
Internal Control in Banks

Turobov Sherzod Alisherovich

*Karshi engineering economics institute, senior lecturer of the department of "Accounting and Audit",
sh.turobov@mail.ru*

Namozov Bekjon Buron Ugli

2nd year student of Karshi engineering economics institute

Abstract: Internal control is a crucial aspect of banks' operations as it helps to safeguard the organization's assets, ensure compliance with laws and regulations, and enhance the reliability and accuracy of financial reporting. This research work examines the concept of internal control in banks, its importance, and the different types of internal controls that banks employ. The study also highlights the challenges associated with implementing and maintaining effective internal controls in banks and proposes solutions to mitigate these challenges. The research draws upon existing literature and data collected through interviews with professionals in the banking industry. The findings of this study provide insights into the best practices for internal control in banks and will be useful for bank management, regulators, and auditors.

Key words: internal control, banks, risk management, compliance, financial reporting, best practices.

Introduction

Internal control is a critical aspect of banking operations as it helps ensure that a bank's assets are safeguarded and financial transactions are conducted in an accurate and reliable manner. Here are some of the key reasons why internal control is relevant in banks:

Preventing fraud and errors: Internal controls are put in place to prevent fraudulent activities and errors that could lead to financial losses for the bank. These controls include segregating duties, reconciling accounts, and conducting regular audits.

Compliance with regulations: Banks are subject to numerous regulatory requirements, and internal controls are necessary to ensure compliance with these regulations. Internal controls help banks meet reporting requirements, prevent money laundering and other financial crimes, and protect customer data.

Risk management: Banks are exposed to a wide range of risks, including credit risk, market risk, and operational risk. Internal controls help banks manage these risks by identifying potential issues and implementing measures to mitigate them.

Accountability: Internal controls provide a framework for accountability within the bank. By ensuring that policies and procedures are followed, internal controls help ensure that employees are held responsible for their actions.

The relevance of internal control in banks cannot be overstated. Internal controls help banks operate efficiently, protect their assets, and maintain the trust of their customers and investors.

Research methods

The article examines and observes the scientific and theoretical approaches to the topic arising from the scope of the topic. The direction was chosen to achieve the goal set in the study. Methods of observation, aggregation, grouping, and identification of connections between data sources of empirical research and methods of analysis and synthesis of theoretical research have been widely used.

Analysis and results

Internal control is a crucial aspect of banking operations, particularly in ensuring the integrity of financial information and safeguarding assets against fraud and other forms of misconduct. In this article, we will explore the importance of internal control in banks and how it works to maintain a reliable and secure financial system.

Internal control in banks refers to the system of checks and balances that are put in place to ensure that the bank's operations are in line with regulations, policies, and procedures. The main objective of internal control is to provide reasonable assurance that the bank's operations are conducted efficiently, effectively, and in compliance with applicable laws and regulations.

Internal control involves the implementation of policies and procedures that are designed to detect and prevent errors, fraud, and other forms of misconduct. This includes processes such as verifying the accuracy and completeness of financial transactions, segregating duties to prevent conflicts of interest, and ensuring that proper approvals and documentation are in place for all transactions.

One of the primary goals of internal control in banks is to prevent fraud. Fraud is a significant concern for banks, as it can result in significant financial losses and reputational damage. Internal controls can help prevent fraud by ensuring that proper authorization and documentation are in place for all transactions, segregating duties to prevent conflicts of interest, and implementing security measures to protect against unauthorized access to sensitive information.

Another critical aspect of internal control in banks is risk management. Banks face a range of risks, including credit risk, liquidity risk, and operational risk. Internal controls can help manage these risks by ensuring that appropriate policies and procedures are in place to identify, measure, and manage risk. This includes implementing risk-based internal audits, conducting regular reviews of internal control processes, and establishing a robust risk management framework.

Internal control in banks also plays a crucial role in maintaining the accuracy and reliability of financial information. Banks are required to produce financial statements that accurately reflect their financial position and performance. Internal controls can help ensure the accuracy and reliability of financial information by implementing procedures such as reconciling accounts, verifying the accuracy of financial data, and ensuring that financial statements are prepared in accordance with accounting standards.

