

AUDIT AS THE FORM OF INTERNAL CONTROL IN BANKS OF UKRAINE (ON THE EXAMPLE OF JSC "SAVINGS BANK")

Setting the problem. Internal control is an integral part of banking technologies and operations of the bank. Traditionally the system of internal control is a set of procedures that ensure the compliance with internal and external regulations in carrying out banking operations, as well as accuracy and completeness of the information emerging in the bank for the purposes of internal and external users. Forms of internal control in banks of Ukraine are usually determined on the normative level. However, banks are developing their own procedures, control technologies, and sometimes determine some of its forms independently. In this respect, it is important to analyze current practices of audit in the institutions of JSC "Savings bank", defining features and advantages of this form of the bank internal control.

The analysis of recent research and publications. Problematic aspects of internal control management in banks are reflected in the works of a number of national scientists and practitioners, in particular such as G.Bilokin, M. Zhadan, I. Krasnova, N. Pohorelenko, A. Sarahman, L. Serdiuk, A. Sydorenko, T. Fahrion, A. Khomenko and others. The vast majority of domestic authors' publications are devoted to the organization of internal control in banks, methodological and organizational aspects of intrabank audit as the main form of internal control in the domestic banking instruments. However, in the economic literature the issues of audit as a form of internal control in the context of its optimization has not enough been studied yet.

Setting the objective. The aim of the study is to develop a theoretical principles and practical recommendations for improving internal control systems in banks. The main objectives of the study include: identification of the place and role of audits in internal control of the bank, the study of economic substance, foundations and methodological aspects of the audit organization in the institutions of JSC "Savings bank" and to identify similarities and differences in the technology implementation of the auditing work and other forms of internal control in banks, forming offers concerning the possibility of optimizing the internal control systems in banks of Ukraine taking into account the experience of conducting audits in the institutions of the Savings Bank of Ukraine. The object of the study is a system of bank internal controls in Ukraine. The subject of the research is an audit as the form of bank internal control.

The main material of the study. The basic principles of internal control in banks of Ukraine are defined by the Regulation on the organization of accounting and reporting in banks of Ukraine (Regulation of the Board of NBU of 30.12.1998 No 566) [7]. Under this regulation, the internal control in banking institutions combines accounting and administrative control of the assets and liabilities of the bank. Accounting control combines procedures which allow to ensure the bank assets preservation and the reliability of statements that are made by the accounting Service [7, p. 15]. Administrative control is a set of procedures delegating authority between different levels of the organizational structure of the bank. It implies the division of powers between the bank employees so that no employee was unable to amass all the necessary powers for performing full operation (receiving, payment, storage) [7, p. 17].

Types of accounting control differ in stages of execution of banking operations and their reflection in the accounting system of the bank (Fig. 1).

As it is stated in the Regulations, the procedure of the previous, current and subsequent control is defined by the bank itself. The bank establishes a list of transactions that require additional control, determines the amount and frequency of inspections of certain sections of the accountancy service procedures, logical and arithmetic control over the accuracy of statements independently [7, p. 15].

Further control begins after the business operations based on data recorded in primary documents, accounting registers and statements. It aims to find out the most important factors and causes that positively or negatively affected the banking operations previously performed. Further control is usually carried out by the staff of the back office or internal audit service of the bank in accordance with their duties defined by internal regulations of the institution.

In the course of subsequent inspections the violations of banking and accounting rules are revealed and their causes are investigated. According to the results of inspections some measures are taken to eliminate violations and prevent them in the future. It should be noted that the forms of subsequent accounting controls are not specified in the Regulations. However, it is noted that creation of an effective system of internal banking control is achieved by optimizing the relationship and information exchange between internal controls, internal and external auditors of the bank.

