

Banking Risks: Oversight and Audit

O. Mirzayev

PhD, Associate Professor of the Department of "Accounting", BFA

M. Musaeva

BFA Master's student

Abstract: The article is a set of indicators that allow you to constantly monitor the risks of the bank and warn about the level of risk, types of risks that exceed the established significance level, which can seriously damage the bank's reputation or lead to losses for the bank in a particular scenario that makes it impossible to implement the banking strategy in a timely manner and significant risks that the bank has agreed to or plans to waive in order to achieve its business objectives. There are also scientific proposals and conclusions on the process of developing risk appetite and risk profile indicators, a set of mechanisms and systems.

Keywords: risks, risk appetite, risk profile, risk-appetite indicators, business goals of the bank.



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Introduction

The current state of the banking system in Uzbekistan involves minimizing the existing main types of risks through the real implementation of the best international practices of supervision and regulation of financial organizations by the authorized body. This goal assumes a combination of optimal interaction between the regulator, internal and external auditors. As well as the appropriate division of powers between the Board of Directors and the bank's executive body on an adequate system of possible losses and losses management and internal control, providing for the use of control methods by credit institutions that ensure effective identification, assessment, measurement, control and monitoring of risk in the provision of products and services.

In most cases, financial destabilization factors were localized in the banking sector, which is the main channel of financial intermediation in a market economy. Accordingly, banks are the most important source of systemic vulnerability in financial systems, although other financial institutions can also initiate destabilization. This vulnerability is inherent in the functions that banks perform.

The instability of banking systems in many countries was associated with the influence of objective factors, the main ones being the following:

- the rapid development of technology, computerization of banking business and the development of online forms of payment, allowing you to move huge amounts of money anywhere in the world almost instantly;
- forced liberalization of capital flows, a noticeable easing of traditional protectionism in the banking sector, which led to increased dependence of national banking systems on "external shocks";
- an avalanche of financial innovations (primarily derivatives), which resulted in the diversification of financial services associated with the promotion of fundamentally new banking products.

Analysis and results

The country's macroeconomic stability is increasingly dependent on the state of the financial system of a country with a market economy. Financial sector crises in one country often spill out to the international level, which explains the interest of the international business community in the financial stability of individual countries and the rather high willingness to help countries experiencing such crises or the threat of such crises in solidarity.

Banks are both the main instrument of stabilization efforts and the main source of financial system vulnerability.

The vulnerability of the financial system is related to two of its most important functions, namely risk allocation and liquidity provision. Other equally important sources of instability are careless macroeconomic and banking regulation and excessive supervisory interventions; corporate governance; and the incentive system. Current experience has shown that banking problems have followed a period of high economic activity, during which the probability of sharp changes increases significantly. The crisis can also be caused by an external shock.

Macroeconomic fluctuations contribute to sudden large-scale changes in asset prices. This can be, for example, changes in real estate prices (both in growth and in decline). Excessive over-optimistic investments in certain sectors of the economy and a further sharp correction begin macroeconomically, are inadequately perceived by the risk management systems of individual institutions, and then lead to a general imbalance through the collapse of individual banks. Such fluctuations are more significant in economies with relatively young market bases and infrastructure.

Any liberalization should be accompanied by the development of a system of regulation, supervision and control over the activities of banks in the field of risk management. The liberalization of the economy, which necessarily accompanies the transition to the market, in addition to the important positive aspects of economic activation of the population, leads to the fact that a large number of entrepreneurs appear in the market with low entry barriers, either not knowing how to properly manage risks, or abusing the inability of others. Both lead to a stronger trend of relative growth in the share of riskier investments. The liberalization of the banking business itself is working in the same direction. Risks are inherent in financial intermediation. However, compared to other participants in economic activity, it is banks that have the experience, knowledge, and strategic motivation not only to manage their own risks, but also to impose a risk culture on everyone else, which, however, is possible only if positively motivated and qualified (prudential) banking supervision.

Inadequate controls and supervisory requirements and procedures can damage the ability of banks to develop in a healthy way.

All the mentioned components of protecting risk discipline and financial stability are directly or ultimately related to the system of banking regulation and supervision. Its main idea is a wise and

constructive attitude to risks not only in the field of lending, but in general in all aspects of financial stability.

Thus, adequate minimum-sufficient regulation of banking activities and appropriate careful and balanced supervision of banks are among the main conditions for ensuring financial stability, based not only on the personal experience of specially selected and constantly retrained employees, but also on methods for assessing the real value of assets and, most importantly, the objective riskiness of these assets.

The functions of banking supervision do not include comprehensive control over banking operations, much less interference in the current activities of banks. Prudential banking supervision practices are a way of monitoring and evaluating risks. Establishing a banking supervision position as a tool to help banks conduct proactive risk management is important for both banks and regulators.

In the practice of regulators, several approaches are used to assess the stability of financial institutions:

- ✓ analysis of financial stability indicators,
- ✓ development of early warning indicators,
- ✓ applying stress testing techniques,
- ✓ forecasting the situation in the financial sector based on models.