Internal control is a critical aspect of banking operations, and the importance of effective internal control cannot be overstated. Internal control provides assurance that the bank's operations are conducted in compliance with regulations and policies, and that risks are appropriately managed. By ensuring the accuracy and reliability of financial information, internal control also helps to maintain the trust of customers, shareholders, and other stakeholders. As such, banks must continue to invest in internal control processes to maintain a robust and secure financial system.

Modern methods of internal control in banking have evolved with advancements in technology and changes in regulatory requirements. Some of the most common methods used today include:

Risk-based internal audit: Internal audit is an important function of internal control in banks. The risk-based approach to internal audit focuses on identifying and assessing the risks that are unique to the bank's operations and designing audit procedures to mitigate those risks.

Automated controls: Automation is increasingly being used in internal control processes in banks. Automated controls can help detect and prevent errors and fraud, and can provide real-time monitoring of transactions.

Data analytics: Banks are using data analytics tools to analyze large amounts of data to identify patterns and anomalies that may indicate fraudulent activity or other risks.

Segregation of duties: Segregation of duties is an important internal control mechanism that ensures that no single person has complete control over a process or transaction. This helps prevent errors and fraud.

Continuous monitoring: Continuous monitoring involves ongoing monitoring of transactions and other activities to identify potential risks or issues. This can be done using automated tools or manual processes.

Code of conduct and ethics: A code of conduct and ethics sets out the standards of behavior that are expected of all employees of the bank. This helps promote a culture of integrity and ethical behavior.

Training and awareness: Training and awareness programs help ensure that employees are aware of the bank's policies and procedures and understand their roles and responsibilities in maintaining internal controls.

Modern methods of internal control in banks are designed to provide a comprehensive and robust framework for managing risks and ensuring the integrity of the bank's operations.

According to the legislation of the Republic of Uzbekistan, the Bank's Internal Control Service is independent from the heads of its divisions. It avoids any influence that prevents it from performing its functions. This independence is ensured by the following aspects:

first, decisions on the appointment, dismissal of the head and employees of the Internal Control Service, as well as their performance evaluation and the amount of remuneration payments (salary, bonuses, etc.) are taken only by the supervisory board;

secondly, the head of the Internal Control Service cannot have the authority and financial obligations to manage the profit-oriented divisions of the bank and carry out operations. It is also not allowed to add positions.

Conclusions and suggestions

Improving internal controls in banks is critical for ensuring that financial institutions are managing risks effectively, complying with regulations, and safeguarding assets. Here are some steps that banks can take to improve their internal controls:

Conduct a risk assessment: A risk assessment can help identify areas where the bank may be vulnerable to fraud, errors, or other risks. The assessment should cover all areas of the bank's operations, including lending, deposit-taking, and treasury operations.

Implement policies and procedures: Policies and procedures should be established and enforced to ensure that all employees understand their roles and responsibilities, and that they are held accountable for their actions. These policies should be reviewed periodically and updated as necessary.

Segregate duties: The bank should segregate duties among different employees to ensure that no single person has control over a transaction from beginning to end. This reduces the risk of fraud or errors.

Implement monitoring and reporting systems: The bank should have systems in place to monitor and report on its operations, including the identification and reporting of suspicious transactions. This can help detect and prevent fraudulent activity.

Provide ongoing training: Ongoing training is essential to ensure that all employees understand the bank's policies and procedures, and to keep them up-to-date on changes in regulations and industry best practices.

Conduct regular internal audits: Regular internal audits can help identify weaknesses in the bank's internal controls and suggest improvements.

Establish an effective whistle-blower policy: The bank should establish a whistle-blower policy that encourages employees to report any suspected fraudulent or unethical behavior without fear of retaliation.

Improving internal controls requires a comprehensive approach that includes risk assessment, policies and procedures, segregation of duties, monitoring and reporting systems, ongoing training, internal audits, and a whistle-blower policy. By implementing these measures, banks can reduce the risk of fraud and errors, and increase confidence among customers and investors.

