



**Ministry of Education Republic of
Azerbaijan**

**"The role of Internal audit in banks – an analysis
from the increasing management efficiency view
perspective"**

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Abstract

The role of Internal audit in banks – an analysis from the increasing management efficiency view perspective

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On the course regarding economic reform and modernization concerning priority industries, which is based totally regarding the five acknowledged principles on the "Azerbaijani model" regarding demand reforms, the function yet worth regarding business banks is growing. Banks are some concerning the riding economic mechanisms between the development about the economy. Without proper inspection or control, even the nearly advanced monetary mechanism can't function.

In the technique over research, more than a few sources on data had been broadly used: monographs concerning overseas then domestic scientists of banking, inside audit, periodicals, statistical collections then facts data. In the procedure concerning preparation, the Laws over the Republic of Azerbaijan, Decrees over the President concerning the Republic concerning Azerbaijan then Government Decrees aimed at improving the functioning over the banking provision over Azerbaijan, as properly as regulatory acts regarding the Central Bank of the Republic of Azerbaijan and the main banking documentation had been also used.

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1. INTRODUCTION

Actuality of the study. The acquisition of state independence by our country has created favorable conditions and opened wide opportunities for determining our own path of social and economic development. The main goal of carrying out deep social and economic transformations is to ensure a decent standard of living for the population and to become one of the most developed countries in the world.

On the way of economic reform and modernization of priority industries, which is based on the five known principles of the "Azerbaijani model" of market reforms, the role and importance of commercial banks is growing. Banks are one of the driving financial mechanisms in the development of the economy. As we know, banking activities are associated with risks, especially credit risks. Serious problems arise in the financial and banking system due to the growing insolvency of borrowers, their insolvency to service and pay for loans, the volumes of non-performing loans grow. Unreturned loans are one of the main reasons for the lower financial stability of banks.

Object and subject of the study. The subject of this study is the organizational and methodological issues of internal audit in a commercial bank. In the study, the relationship with other divisions, goals and tasks of the internal audit department of a commercial bank are examined.

The object of the study is the practical activity of the internal audit service of the "Unibank and Demirbank".

The purpose of the study. Substantiation of methodological foundations and development of practical recommendations on the implementation of internal audit in a commercial bank.

To achieve the objectives of the study, the following tasks are set:

1. to analyze the essence, goals and tasks of internal audit as a structural unit of the internal control of the bank, to reveal its specific features;

2. Summarize and systematize the regulatory and legal framework for internal audit;

3. To substantiate the need and determine the main directions for improving the internal audit of a commercial bank, as an important condition for enhancing the stability of the banking system;

4. Propose measures to improve the organization of internal audit in a commercial bank;

5. develop practical recommendations on the methodology for conducting internal audit in a commercial bank.

The most significant for practice are the following results of the dissertation work: the essence of the internal audit in the commercial bank, its role and place in the internal control system; internal internal audit procedures have been developed; a methodology for conducting internal audit in banks with a wide branch network was proposed.

1.1. LITERATURE REVIEW

Audit in any country is an element of its financial and economic system, which determines its content and functions. The presence of various interpretations of the audit indicates that the process of its formation is not yet complete.

The Internal Audit Service assists the bank's management bodies by providing objective analysis, assessments, recommendations and information on the control and performance of the bank. (Richard, 2015)

To ensure the regulatory and legal framework for internal audit, a number of regulatory and legal acts have been adopted in our republic, including the provisions of the Central Bank, which set out all the

necessary requirements for auditing, the internal audit service, defined goals, tasks and functions of internal audit and established requirements for internal auditors.

In the process of research, various sources of information were widely used: monographs of foreign and domestic scientists on banking, internal audit, periodicals, statistical collections and information data. In the process of preparation, the Laws of the Republic of Azerbaijan, Decrees of the President of the Republic of Azerbaijan and Government Decrees aimed at improving the functioning of the banking system of Azerbaijan, as well as regulatory acts of the Central Bank of the Republic of Azerbaijan and the primary banking documentation were also used.

