

Functioning of Internal Control System of the Supply Chain System in Commercial Bank

Sergey V. Rykov[#]

Belgorod State National Research University, Microdistrict Solnechny 18, Stary Oskol, 309530 Belgorod Region, Russia
rykov@bsu.edu.ru

Abstract-The supply chain has major impact on the company's business strategy directly affecting its operational costs. The article presents the organizational basis for the internal control functioning of the commercial bank supply chain policy. The subject of this paper is the analysis of various fields of internal audit of the supply chain as well as evaluating the characteristics of individual elements of the chain with consideration to appropriateness and integration of those elements. They determined internal control tools, information base, and the elements of the internal control system of commercial credit organizations.

Key words: supply chain policy, internal control, commercial bank, organizational framework.

1. Introduction

At present, one of the most pressing issues faced by commercial banks is the implementation of an effective policy on supply chain resource attraction. Supply chain operations of commercial banks are primary operations, since the implementation of credit operations by commercial banks depends on the supply chain base volume and balance. Internal control is a necessary procedure to ensure compliance with the organizational framework for the development and implementation of supply chain resource attraction policy.

The issues of commercial bank internal control essence and purposeful focus are presented in the works of domestic researchers.

Internal control of supply chain resource attraction policy is described in the studies of the following domestic scholars [1-5]

According to I.A. Vasilyeva, "internal financial control is the tool of banking self-regulation, because control in this situation is carried out directly by the bank, which is responsible for the proper quality of its implementation" [6].

In [7] determine the internal control of commercial banks not only as a special form of credit organization financial (accounting) statement check, but also as an objective assessment of all bank activities.

Internal control of the supply chain policy is the banking self-regulation tool of compliance with regulatory requirements, standards and internal documents, rules and procedures for supply chain operations, information flow management and information security provision.

Internal control of the supply chain policy is the direction of commercial bank internal control regarding the organization and conduct of supply chain operations in accordance with the rules, and requirements reflected in the internal bank documents governing the implementation of the supply chain policy.

The target direction of the supply chain policy internal

control is the compilation and presentation of reliable, complete, objective control information about the process of its formation, supply chain operation control and the assessment of the supply chain policy implementation by commercial banks [8].

Thus, the objectives of the supply chain policy internal control in commercial banks are the following ones:

- ensuring the achievement of objectives and the performance of functions by commercial banks for supply chain operations;
- ensuring liquidity and efficiency in supply chain resource attraction and use, and the effectiveness of liability management;
- identification, measurement and determination of supply chain risk acceptable level;
- continuous monitoring of supply chain risks, their assessment, monitoring the functioning of the supply chain risk management system;
- development of recommendations for taking measures to minimize supply chain risks, thereby ensuring the financial stability of a bank in the interests of its supply chains;
- information security provision;
- compliance with regulatory, constituent and internal documents of the bank on supply chain operations;
- the exclusion of bank and its employee involvement in illegal activities.

Internal control of the supply chain policy in commercial banks is based on compliance with the following principles:

- constancy and continuity;
- Comprehensiveness in the unity of theoretical, organizational and methodological provisions of the supply chain policy;
- consistency in the distribution of duties between employees in order to exclude the occurrence of a conflict of interest, to prevent the commission of illegal actions during supply chain operations, which is reflected in maintaining reputation, creating an image, and quality supply chain service provision.

The system of supply chain policy internal control uses preliminary, current and subsequent control.

Preliminary control is carried out at the stage of decision-making on the organization of internal control concerning supply chain operations.

Current control is carried out at the stage of supply chain operations between commercial banks and supply chains.

Subsequent control is carried out at the stage of a supply chain agreement registration between a commercial bank and supply chains, as well as the part of an independent examination of a supply chain operation result legality.

1.1. Conditions, materials and methods of research

The internal control of the commercial bank supply chain policy uses the following tools (Figure 1).