If there is only one way to deal with these problems, it is by regulating the capital of banks. The main form of regulatory influence on banks at present is the normalization of capital adequacy. The implementation of this approach in the practice of national regulatory authorities was initiated by the Basel Committee on Banking Supervision. Despite the fact that the concept of capital adequacy does not cause any complaints from a theoretical point of view, its use in the practice of banking supervision is fraught with a number of difficulties. All of them, in one way or another, are related to the assessment of the amount of risks assumed by banks. The proposed standardized methods a priori cannot ensure the formation of reserves in the amount adequate to the probable losses on specific operations. As a result, the bank is either motivated to make riskier transactions, or faces low efficiency of its activities.

The Committee began by discussing the similarities and differences in the supervisory methods used in different countries and ways to address gaps in the network of control over the banking business, as well as ways to improve international cooperation in these areas. This has been done and is still being done in three main areas: exchange of information on national banking supervision policies and methods.

Based on these assumptions, 25 root principles are based, divided into the following groups:

- ✓ Licensing and structures;
- ✓ Prudential regulations and requirements);
- ✓ Methods of permanent banking supervision;
- ✓ Information requirements.
- ✓ Powers of supervisory authorities.

The Board of Directors should be responsible for approving and periodically reviewing the overall banking strategy and documents related to various aspects of the bank's policy (hereinafter referred to as the policy); understand the main risks assumed by the bank, establish acceptable levels of these risks, and ensure that the bank's senior management takes the necessary measures to identify, measure, monitor and control the Bank's such risks; approve the bank's organizational

structure; ensure that the bank's top management monitors the effectiveness of the internal control system. The Board of Directors is responsible for establishing and operating an adequate and effective internal control system.

The Bank's executive management (hereinafter referred to as management, and individual managers - managers) should be responsible for implementing the bank's strategy and policies approved by the Board of Directors; develop processes designed to identify, measure, monitor and control bank risks; maintain an organizational structure that clearly delineates the areas of responsibility, authority and accountability; ensure effective implementation of the Bank's strategy and policies. of delegated authority; develop appropriate internal control rules; monitor the adequacy and effectiveness of the internal control system. An effective and comprehensive internal audit of the internal control system is required, conducted by operationally independent, adequately trained and competent employees. The Internal Audit Service, as part of monitoring the internal control system, should be accountable to the Board of Directors (or its audit committee) and the bank's management.

The Internal Audit function is an important part of continuous monitoring of the internal control system, as it provides an independent assessment of the adequacy of established rules and procedures, as well as their compliance. It is important that the internal audit service is independent of the bank's day-to-day operations and has access to all types of operations conducted by the bank, including its branches and subsidiaries. Internal auditors provide objective information about the bank's activities through direct accountability to the board of Directors or audit committee and management. Since the internal audit service plays a very important role, it should be staffed by competent, highly qualified employees who are well aware of their role and responsibilities. The frequency and depth of audits carried out by the internal audit service should correspond to the nature, complexity and risks of the bank's activities. It is important that the internal audit service is accountable to the highest level of the bank's management, usually the Board of Directors (or its audit committee) and management.

This procedure ensures the proper functioning of corporate governance, since the board of directors receives information that is not distorted by the managers mentioned in the report. The Board of Directors should also support the independence of internal auditors by ensuring that their remuneration or allocation of resources from the bank's budget is within the competence of the board of directors or senior management, and not managers who depend on the work of internal auditors. Deficiencies in internal control identified by employees of the bank's divisions, the internal audit service, or other control services should be brought to the attention of managers at the appropriate level in a timely manner and promptly eliminated. Significant deficiencies in internal control should be reported to management and the Board of Directors. Information about deficiencies in the internal control system and inefficiently controlled risks should be brought to the attention of the relevant person (s) immediately as they are identified, and serious issues should be reported to management or the board of directors.

It is important that after receiving the information, the relevant managers ensure that deficiencies are corrected in a timely manner. Internal auditors should conduct follow-up reviews or other types of monitoring and immediately inform management or the board of Directors of any uncorrected deficiencies. In order to ensure timely response to all identified deficiencies, management tasks should include establishing a system for tracking internal control deficiencies and measures taken to eliminate them. The Board of Directors and management should periodically receive reports summarizing all problems identified by the internal control system. Issues that seem insignificant when individual control processes are considered in isolation, when considered together with other aspects, can indicate negative trends that threaten to develop into major deficiencies in the control system.

Conclusion

Currently, national banks have effective banking risk management systems aimed at stable functioning, development and ensuring their financial stability. Risk management in the bank is based on legislative acts of the Republic of Uzbekistan, regulatory documents of the National Bank, international standards and requirements developed by the Basel Committee on Banking Supervision, and is regulated by local regulatory acts of the bank. Risk management procedures are reviewed on an ongoing basis in order to reflect changes in the market situation, the introduction of new banking products, the improvement of the organizational structure, and the development of information systems. The effectiveness of the risk management system in the bank's divisions should be assessed on a regular basis by internal audit, external audit, and the National Bank of the Republic of Uzbekistan.

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