

# Research on the evaluation of internal control of commercial banks

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**Abstract:** with the downward trend of the global economy, commercial banks are facing severe internal and external environment, and the operating pressure of banks continues to increase. How to achieve efficient development and move forward steadily is an important topic for commercial banks at this stage. In the new economic environment, it is necessary for commercial banks to take the initiative to adapt to the new situation, take the regulatory system as the main clue, pay attention to the links with high risk, focus on key businesses and strengthen internal control. This paper discusses the internal control of commercial banks, analyzes the important significance of internal control evaluation, and discusses the effective strategies of internal control of commercial banks.

**Key words:** Commercial Bank; Internal control; Internal control evaluation

## Introduction

In recent years, there has been a lot of heated discussion about the internal control loopholes of banks, and the financial risks caused by the internal control loopholes have also emerged in endlessly. The bank customer deposit loss cases reported repeatedly on the Internet have attracted the attention of the whole society. We found that the main reason was that the bank involved had loopholes in internal control, which gave the employees involved an opportunity. The establishment of an effective internal control system is an important guarantee for the stable development of commercial banks. By strengthening internal control, commercial banks can shift from extensive development to refined development.

## 1. Overall framework of internal control of commercial banks

COSO committee issued the report of internal control - overall architecture, which made the most comprehensive discussion on internal control. The document points out that internal control should include the following five main factors.

First, internal control environment. Internal control refers to the company's organizational structure, the requirements of the board of directors and its special committees, the company's management philosophy and style, enterprise values, employees' professional ethics, work attitude and other internal factors that affect the production, operation and management of the enterprise.

Second, risk assessment. Changes in the market environment will increase the operation and management risks of enterprises. Therefore, enterprises need to predict, identify and analyze the market risks, identify the links where the enterprises have risks, such as production and operation risks, asset risks, information system risks, legitimacy risks, internal and external environmental risks, assess the risk levels of each link, and identify the high-risk areas.

Third, control activities. Control activities are one of the important activities to ensure the effective implementation of the enterprise's control objectives, mainly including the review of operation and management activities, division of responsibilities, review and approval of business, independent audit and other work tasks.

Fourth, information and communication. The top-down and bottom-up information transmission within the enterprise is very important. Employees should clarify their responsibilities in the enterprise's internal control system, perform their duties well, and form an effective external communication environment.

Fifth, supervision. Internal control is the process of real-time supervision of business activities. There are special managers in the enterprise to evaluate and supervise the business activities of the enterprise regularly and independently.

## 2. Internal control evaluation framework of commercial banks

### 2.1 Internal control evaluation principles

The evaluation of internal control of commercial banks is an inspection, test and evaluation of the effectiveness, suitability and soundness of the internal control system of the management departments and business units of banks. Therefore, the evaluation of internal control adheres to the principles of consistency, systematicness, applicability and objectivity.

### 2.2 Basic steps of internal control evaluation

Preparation phase. The evaluation preparation stage mainly includes the following four contents: clarifying the evaluation objectives, contents and standards; Formulate the evaluation implementation plan; Set up an evaluation team; Determine the division of labor among the team members and preliminarily understand the basic situation of the evaluated enterprise; The notice on comprehensive evaluation of internal control and internal control questionnaire were issued.

Implementation stage: learn about the situation from relevant personnel; Analyze the internal control questionnaire; Internal control

system of the analytical unit; Implement testing and analysis; Fill in the scoring table for comprehensive evaluation of internal control and give the evaluated bank a preliminary score.

Summary report stage: write enterprise evaluation report; Analyze the evaluation results together with the evaluated enterprise; Grade identification and treatment; Organize review and review; Notify the evaluated Bank of the evaluation results and put forward rectification opinions; Put forward improvement methods and optimization suggestions to relevant management departments; Organize and archive.

