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CONTENTS, OBJECTIVES AND TASKS OF INTERNAL CONTROL IN BANKS

Abstract. Internal control is one of the most effective tools of efficiency growth and the main component of a management system, which is aimed at enhancing stability and achieving the goals set for the bank. This article describes the internal control in general; the tasks and peculiarities of an internal control system in commercial banks are disclosed.

Key words: Second-tier banks, control, internal control in banks, management, internal control tasks in banks.

Improving the quality and efficiency of a bank management on the basis of improving its most important function – the control, contributes to the stabilization of a national banking system, and consequently, to the development of the country's economy as a whole. Therefore, the study of problems of intra-bank control functioning is extremely relevant both from the point of view of the development of an internal control theory and the point of its practical use in second-tier bank (STB) activities.

One of the most significant aspects for assessing and comparing various elements of a control system in a bank is the definition of the basic terminology, on the basis of which it is possible to identify components of any system, structure and business process, including control. Deficiencies in development and unclear definitions in the conceptual apparatus are an obstacle to improving and adequately assessing the functioning of an internal control system in STBs.

In the scientific literature on economics and management, one can find many different approaches to defining control. The breadth and diversity of these approaches to studying control testify to the complexity and versatility of this phenomenon, therefore the study of control problems should be based on the use of a systematic approach.

In a large encyclopedic dictionary, control is defined as accounting, account and report checking" and as an "office in charge of checking accounts"; "Control (allegorically) is checking (in general), monitoring the actions (basically, an accounting)." [1, p. 960]

S.I. Ozhegov dictionary notes that in the Russian language, the word "control" has two meanings: verification, as well as surveillance for verification purposes; an institution that is responsible for such a check. [2, p. 285]

As can be seen, in the Large Economic dictionary and Ozhegov dictionary, control is defined as a function of accounting.

A statement of importance of control and differences in opinions on the essence of it, a confusion of the following concepts: control, control activity, control function, control system, observation are admitted by the following scientists:

In particular, the management, as V.R. Vesnin believes, is based on a "clear control system covering all aspects of an entity's activities, without which it (the management) has a fictitious and demonstrative character." [3, p. 371]

According to Stephen P. Robbins and Mary K. Coulter, "in order to effectively manage the entity, it is necessary to consider all the advantages of a well-developed organizational control system and use them." [4, p. 704]

Other authors consider control as a function of management.

E.A. Utkin attributes control to the most important functions of management. [5, p. 219]

According to A. Busygin, "control and its results act within the framework of the effective management concept as the base that serves as the foundation for subsequent decisions in order to further improve the entity's performance, efficiency, effectiveness or profitability." [6, p. 846]

The definition of control as a function of management is derived from the notion that managers need information supplied by control, to monitor any processes and events in order to implement any managerial impact. Recognizing the validity of these points of view, it should be noted that this approach, in our opinion, reflects only one side of control, characterizing rather the integrity of a management process and the manager's performance of certain actions to monitor and verify the functioning of a managed object, but does not fully disclose the completeness of a scientific validity of the control itself and its role in activities of the entity and the formation of a control system. Considering control as an independent management function, it should be noted that it covers all management functions that make up its process starting from planning, preparing a management decision, analyzing its execution degree, and ending with regulating the process of executing a management decision.

Analyzing different points of view on defining the essence of control, we can note the orientation of all control definitions only to the managerial process, which characterizes their one-sidedness and narrowness. It does not take into account the fact that control is not only a function and an integral part of management, but also underlies supervision, audit and can be an independent activity.

As for internal control in a commercial bank, as a rule, the majority of authors interpret internal control as a special kind of activity that has a specific focus and certain methods of implementation.