The work was based on the use of the main legislative acts and normative acts of the Central Bank, the Government of the Republic of Azerbaijan on organization, internal audit in credit institutions, current publications of statistical data and methodological recommendations of the Central Bank, recommendations of international standards of internal audit.

The internal audit service can and should make a significant contribution to the implementation of the strategic tasks facing the banks. (Akhalkatsi, 2017: 15) In the credit organizations, the activity of the Internal Audit Service is often perceived as a formal need to verify the reliability of accounting and other reporting, as well as its compliance with legislation and other regulatory legal acts, which, of course, meets its objectives. However, many banking operations are increasingly being automated, and monitoring is already underway. At the forefront of internal audit professionals in the context of global automation of operations, the following tasks:

- assessment of business processes and identification of weaknesses;
- improving the efficiency of business processes and activities in general;
- optimization of the risk management system, including strategic ones;
- improving the quality of corporate governance.

During the internal audit of business units, IAS specialists can and should pay attention to the optimization of such business processes as settlement and cash services for clients, credit activities, including credit administration, foreign exchange activities, interaction with state bodies, etc. Role The internal audit service in the commercial bank management system increases many times, which predetermines the need for continuous improvement of its activities. Currently, the following trends are observed in the development of internal audit:

- expansion of the range of tasks for auditors, in particular, identification of risk areas, assessment of the risk management system of a commercial bank, transition from a control function to a partner, etc.;
- development of new types of internal audit (performance audit, corporate governance audit, pre-project audit, remote audit, etc.);
- improvement of risk-oriented and strategic approaches;
- increasing the responsibility of internal auditors;
- increase the importance of specialized knowledge. (Efremova 2011: 10)

The professional development of the Internal Audit Service specialists and the expansion of the tasks they face will help strengthen the role of this unit in implementing the strategy of the commercial bank. The close interaction of the IAS with other divisions of the commercial bank, its perception as a partner in implementing strategic tasks and

increasing the effectiveness of its activities requires the development of a strategic plan for the development of internal audit in each credit organization, as well as road maps for its implementation. (Gracheva, and Maria, 2014: 96)

Thus, internal audit is a part of controlling, as a way of ensuring coordination of actions of managers of all levels and monitoring the achievement of the objectives of individual units in terms of corporate interests.

Controlling is understood as a private function within the management of a bank and support for this management through information. Controlling is a system of information support for management and allows management to own the situation, make informed management decisions, manage and regulate the processes of banking.

When analyzing the factors of inefficiency of internal audit, it should be especially noted the factor of inaction of management at all levels in relation to problems identified by the audit. Internal audit does not provide the expected results in cases when management does not take timely measures to correct identified shortcomings. (Kazimli, 2008) In addition, the effectiveness of internal audit suffers in cases where senior management does not receive timely and regular monitoring reports, which indicate the shortcomings and corrective measures taken by the line-level management.

Competently evaluating the implementation of all principles of internal control in the bank, which are declared in the document "Internal control system in banks: the basis of organization" of the Basel Committee on Banking Supervision, and applying a comprehensive approach to assessing the problems of the bank, internal audit is an important tool for effective bank management.

2. THEORETICAL ANALYSIS

2.1. THEORETICAL FOUNDATIONS OF INTERNAL AUDIT

2.1.1. The concept and essence of internal audit

Audit is one of the important elements of a market economy, with systems of both state, managerial, and independent control that enable all levels of management to be provided with the necessary information.

In interpreting this concept, audit objects, its purpose, independence factor and other circumstances are taken as a basis. To audit often carry various kinds of the activity connected with independent check, an estimation of the data, examination.

The International Institute of Internal Auditors ("The Institute of Internal Auditors") defines "internal audit" as follows: (Zhminko, 2017)

"Internal audit is the activity of providing independent and objective guarantees and consultations aimed at improving the work of the organization. Internal audit helps the organization achieve its goals using a systematic and consistent approach to assessing and improving the effectiveness of risk management, control and corporate governance processes".