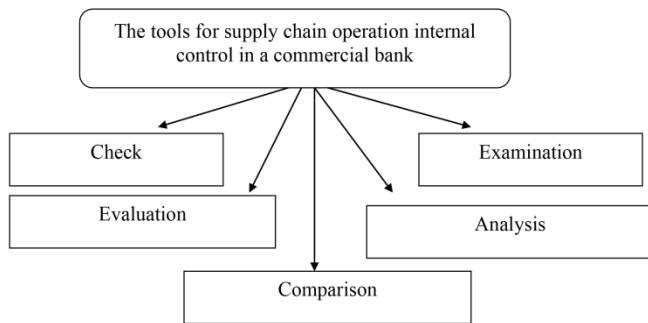


Fig. 1. The tools of supply chain policy internal control

Check is the collection of information for the purpose of its further processing, for the implementation of supply chain operation control in a commercial bank.

Evaluation - determination of supply chain resource attraction stability in the future and the effectiveness of a commercial bank supply chain policy.

Comparison is the process of quantitative and qualitative comparison of information data during supply chain operation control of some commercial banks.

Analysis - the study of processes and phenomena during the supply chain policy development and implementation, including the indicators in the areas of the commercial bank supply chain portfolio analysis.

Examination is a familiarization with the activities of individual units of a commercial bank in order to identify the positive and negative aspects of their work.

Commercial banks create a system of the supply chain policy internal control, which can be defined as the interaction of commercial bank subjects in the process of internal control performance to ensure the compliance with the supply chain operation procedure established by the RF legislation, constituent and internal documents of commercial banks [9].

2. Results and Discussion

One driver is the rise in many organizations' supply chain costs, often a result of them offering more products and sales channels. Just as important, many supply chains can have a strategic impact on the organization's performance. For instance, a disruption in operations at a primary supplier could harm some companies' performance. It was revealed that the system of supply chain policy internal control for commercial credit organizations is based on the elements that are presented on Figure 2.

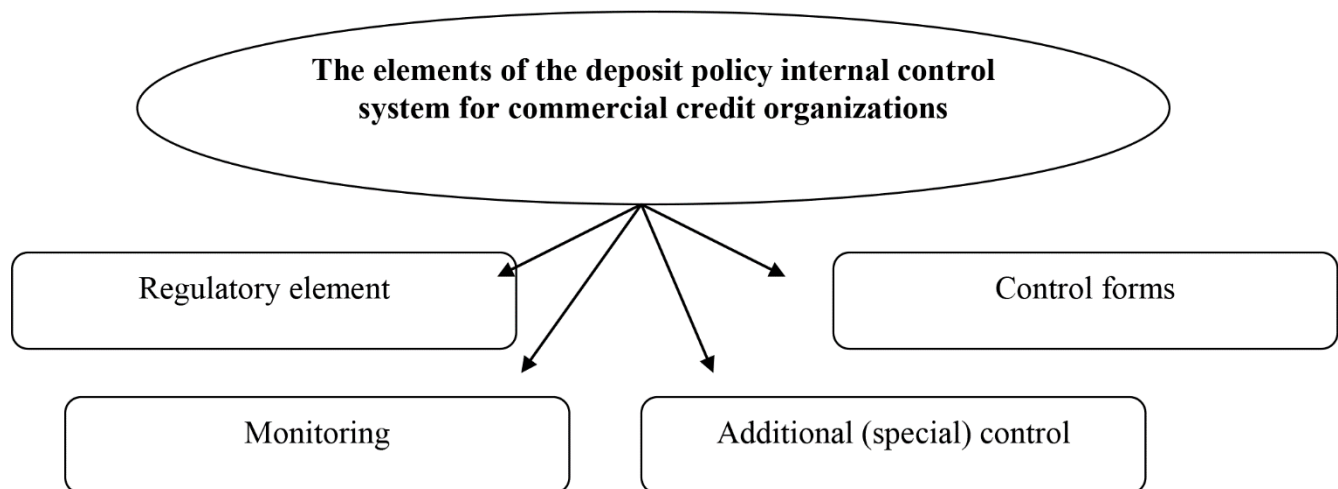


Fig. 2. The elements of the supply chain policy internal control system for commercial credit organizations

The study of supply chain operation internal control organization in commercial banks showed that control procedures are carried out by the following entities [5].