In the Financial and Credit Encyclopedic Dictionary, the following definition is given: "Internal banking control is a verification by the bank's employees of the compliance of the bank's transactions with established rules and regulations. It is aimed at ensuring the legality of transactions, ensuring the safety of money and other valuables, the correct reflection of transactions in accounting." [7, p. 427]

According to the prominent Russian scientist A.M. Tavasiyev, "bank control (the self-control) is a supervision conducted by a bank and directed by it to itself." [8, p. 239]

V.R. Bank and S.K. Semenov believe that the credit organization should organize and implement internal control ensuring an appropriate level of reliability corresponding to the nature and scale of the accounting transactions conducted. [9, p. 58]

In the instructions of the National Bank of the Republic of Kazakhstan "On requirements for the availability of risk management and internal control systems in second-tier banks," the internal control system is considered "as a set of procedures and internal control policies that ensure the realization of bank's long-term profitability objectives and maintaining a reliable financial and management reporting system that contributes to the compliance with the legislation of the Republic of Kazakhstan and regulatory legal acts of the authorized body, the bank's policy, internal rules and procedures, to the decrease of risk of loss or bank's reputation." [10]

Thus, normative documents provide a more complete disclosure of this concept. Summing up the abovementioned, it is necessary to draw the following main conclusions. Internal control in a commercial bank is a management function of a great importance that is objectively necessary at all stages and levels of management. Control has to cover both the main banking operations and the most important areas of activity (accounting, lending, working with securities, etc.), both the functioning of individual units of the bank, and the financial and economic activities of the bank as a whole.

The internal control of commercial banks, being a special form of the process of checking the financial statements of credit institutions (banks) and functional services, establishes not only the reliability of the presented accounts, but also an objective assessment of all the activities of banks. [11]

The main objective of internal control in a commercial bank is primarily to ensure: improving the management of the bank and its units; limiting the risks of banking activities; abiding by the bank employees by the requirements of law and regulations of the Republic of Kazakhstan, standards of banking and professional ethics, as well as internal regulatory documents of the bank that determine its policies and regulate its activities. The most important tasks to be addressed by the bank's internal control include the following:

- compliance by the bank with the requirements of legislative and normative acts of the Republic of Kazakhstan, as well as internal regulatory documents of the bank that determine its policies and regulate its activities;