### **3. Practical significance of internal control evaluation of commercial banks**

The bank has a clear job division. A business will involve multiple departments and employees, resulting in a wide range of internal control work. Therefore, the bank needs to find an internal control evaluation method that is universal and can take into account the differences between different businesses and departments, which is applicable to all departments and businesses of the bank. The internal control evaluation system should conform to the actual situation of the bank, and at the same time, it should be able to effectively improve the fine management ability of the bank.

### **4. Current situation and existing problems of internal control in commercial banks**

#### **4.1 Employees' weak awareness of internal control**

For the bank's internal control work, the regulatory authorities have given guidelines and evaluation guidelines, but the commercial banks' internal control awareness is weak, and the implementation of internal control is not enough. They focus on business management, employee performance and employee assessment. The main reason for the lack of awareness of internal control is that it does not recognize the systematic impact of internal control and believes that internal control has much to do with the management and business of banks. Many banks carry out formal internal control work in order to cope with supervision. The improvement ideas obtained from the internal control work are limited, and the risk management is not strengthened through the content. Banks and employees' inadequate understanding of internal control has led to the externalization and formalization of the internal control system. Nowadays, with the gradual maturity of the operation and management of commercial banks, most commercial banks have realized the importance of internal control, but the formalist internal control mode has occupied the hearts of the people, and it is difficult to eradicate it quickly.

#### **4.2 Lack of effective internal control system**

The internal evaluation of business and process needs sampling test and test evaluation, so as to ensure the construction effect of internal control and promote the achievement of the bank's business objectives. In the process of evaluation, we found that the construction of internal control system, specific tests, self-evaluation of each executive department, and the regulatory evaluation of internal control supervision department were often unable to follow a unified pace, and the problems of independent development were more serious. At the same time, in terms of business operation and management, it is also necessary to carry out all-round control, but banks often fail to grasp the main aspects and key aspects, and relax the management and control, thus leaving relatively large potential risks.

#### **4.3 Lack of scientific design of internal control system**

The internal control system construction of some banks is lagging behind, and the response to the external environment is relatively slow, which needs further adjustment. There are also many banks that simply and roundly apply the regulations of the regulatory authorities without giving details to the actual situation. Some systems do not fully consider the differences between different regions and different businesses, and adopt a one size fits all approach, resulting in the weak enforceability of the internal control system after its introduction, which has played an important role in the implementation and promotion of the system.

#### **4.4 Unreasonable design of internal control evaluation index**

There are still a series of problems in the design of internal control evaluation indicators, such as narrow coverage of evaluation content, less types of evaluation indicators, and single design of evaluation model. First, it failed to set different monitoring priorities according to different regulatory objects; Second, in the setting of internal control evaluation indicators, the weak links of operation and management have not been highlighted, the key parts and links have not been cut in, and the current emerging business and intermediate business have not been covered; Third, it failed to set the types of evaluation indicators and select appropriate evaluation methods according to the management requirements of different levels. The quality of evaluation index design will directly affect the evaluation results, which plays an important role in the sustainable development of internal control.

### **5. Countermeasures and suggestions on strengthening the internal control of commercial banks**

#### **5.1 Improve the ideological understanding of the whole staff and establish the correct management concept**

First of all, it is particularly important to improve the management's awareness of internal control and clarify the responsibilities of managers in internal control. Let the management realize that internal control and business development complement each other. Internal control is the premise and the guarantee for the sustainable development of business. "No rules, no boundaries". The development of banks can not be achieved at the expense of the bank's capital security. They can't violate the rules for the sake of temporary profits. They should implant the idea that everyone is responsible for internal control into their hearts; Secondly, strengthen the internal control training for employees to make them realize that internal control is their "umbrella". Banking is an industry with high risk of operation, and the establishment of various systems is also the experience summary of long-term work. Employees do not have the ability to identify and

respond to risks, do not operate business according to rules and regulations, and do not establish a correct moral outlook, which will cause property losses to banks and customers and ultimately harm themselves.