1. Board of Directors (Supervisory Board):

- approval of a strategy for supply chain risks and a credit institution capital and liquidity management to cover supply chain risks;

- assessment of supply chain policy internal control system effectiveness regarding the implementation of the management body decisions from the credit organization based on the results of the internal audit service work, etc.

2. The departments whose functions include supply chain resource attraction (the department for working in the interbank market, the department for working with legal entities, including corporate clients, the department for working with individuals, including VIP-clients). The employees of these units carry out the following:

- subsequent control of completed supply chain operations;

- monitoring the compliance with the Regulation on a commercial bank supply chain policy regarding the paperwork on supply chain operations, etc.

3. Accounting:

- control of visual inspection of documents executed on supply chain operations, followed by reconciliation of supply chain accounts;

- control over personal account opening, when they receive documents for execution, accounting information processing, making supply chain operations and reflecting them in accounting, etc.

4. Internal control service (compliance service):

- identification of a compliance risk in the form of lost profits due to non-compliance with the Russian Federation legislation, internal documents of the bank, as well as the

result of sanctions and (or) other measures of influence use by the supervisory authorities during supply chain operations;

- monitoring of supply chain risk, also during the introduction of new supply chain products and planned methods for their implementation;

- identification of conflicts of interest in the activities of a commercial bank and its employees during the development of internal documents on supply chain products;

- analysis of supply chain complaint (appeal, statement) dynamics and the analysis of a commercial bank compliance with the rights of supply chains during supply chain operation conduct;

- analysis of the economic feasibility of a commercial bank concluding supply chain agreements with credit

organizations, other legal entities and individual entrepreneurs, etc.

5. Internal audit service:

- verification and evaluation of supply chain operation internal control system effectiveness regarding the implementation of a credit organization governing body decisions;

- verification of the internal control system reliability for automated information system use during supply chain operations, including monitoring the integrity of databases and their protection against unauthorized access;

- assessment of supply chain resource use effectiveness;

- assessment of the supply chain policy effectiveness, etc.

The information base for supply chain operation control in commercial banks is presented in table 1.

Table 1. The information base for supply chain operation internal control

| Group of sources | List of documents |
|---|--|
| 1. Internal documents of a commercial bank regulating the procedure and rules for supply chain operations | Banking licenses Supply chain policy Interest rate policy Accounting policy |
| 2. Customer supply chain dossiers | Personal accounts of supply chainors |
| 3. Accounting data on supply chain operations | Daily balance sheet Daily balance sheet on balance and off-balance accounts Income statement Open Account Registration Book |
| 4. Audit materials carried out by external auditors | Audit Opinions Calculation of advance payments on insurance premiums |
| 5. Inspection materials conducted by the Central Bank of the Russian Federation and other state control bodies. | References, reports, the acts of control organizations |
| 6. Complaints of commercial bank clients on supply chain operations. | Complaints and Suggestions Book |

Proposed areas of the supply chain policy internal control for commercial banks:

- verification of supply chain fund attraction for compliance with the Regulation on the supply chain policy;

- verification of a supply chain agreement drawing up between a commercial bank and a supply chain;

- verification of procedures for personal account opening, maintaining and closing in respect of supply chains and certificates;

- verification of accrual, and payment of interest on supply chain agreements;

- checking the rules for a supply chain agreement closing and a supply chain return;

- a survey of department activities engaged in supply chain operations in order to identify the positive and negative aspects of their work;

- assessment of commercial bank employee qualifications and competence engaged in supply chain operations;

- assessment of responsibility distribution between employees engaged in supply chain operations;

- assessment of information security during supply chain operation conduct;

- verification of work on the formation of contributions to the required reserves of the RF Central Bank and to the individual supply chain insurance fund;

- comparison of reporting data with the data of accounting registers for supply chain operations;

- analysis of the factors affecting the implementation of the supply chain policy;

- assessment of the supply chain policy organizational basis;

- assessment of the supply chain policy development prospects, etc.