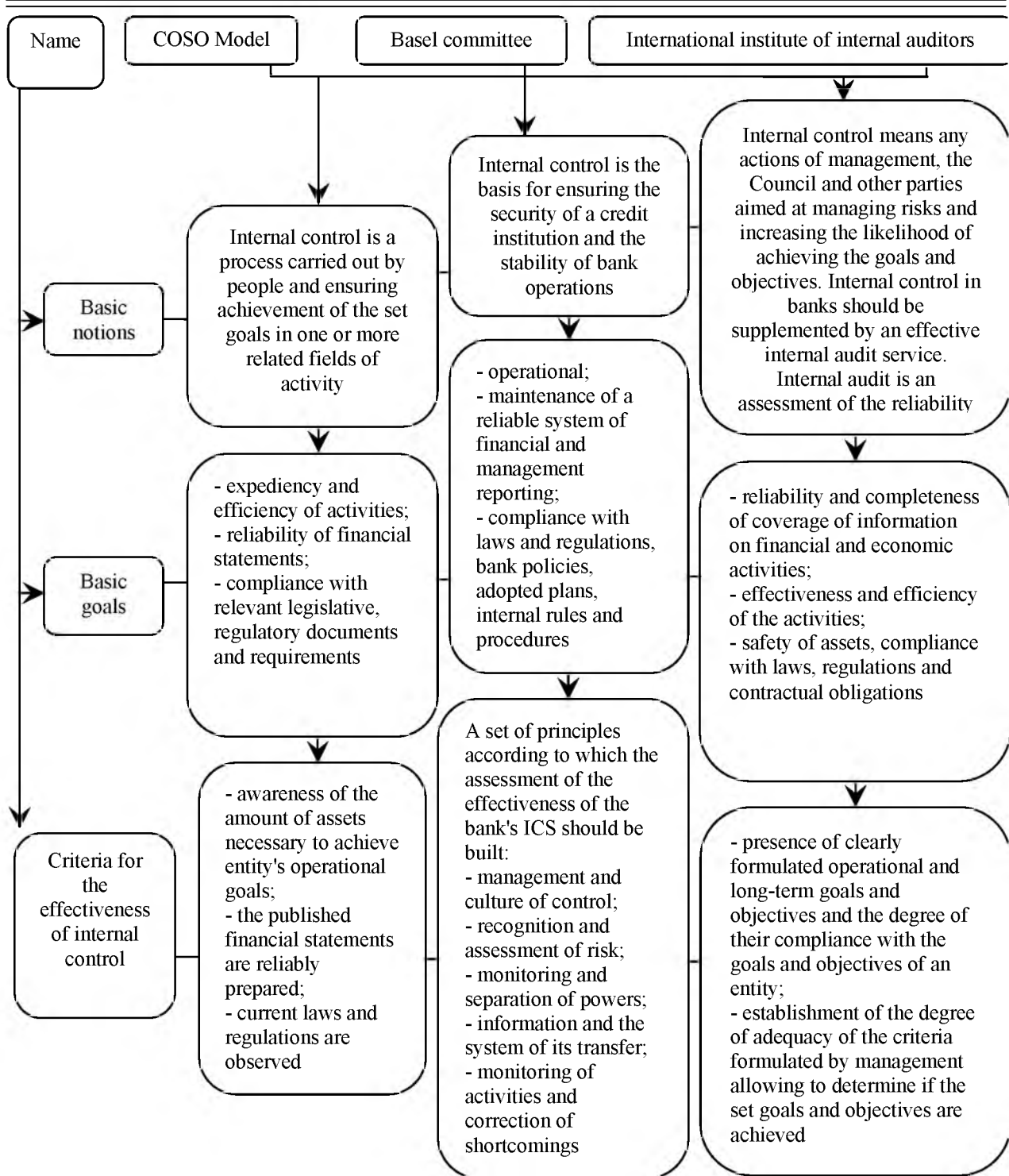


Figure 1–Basic approaches to understanding internal control and assessing its effectiveness: foreign practice
 Note: compiled on the basis of literature [12]

- improvement of the system of internal regulatory documents that determine the powers, rules, decision-making procedures affecting the interests of the bank, its shareholders and customers;
- improving the system of accounting and reporting, and ensuring the safety of the bank's assets;
- ensuring effective management in order to reduce the risks of banking activities;
- improvement of information and analytical support of management and control processes;

- taking timely and effective measures to eliminate identified shortcomings and violations in the activities of the bank

In general, the main approaches to understanding internal control abroad can be systematized as follows (Figure 1).

Summarizing the above-stated, it is possible to present the author's definition of the *purpose of internal control*, which is to provide conditions for achieving the strategic objectives of banks in accordance with the priorities of the state's monetary and credit policy, detecting deviations in the actual state of banks from specified (by the regulatory or internal banking documents) parameters, as well as assessing and reducing the risks of banking activities.

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СОДЕРЖАНИЕ, ЦЕЛИ И ЗАДАЧИ ВНУТРЕННЕГО КОНТРОЛЯ В БАНКАХ

Аннотация. Внутренний контроль является одним из наиболее результативных инструментов роста эффективности и главной составляющей системы управления, которой ориентирован на повышение стабильности и достижение поставленных целей перед банком. В данной статье дана характеристика внутреннему контролю в целом, раскрыты задачи и особенности системы внутреннего контроля в коммерческих банках.

Ключевые слова: банки второго уровня, контроль, внутрибанковский контроль, управление, цели внутрибанковского контроля.

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БАНКТЕРДЕГІ ІШКІ БАҚЫЛАУДЫҢ МАЗМҰНЫ, МАҚСАТТАРЫ МЕН МІНДЕТТЕРІ

Андатпа. Банктің тұрақтылығы мен оның алдына қойған мақсатына жету барысындағы басқару жүйесінің құрамы және ең маңыздысы тиімді өсудің нәтижелі көрсеткіші – ішкі бақылау болып табылады. Берілген мақалада ішкі бақылау жүйесіне жалпы сипаттама берілген, мақсаты айқындалып, коммерциялық банктердегі ішкі бақылау жүйесінің ерекшелігі көрсетілді.

Кілт сөздер: екінші деңгейдегі банктер, бақылау, банктердегі ішкі бақылау, басқару, банктердегі ішкі бақылаудың міндеттері.