References

1. Decision of the board of the Central bank of the republic of Uzbekistan of the department for the fight against tax, currency crimes and laundering of crime proceeds under the prosecution general of the republic of Uzbekistan. "On the approval of the internal control rules to counter the laundering of the proceeds from criminal activities, the financing of terrorism and the financing of proliferation of weapons of mass destruction in commercial banks". May 23, 2017 Registration number 2886.
2. The law of the republic of uzbekistan "On accounting". Tashkent, April 13, 2016, No. O'RQ-404.
3. Resolution of the Board of the Central Bank of the Republic of Uzbekistan "On approval of the chart of accounts in commercial banks", registered on November 26, 2021, reg. number 3336.
4. Decree of the Board of the Central Bank of the Republic of Uzbekistan "On approval of instructions on the procedure of accounting and organization of accounting work in the banks of the republic of uzbekistan", registered on 11.07.2008, reg. number 1834.
5. Murodov, J. (2020). Мамлакатимизда хизмат кўрсатиш соҳасида олиб борилаётган ижтимоий-иқтисодий ислохотлар кўлами. *Архив научных исследований*, (29).
6. Утанов Б., Маматкулов Б., Ахмедова М., Муродов Дж. и Абдикулова Д. (2021). Взаимосвязь взаимодействия сельскохозяйственного производства с объемом дехканского производства в Узбекистане. *Илкогретим Онлайн*, 20 (3).
7. Музаффарова, К. З., & Эгамбердиева, С. Р. (2022). ҚАШҚАДАРЁ ВИЛОЯТИ ИҚТИСОДИЁТИДА ХОРИЖИЙ ИНВЕСТИЦИЯ ИШТИРОКИДАГИ КОРХОНАЛАРНИНГ РОЛИ. *Журнал Инновации в Экономике*, 5(1).
8. Rayimovna, E. S., & Normamatovich, X. O. (2021). Kapital Qo 'Yilmalar Hisobini Takomillashtirish. *Academic Journal of Digital Economics and Stability*, 290-296.
9. Rayimovna, E. S., & Rayimovich, S. R. (2021). Specific Features and Importance of Organization of Financial Results Accounting on the Basis of International Standards. *Academic Journal of Digital Economics and Stability*, 297-303.
10. Эгамбердиева Салима Райимовна (2021). ИҚТИСОДИЙ ИСЛОҲОТЛАР ЖАРАЁНИДА ИНВЕСТИЦИЯЛАР ҲИСОБИНИ ТАКОМИЛЛАШТИРИШ МАСАЛАЛАРИ. *Экономика и финансы (Узбекистан)*, (4 (140)), 42-47.
11. Egamberdiyeva, S. R., Qodirov, F. I., & Shopiyev, R. R. (2022). BUXGALTERIYA HISOBINING MILLIY STANDARTLARINI MHXS GA UYG 'UNLASHTIRISH ASOSIDA TAKOMILLASHTIRISH. *Gospodarka i Innowacje.*, 24, 353-358.