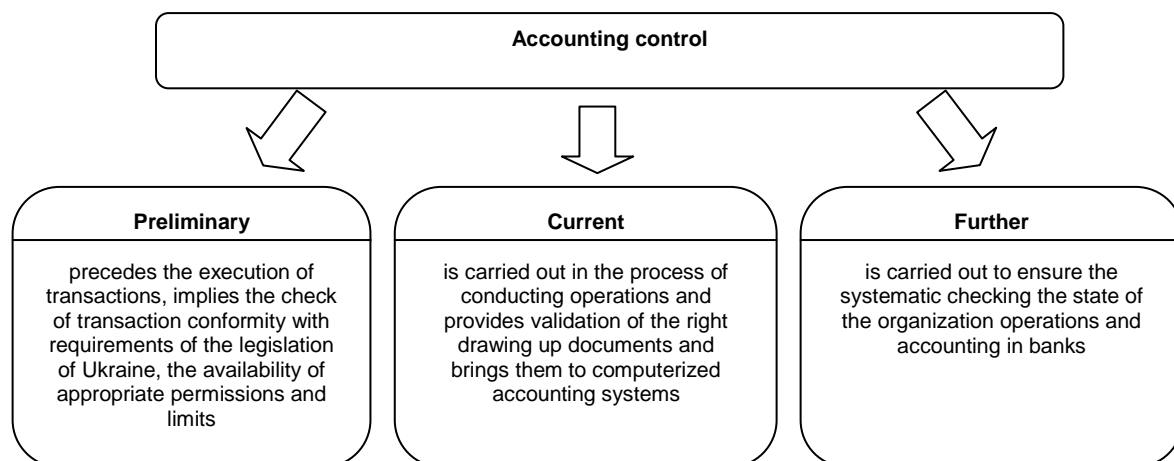


Figure. 1. Types of accounting control in the banks of Ukraine

Source: developed by the authors based on [7]

The practice of domestic banks today shows the use of such forms of further accounting controls as verification of individual operations by the bank employees and doing inspection by the staff of the internal bank audit service.

In our opinion the experience of internal control in the institutions of the Savings Bank of Ukraine is worthy, in particular, to conduct further inspections of these structural units of the bank and certain areas of its activities.

In the establishments of Savings Bank of Ukraine the main form of the next control is the revision. Herewith, the organizational and methodological aspects of audit in the institutions of the Savings Bank are governed by internal regulations of the bank. Such approach generally meets the requirements of the National Bank on the organization of operations and internal control systems of banks in Ukraine. In particular, the Regulation on organization of banking operations in Ukraine, approved by the Board Resolution of NBU No 254 of 18.06.2003, states that the banks are developing technologies for carrying out banking operations themselves and determine methods of internal control over their conducting in accordance with the legislation of Ukraine [9, with. 2].

Audits and inspections of Savings Bank establishments are carried out by control and audit service of the bank in accordance with the Regulations on the audit and control service of JSC "Savings Bank" [8] and Rules of conducting audit and control of financial and business activity of JSC "Savings Bank" establishments [13]. Control and audit service is independent in its activity on the subdivisions which it checks.

Along with the control and audit service in the Savings Bank establishments functions the internal audit service, which operates under the Regulations on the Internal Audit Department of JSC "Savings Bank", approved by the decision of the Supervisory Board of 14.12.2007 No 3 [6]. Functions of Internal Audit Service is a part of the constant monitoring of the internal control system and internal procedures for the assessing bank capital, they provide an independent assessment of the adequacy of the introduced policy and methods of the bank operations, as well as their implementation.

So, having complied with the requirements of the NBU on the functioning of internal audit systems in banks of Ukraine, Savings Bank provides traditionally with auditing as the main form of internal control in a banking institution.

According to the procedure for auditing and control of financial and economic activities in the establishments of JSC "Savings Bank" the revision is the method of documentary control over financial and economic activity of the bank, compliance with the legislation of financial issues, reliability of accounting and reporting, method of documentary shortage exposing, embezzlements, appropriations and thefts of funds and material values, prevention of fraud [12, p. 4].

Control and audit departments provide the compliance with current legislation requirements and regulatory and legal acts of the National Bank of Ukraine, resolutions of the Board of the Bank by the Savings Bank agencies, implementation of guidelines, including the strategy implementation and the bank policy, and timely to bring the information concerning the results of conducted inspections to the attention of the governing bodies of the establishment. The inspection of Savings Bank establishments in terms of the directions of its activities is carried out by taking into account the requirements of the regulatory and legal acts of the NBU and internal regulative documents of the bank.