The following common errors can be distinguished as the result of supply chain policy internal control among commercial banks:

- a mandatory inventory of liabilities is not carried out before the preparation of the bank annual statements;

- they did not approve the document management system in the field of supply chain operations by a commercial bank;

- separate documents on supply chain operations are not drawn up (for example, when supply chain agreements are presented only in electronic form, there is no single register of all existing supply chain agreements, there is no strict update of supply chain agreement register);

- the absence of additional control for supply chain operations;

- the job descriptions have no provisions defining the powers for the implementation of additional control on supply chain operations;
- they do not use specialized application software for interest calculation on supply chain operations;
- they did not determine the powers of the department to carry out supply chain operations;
- there is no preliminary analysis of data on the supply chain portfolio, etc.

4. Conclusions

Supply chain audits present an “opportunity for internal audit teams to look at the supply chain organization and make sure they’re doing things to control costs and mitigate risk factors,” says Jonathan Eaton, practice leader with Grant Thornton’s national supply chain practice. Information on supply chain operation internal control results for commercial banks is summarized in the report of the internal control service and submitted to the chairman of the bank board or the board chairman deputy of commercial banks to take appropriate measures to develop or adjust documents for supply chain operation conduct in order to eliminate the deficiencies in supply chain operations. The elimination of the identified violations will allow commercial banks to formulate and implement a supply chain policy effectively.

Thus, the system of the supply chain policy internal control makes it possible to monitor its implementation effectively, allows you to establish the reliability, legality and correctness of supply chain data presentation in the statements, defines the boundaries of the person authority responsible for supply chain operation conduct in commercial banks.

References

- [1] Babaeva R.F. New requirements of the Bank of Russia to the system of credit organization internal control. / R.F. Babaeva // Finance and credit. - 2015. - No. 20 (644). - pp. 31-37.
- [2] Badalov L.A. The internal control service as an element of the bank internal control / L.A. Badalov // Banking services. - 2013. - No. 10. - pp. 20-23.
- [3] Vasilieva I.A. Necessary components of internal control effective system organization in a commercial bank / I.A. Vasilieva // Economics and modern management: theory and practice. - Novosibirsk, 2014. - No. 44. - pp. 7-14.
- [4] Demina I. The features of the Russian financial market development / I. Demina // Banking services. - 2011. - No. 12. - pp. 11-15.
- [5] Timofeeva N.V. Internal control and audit in a commercial bank: approaches to definition / N.V. Timofeeva // Northern region: science, education, culture. - Surgut, 2015. - No. 1 (31). - pp. 160-166.
- [6] Shagunova M.A. The role of intrabank control in the activities of a commercial bank / M.A. Shagunova, S.V. Krivoschapova // Modern problems of science and education. - Penza, 2015. - No. 2. - p. 7.
- [7] Zulfiqar, S., Sadaf, R., Popp, J., Vveinhardt, J., & Máté, D. (2019). An examination of corporate social responsibility and employee behavior: The case of Pakistan. *Sustainability*, 11(13), 3515.
- [8] Pakurár, M., Haddad, H., Popp, J., Khan, T., & Oláh, J. (2019). Supply chain integration, organizational performance and balanced scorecard: An empirical study of the banking sector in Jordan. *Journal of International Studies* Vol, 12(2).
- [9] Valaskova, K., Lazaroiu, G., Olah, J., Siekelova, A., & Lancova, B. (2019). How Capital structure affects business valuation: a case study of Slovakia. *Central European Business Review*, 8(3), 1.