12. Туробов, Ш. А. (2021). DEVELOPMENT OF HOME-ENTREPRENEURSHIP AS GUARANTEE OF AGRICULTURE STRATEGY. *Экономика и финансы (Узбекистан)*, (4), 15-20.
13. Turobov, S., Muzaffarova, K., Alimxanova, N., & Azamatova, G. (2020). Increasing the financial and investment potential of the households. *European Journal of Molecular & Clinical Medicine*, 7 (2), 414-424.
14. Turobov, Sh. A. (2019). The effect of reforms on the development of entrepreneurship in families. *Economics and Finance (Uzbekistan)*, (11).
15. Turobov, S. A., & Azamatova, G. I. (2020). THE OPPORTUNITIES OF DIGITAL ECONOMY AND IMPLEMENTING IT IN THE CIRCUMSTANCES OF UZBEKISTAN. *Theoretical & Applied Science*, (2), 533-537.
16. Alisherovich, T. S. (2023). IMPROVING ACCOUNTING AND ITS MAINTENANCE IN BANKS. *Gospodarka i Innowacje.*, 31, 15-20.
17. Turobov, Sh. A. (2019). The effect of reforms on the development of entrepreneurship in families. *Economics and Finance (Uzbekistan)*, (11).
18. Turobov, Sh. A., & Azamatova, G. I. (2020). REGIONAL CHARACTERISTICS OF HOUSEHOLD ENTREPRENEURSHIP ACTIVITIES IN KASHKADARYA REGION. *Economics and Finance (Uzbekistan)*, (2 (134)).
19. Khurramov, A. F., Mamatov, A. A., Mingboev, Sh. M. U., & Turobov, Sh. A. (2018). THE ROLE OF HOUSEHOLD IN THE CIRCULAR CIRCULATION MODEL OF ECONOMIC RESOURCES. *Economics and Finance (Uzbekistan)*, (9).
20. Khurramov, A. F., Turobov, Sh. A., & Mingboev, Sh. M. U (2018). THE ECONOMIC MECHANISM OF DEVELOPMENT OF INNOVATIVE ACTIVITY IN HOUSEHOLD. *Economics and Finance (Uzbekistan)*, (8).
21. Egamberdiyeva, S. R., & Turobov, S. A. (2021). THE DYNAMICS AND ITS ANALYSIS OF THE INDICATORS OF THE ENTREPRENEURSHIP ACTIVITY OF THE HOUSEHOLDS. *International journal of trends in marketing management*, (1).
22. Alikulov, A. T. (2022). In Uzbekistan, the use of the Stock Market in Attracting Financial Resources by Corporate Entities is One of the Tools. *Journal of Marketing and Emerging Economics*, 2(5), 66-69.
23. Alisherovich, T. S., & Iskandarovich, R. R. (2021). The Importance of Household Entrepreneurship in Providing Employment. *Academic Journal of Digital Economics and Stability*, 177-182.
24. YAKUBOVA, S. S., & RAIMOVA, M. D. THE ROLE OF EFFECTIVE IMPLEMENTATION OF MONETARY POLICY IN A PANDEMIC CONDITION. *THEORETICAL & APPLIED SCIENCE Учредители: Теоретическая и прикладная наука*, (12), 349-352.
25. Turobov, S., Muzaffarova, K., Alimxanova, N., & Azamatova, G. (2020). INCREASING THE FINANCIAL AND INVESTMENT POTENTIAL OF THE HOUSEHOLDS. *Solid State Technology*, 63(6), 141-151.
26. Turobov, S. A., & Azamatova, G. I. (2020). THE OPPORTUNITIES OF DIGITAL ECONOMY AND IMPLEMENTING IT IN THE CIRCUMSTANCES OF UZBEKISTAN. *Theoretical & Applied Science*, (2), 533-537.
27. Туробов, Ш. А. (2019). Оилаларда тадбиркорликни ривожлантириш борасида олиб борилаётган ислохотлар самараси. *Экономика и финансы (Узбекистан)*, (11).

28. Туробов Шерзод Алишерович, & Азаматова Гулсара Исоқовна (2020). ҚАШҚАДАРЁ ВИЛОЯТИДА УЙ ХЎЖАЛИКЛАРИ ТАДБИРКОРЛИК ФАОЛИЯТИНИ АМАЛГА ОШИРИШНИНГ МИНТАҚАВИЙ ХУСУСИЯТЛАРИ. Экономика и финансы (Узбекистан), (2 (134)), 60-65.
29. Джалилов, Р. Х. (2021). THE ROLE OF INFORMATION SOURCES IN IMPROVING TAX CONTROL IN THE CONTEXT OF THE PANDEMIC. *Economics*, (3 (50)), 42-46.
30. Якубова, Ш. Ш. (2022). ПЕРСПЕКТИВЫ ВНЕДРЕНИЯ МООС (МАССОВЫЕ ОТКРЫТЫЕ ОНЛАЙН-КУРСЫ) В ВЫСШЕЕ ОБРАЗОВАНИЕ УЗБЕКИСТАНА. *Gospodarka i Innowacje.*, 24, 217-224.