The main purpose of the audit and review service of the Savings Bank establishments of Ukraine is to promote the improvement of financial and economic activities of the bank and its branches, enterprises and organizations established by its participation, preservation of property and funds of the bank, economical use

of material and financial resources, targeted and efficient use of bank resources, prevention of abuse, mismanagement and wasteful use, minimization of operational risks [8, p. 6].

The revision process in the institutions of the Savings Bank consists of several stages:

- planning the audit and review work;
- preparation for the auditing;
- organizational and research stage (conducting the audit and review procedures and inspection of financial and economic activities of the bank establishment stipulated by the plan - task);
- the processing of audit materials (tested and proven violations, deficiencies are included in the audit act);
- implementation of audit materials;
- monitoring the implementation of decisions taken by the audit materials;
- accounting the auditing and statements on auditing work.

The procedure and grounds for conducting documentary audits and inspections by the control and audit service of the bank are defined by Regulation on auditing and control of financial and business institutions of JSC "Savings bank" [13]. The Regulation defines the basic technologies of auditing, the analysis of which we believe is appropriate in the context of evaluation features of this form of internal control in banks.

Conducting the audits and inspections in the establishments of Savings bank of Ukraine is carried out on the basis of auditing plans, formed in the bank according with the state at the beginning of this year. Terms of audits and the audit groups are determined concerning the list of specific issues which need to be solved during the audit.

In the organizational aspect of conducting revisions in the institutions of the Savings Bank the list of issues that will be checked, the audit group, the timing of inspections is substantiated on the plan task, which provides facilities and scope of inspections.

The preparation of materials precedes auditing. These materials are related to activities and financial position of the object verification, and the development of the plan task of conducting a documentary revision with the list of major issues, issues, which need to focus, that are stipulated with terms and volume of verification.

At the same time objects of inspections are determined in two ways: structural subdivisions of the Bank as separate objects of inspections and bank transactions that generate the operational risks of institutions. This approach, in our opinion, is justified because the audit verification within the framework of objects has different aim, objectives, subject of verification etc.

In particular, the operation associated with the daily work of the bank, that are controlled by control and revision service, include operations that generate operational risks (the possibility of incurring losses due to inadequacy or failures in internal processes, information and technology systems, the actions of human factors or external events).

Among them are:

- operations of economic activity. Documentary revisions should make sure that assets and liabilities exist in fact and the establishment of the bank correctly and accurately conducts its records. In the implementation of verification, attention will be focused on the substantiation of the acquisition and recording of fixed assets and intangible assets, inventory, changing their original cost revaluation, renovation, modernization, etc.;
- revenues and expenses of the bank. The correctness of assigning costs to the corresponding balance sheet accounts, the availability of documents confirming the implementation of administrative and other costs, availability of agreements, estimates for repairs, acts of performed works, acts of acceptance of repaired objects are verified. It has been established reasons of the cost overruns by budget items. The correctness of penalty of commission remuneration according to agreements is conducted;
- operations of the bank with cash. Verification of cash operations and Encashment in banking institutions is implemented. Encashment in banking institutions is implemented. It is envisaged the verification procedure of the organization of the institutions of the bank with cash in national currency, transportation money and currency value, encashment of clients' funds and determination the state of internal controls over these operations;
- operations of the bank associated with the calculated customer service. Verification of the original documents by accepted payments for utilities and other payments is implemented to reduce the risk of abuse; it is checked against the residue of accepted payments by the population with the accounting data, verification the regulations regarding the operations of interbank payments, transfer of funds for the purpose in accordance with the concluded agreements;
- operations with management of current and deposit (savings) accounts of legal and physical persons in national and foreign currencies. Ability to assign to officials partially or fully funds on deposits is considered and warned during checking;
- operations with credit activity of the bank: compliance with established limits and responsibilities, order granting, design, monitoring the use and repayment of loans. Accuracy of classification of credit debt

with groups by risk and calculate the required size of reserve to compensate possible losses on credit operations of the bank are also checked;

- bank transactions with foreign currency. The process of ensuring of staff awareness and appropriate sharing of responsibilities, strict compliance requirements of normative documents is checked to prevent fraud of unauthorized persons;