#### 5.2 Establish a scientific and effective internal control system

The "closed-loop" management mode of the internal control system is formed by breaking departmental barriers and process breakpoints. Compared with "fragmentation", the "closed-loop" effect of the system is comprehensive, thorough, dynamic and starts from the end. The construction of internal control management system of commercial banks should have a systematic plan to ensure the comprehensive development of internal control evaluation. The transformation from "fragmentation" of internal control management to "closed-loop" of internal control makes the internal control defects transition from "symptom solution" outside the table to "fundamental solution" at a deep level. We must establish the enterprise internal control system based on the overall perspective, and focus on creating a series of important "closed loops" in the design process.

#### 5.3 Strengthen the construction of internal control evaluation system, index, method and technology

First of all, there was a saying in ancient times that "the three armed forces did not move, and food and grass came first". Here, we should achieve "internal control, prevention and control, and system first". The internal control management system should cover the whole staff, the whole process and the whole business, and must be adjusted in time with business changes and environmental changes to avoid management disconnection. It should be noted that the strictness of the system is the key to avoid the phenomenon of "closing the cat in the bullpen". It is important to avoid the system becoming a "paper tiger" and seriously implement the system; Secondly, in the internal control evaluation standard system of commercial banks, the evaluation content and standard are based on the guidelines for the evaluation of internal control of commercial banks issued by the people's Bank of China. The evaluation of the head office departments should focus on the soundness, effectiveness and rationality of the internal control design, the evaluation of branches should focus on the suitability of risk control and management means, and the evaluation of branches should focus on the compliance of business operations.

#### 5.4 Comprehensively promote internal control

First of all, internal control management committees are set up at all levels of the bank, which are mainly responsible for the internal control work of this level and subordinate banks, and lead and coordinate the internal control work. Under the leadership of committees at all levels, it is organized and implemented according to the line, with the internal control management committee as the center and the line as the starting point, forming an internal control management evaluation mode of hierarchical management and level by level; Secondly, scientifically formulate the internal control evaluation work plan, make overall arrangements for the internal control evaluation and testing, and strive to improve the quality and efficiency of internal control work. Strive to fully grasp the internal control operation effect and management status of each branch and business line, and provide reference for leaders at all levels and business management departments to carry out internal control management and risk management. Comprehensively diagnose and improve the weak links and management deficiencies in the internal control system, and put forward sound optimization suggestions by revealing the defects of internal control, so as to promote the continuous improvement of the bank wide internal control measures.

#### 5.5 Improve the supporting mechanism of internal control

Establish and improve the supporting mechanism of internal control, and implement the internal control evaluation. Establish three supporting mechanisms for continuous tracking of problem rectification, accountability for violations, and application of internal control evaluation results, establish the authority of internal control evaluation, enhance the influence of internal control evaluation throughout the bank, and effectively urge relevant institutions to continuously improve internal control. First, for the internal control defects and problems identified in the internal control evaluation, the head office and branches should clarify the responsible units, put forward effective improvement measures, guide and track the improvement of each responsible unit; Secondly, if the employees who violate the rules cause losses to the bank's credit or other assets and bad reputation due to dereliction of duty, dereliction of duty, business complaints or violations, or involve violations of discipline or criminal crimes, they will be punished or dismissed according to the amount and nature involved, until they are investigated for criminal responsibility; Thirdly, the internal control evaluation results of branches and sub branches shall be linked with performance and salary assessment, target responsibility system assessment, graded bank assessment, "first and best" qualification for evaluation, annual performance assessment of main principals of branches and sub branches, so as to promote the value of internal control evaluation.

## Epilogue

Internal control is an important guarantee for the safe operation of commercial banks. Internal control evaluation provides guidance for the improvement and strengthening of internal control. This paper discusses the basic methods of internal control evaluation of commercial banks, analyzes the problems and suggestions of internal control of commercial banks, and hopes to help commercial banks' healthy and stable movement through internal control evaluation.

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