensuring the reliability, completeness, and transparency of financial, accounting, and statistical reporting, as well as compliance with federal laws and regulations, banking standards and regulations, professional conduct rules, and internal bank policies related to its practices.

The concept of total control existed in the Soviet Union. Its drawbacks included overly formal and simplistic inspections, with strict rules for every activity. Dispatchers' instructions were highly vague, merely referencing some rules without describing the reasons and consequences of each failure; thus, it was difficult to identify any deviations from existing standards.

The concept of risk-oriented control, known among professionals as COSO, emerged in response to the imperfections of the total control concept. Financial institutions and regulatory bodies are gradually moving away from the idea of total control. However, the process of creating a unified concept of internal control similar to the COSO concept is not yet complete.

The rules of the International Bank for Reconstruction and Development strongly recommend attracting foreign investments, which require that the annual reports of state-owned borrower companies include an internal control report, audited by an external auditor, and contain information:

1. About how the company's management works on establishing and maintaining an internal control system that aligns with the business;
2. About the assessment of how well the company's internal control system operates, as well as the rules used for preparing financial statements.

Regulators are paying more attention to regulatory risks, which increase reputation risks as well as risks associated with capital optimization and liquidity maintenance. This determines how to create the structure and functions of the regulatory risk management subsystem and how it is linked to other units of the corporate governance system.

First and foremost, the purpose of the internal corporate control system should be defined, which in a modern bank should include the following:

- Ensuring the effectiveness of financial and economic activities related to banking and other operations;
- Ensuring the accuracy, completeness, objectivity, and timeliness of preparing and presenting financial, accounting, tax, statistical, and non-financial reporting for both internal and external business stakeholders;
- Compliance with legislative acts, rules of self-regulatory organizations, charters, and internal documents;
- Prevention of the bank and its employees from participating in illegal activities, such as money laundering, financing terrorism, and others.

Based on the goals outlined above, a standard internal control system for a banking organization is proposed, consisting of the following bodies:

- Bank management bodies;
- Audit Commission;
- Audit Committee;
- Risk Committee;
- Chief Accountant (and their deputies);
- Responsible employee (department) for combating money laundering and terrorist financing;
- Internal Audit Service (IAS);
- Internal Control System (ICS);
- Servicing-related risks;
- Securities market participant controller;
- Specialized depository-controller; in accordance with the powers granted by the Bank's internal documents, other structural units and/or senior officials responsible for internal control are located in the units.

Currently, the majority of internal control functions are delegated to the internal audit service to facilitate its work. Conducting internal audits and independently assessing the effectiveness, quality, and efficiency of internal control systems, risk management, and corporate governance are the tasks of the internal audit service.

The bank's internal control service is a structural unit whose main purpose is to identify and monitor the level of regulatory risk. Regulatory risk includes the risk of incurring losses for the credit institution due to non-compliance with state legislation, internal documents of the credit institution, as well as the imposition of sanctions and/or other measures by supervisory authorities.

The risk management department encompasses all internal departments of the bank. The main function of the risk management department is to ensure the functioning of the banking risk management system, including the detection, identification, assessment, monitoring, and control of risks.

In accordance with the authority granted by the Bank's internal documents, other structural units and senior executives may also exercise internal control.

The following are the main directions of work of the presented internal control system:

- Supervision by management over the organization of banking operations;
- Assessment of banking risks and supervision over the operation of the banking risk management system;
- Monitoring how authorities are allocated for banking operations and other transactions;
- Control over the management of information flows and information security;
- Monitoring the operation of the bank's internal control system to assess how well it aligns with the bank's goals and operations, identifying deficiencies, developing recommendations, and overseeing the implementation of decisions to improve the bank's internal control. In the corporate governance of a banking organization, internal control should be carried out at three levels.

Internal control is carried out at the first level in accordance with the legislative acts of the State Bank and internal documents, such as regulations, directives, orders, and job descriptions for operations and transaction executors. Additionally, bank employees assigned control functions by position are subject to continuous monitoring by the bank's management, processes, and technologies.

At the second level, internal control is carried out by the Risk Management Service and the Internal Control Service, which develop appropriate risk management tools for specific departments performing the first level of control, address tasks related to improving the regulatory and methodological framework, establishing uniform approaches to risk management, monitoring key risk indicators and control metrics, monitoring losses, incident management, scenario planning, and risk testing.

The Internal Audit Service conducts internal control at the third level through auditing of business processes. This allows for an independent and impartial assessment of the quality and effectiveness of risk management, internal control, and corporate governance.

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