- operation with receivables and payables. Reality of turnovers and balances of accounts receivable and creditor debts are checked; reflection of operations by balance sheet of accounts receivable and accounts payable for their economic content, that is controlled timeliness and completeness measures regarding the collection of receivables. Availability of approved and registered with the relevant provisions of territorial management the NBU of such establishment and agreed authorization to conduct banking of operations is checked in conducting revisions of individual departments of the Savings Bank; availability of warrants on top officials; availability of properly executed documents that are defined authority and responsibility of the structural unit of the bank, which is checked (the position about subdivisions job descriptions, proved against signature to the performers, orders, directives); taking measures for the acts of the inspections of NBU, tax and other authorities (for the period from the previous revision); implementation of the proposals for revision of previous material and measures taken to address the violations and deficiencies in the work; evidence of internal normative and legal acts of the Savings Bank to subordinate agencies and monitoring their implementation; effectiveness of organizational and methodological work of the structural unit that are checked (holding of seminars, preparation of survey and review and informational letters, practical assistance locally, etc.).

Studies of the objects that are subject to revision, based on using of different sources of information, including: normative and juridical basis, orders and resolutions of the Board of the NBU, the internal normative legal acts of the Savings Bank, accounting and statistical reports, acts of revisions, primary documents, reports, notes, written statements, explanations of officials and other materials.

The control over documents is implemented by their form and content, through cross-checks of operations, analytical and logical methods.

It should be noted that the current Procedure for conducting revisions clearly regulates the methods of conducting revisions by separate activities of a bank or objects of check, which include cash transactions; lending operations of businesses and individuals; the state of accounts receivable and accounts payable; condition of fixed assets, intangible assets and inventory; income and expenses of the establishment; check the operating department; foreign exchange of transactions, the state of auditing work [12, p. 3].

In general, a structured scheme of the procedure for conducting revisions by the indicated directions of activity of the bank institutions has the following form (Fig. 2).

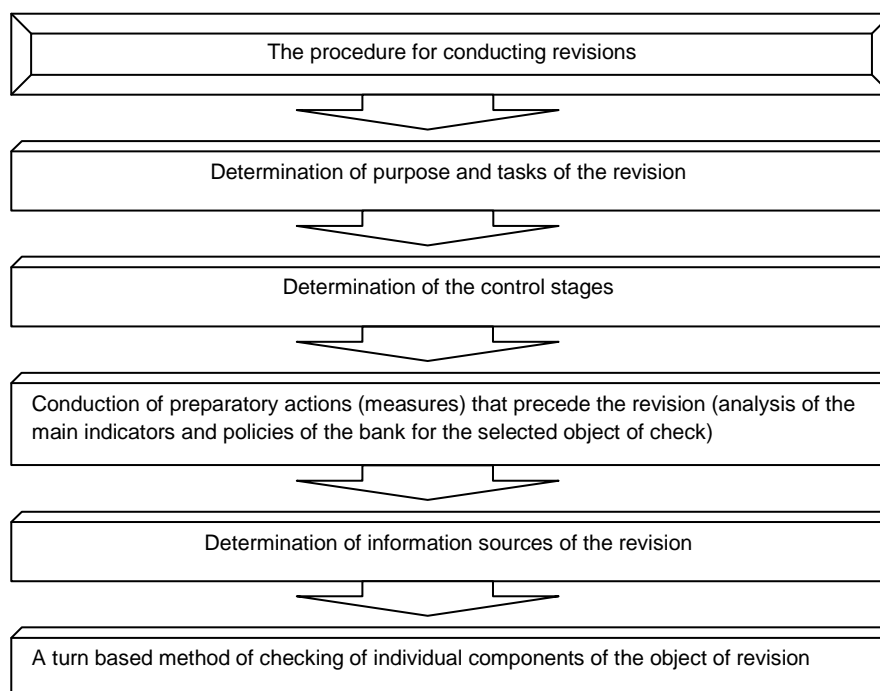


Figure. 2. The procedure of conducting revisions in the institutions of the Savings Bank of Ukraine (by separate directions of activity and objects of check)

Source: developed by the authors based on [12]

It should be noted that the current methodology of checking the status of the object within each component element according to which the verification envisages determining the list of items that are

checked. This approach, on the one hand, allows you clearly to structure the methodology of the audit, and the other – to embrace all aspects of verification within the specified object.

The audit is carried out with the selective method for gathering evidence about the facts of economic and financial irregularities that allows you to make an assessment of the activities of the audited object in general.

The materials of the audit highlights essential facts that are connected with violations, illegal acts, errors, waste, inefficiency and lack of control, which can negatively affect the bank activity or its institutions, with reference to the appropriate normative and legal acts.

The results of the audit are formalized with act, which is agreed with the management of the audited object.

It is necessary to add to the act of revision the following documents: memorandum, the intermediate acts, references, copies of original documents, data, calculations, analytical table, written explanations of officials and materially responsible persons in case of shortages, theft and abuse.

The materials of the audit highlights violations and indicates whether its were admitted in the past, what measures will be taken to prevent them from occurrence in the future. Appropriate management decisions to eliminate the shortcomings and to prevent in the future are accepted according to the results of the revision.

Conclusions and further research. In general, the implemented analysis of organizational and methodological aspects of conducting revisions in the institutions of JSC "Savings Bank" leads to the following conclusions.

1. The procedure of conducting revisions in the institutions of the Saving Bank is regulated by current normative acts of the institution and, in general, meets the requirements of the National Bank on the organization of internal control in banks of Ukraine. JSC "Savings Bank", which is the only domestic banking institution, which uses the audit as the main form of the following internal control over all directions of the bank.

2. Analysis of current normative base and current practice of auditing work in the institutions of JSC "Savings Bank" showed that the revision have some differences and peculiarities in relation to other forms of internal control in banks and methodology of conducting. These peculiarities include: a clear pre-planning of audit inspections, the selection of individual stages within the framework of conducting revisions for specific objects of verification, clearly defined methodology of checks for certain directions of activity of the bank and the objects of verification.

3. Methodical maintenance of conducting revisions in the institutions of the Saving Bank foresees the development at the level of the bank stepwise instructions that contains the list of items that are checked as part of the object of control, the list of questions for each element of the verification technologies of checks for each of the identified issues, etc. This approach allows you to cover all aspects of the verification and form a coherent picture of the state of the object that is checked.

4. Considering that the verification audit covering all activities of the bank and virtually all structural units can be argued that revision is a continuous and consistent form of the following internal control in the institutions of JSC "Savings Bank". In view of this, it would be appropriate at the level of the bank to delineate more clearly the functions of revision and internal audit as some form of internal control in the aspect of purpose, tasks, objectives of checks etc.

5. We believe that domestic banking institutions advisable to use the experience of the Saving Bank on the organization of control, including audit inspections in the aspect of their precise planning, structuring and methodological support. Rigid regulation of all procedures of conducting revisions is an important prerequisite for effective functioning of internal control system in the bank.

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Spiak H.I., Sass B.B. AUDIT AS A FORM OF INTERNAL CONTROL IN BANKS OF UKRAINE (ON THE EXAMPLE OF JSC "SAVINGS BANK")

Purpose. The aim of the study is to develop a theoretical principles and practical recommendations for improving internal control systems in banks.

Methodology of research. The logic of the study is based on the distinguishing certain element in the system of internal controls of banks and study of its features, advantages and disadvantages. The research is carried out from general (the internal controls system of banks in Ukraine) to specific (audit as a form of control in the institutions of the Savings Bank) and is based on the use of empirical learning method.

During the research the method of analysis and synthesis in the part of the analysis of separate components of audit institutions of the Savings Bank and generalization of the obtained results in the form of conclusions regarding the formation of the basic approaches to the arrangement and methods of conducting audits as a form of internal control in banks have been used.

Findings. The paper has defined the basic principles of organization and methodology of conducting the audit in the institutions of the Savings Bank, an assessment of conformity of this form of control to current requirements of the National Bank has been given, its features, advantages and disadvantages have been determined.

Originality. Determining the economic essence of the audit as a form of internal control of the bank has been further developed; the analytical assessment of organizational and methodological aspects of audit has been given.

Practical value. Presented conclusions and recommendations in the paper can be used in the process of arranging the following control in the institutions of domestic banks, particularly in terms of planning, structuring and methodological support of conducted inspections.

Key words. Internal control, accounting control, auditing, auditing process, order of conducting audits