Auditing activity in all countries is licensed. The procedure for licensing auditors is set by each country independently. In our republic, the Ministry of Finance is engaged in licensing of audit activities.

Audits are carried out on a contractual, paid basis. Only on the initiative of the customer and on the issues established by him, an audit can be conducted. The amount of payment for audit services is reflected in the contract.

In the course of the audit, the auditor should be guided by the principles of independence, objectivity, independence, professional competence and confidentiality.

Independence is the obligation of the auditor to have no financial, property, related or any other interest in the affairs of the audited economic entity exceeding the ratio of the contract for auditing services, as well as any dependence on third parties when forming his opinion. Independence of the auditor should be provided both on formal grounds and in terms of actual circumstances.

Confidentiality is the duty of auditors and audit organizations to ensure the safety of documents received or compiled by them during the audit, not to transfer these documents or their copies (both fully and partially) to any third parties and not disclose the contents contained therein information without the consent of the owner (manager) of the economic entity, with the exception of cases provided for by legislative acts of the Republic of Azerbaijan.

The principle of confidentiality must be strictly observed, despite the fact that disclosure or dissemination of information about an economic entity cannot cause him, according to the auditor's submissions, material or other damage. If the audit organization is a member of a professional association. it should comply (along with the above principles) and ethical rules provided by the documents adopted on a voluntary basis by this professional association. (Robertson and Jack, 2017)

The purpose of the internal audit is to ensure compliance with the lawfulness and economic feasibility of the bank's activities, as well as to minimize bank risks.

The need for internal audit in banks is due to several reasons:

- complicating the organizational structure of banks;

- a variety of activities;
- the need for management to obtain a sufficiently objective and independent assessment of the work of the units (branch, department, etc.). (Lukin and Andrey, 2016)

The financial well-being of commercial banks largely depends on the degree of risk, which in turn directly depends on the degree of development and perfection of internal audit. Internal audit is an important part of the ongoing monitoring of the bank's internal control system, which provides timely and reliable information about its "life activity", on the basis of which the authorities make decisions and develop a further action plan for identifying and preventing possible future risks.

In our republic there are a number of requirements for auditing, in particular regarding the internal audit service

The audit requirements are as follows:

- To have a higher education, corresponding to the nature of the functions performed by them;
- To have an experience of work in the units of banks related to the circulation of money, credit, currency, deposit transactions or accounting and reporting for at least one year.
- To have knowledge of banking legislation, including regulations of the Central Bank;
- Have knowledge of the application of accounting rules established in the country and generally accepted international accounting and auditing standards, and regularly attend training courses in accordance with changes in international standards.

2.1.2. Normative provision of internal audit in banks

Currently, the activities of internal audit of commercial banks are regulated on the basis of generally accepted regulatory documents, along with them, non-governmental non-commercial organizations, the Chamber of Auditors of the Republic of Azerbaijan, the Association of Professional Accountants and Auditors of the Republic of Azerbaijan play an important role in the development of internal audit.

The activity of banks is regulated by a wide range of banking and non-banking laws and regulations, therefore banks should have adequate procedures for their compliance. The compliance mechanism is particularly important for large banks, and banking supervisors should ensure that these functions are carried out with the necessary efficiency.

The auditor must comply with auditing standards that determine the procedure for conducting an audit, the provision of professional services and the organization of a quality control system for the work of auditors. (Kochiniv, 2015)

National auditing standards establish unified requirements for the implementation of audit activities.

Table 1**Legal base of audit activity**

Legal regulatory documents and standards	Goals	Grounds
Law on Auditing	Defines the function and significance of the audit in the financial and economic system	The law was adopted in 1994, new in 2007
Legislative and regulatory documents	Serves to regulate audit activities	Accepted the general legislative documents on auditing activity, the order of their licensing and certification
Standards of auditing activity	Defines the requirements that audit firms must meet	National auditing standards were developed on the basis of international audit standards
Standards on special auditing activities, internal regulatory documents of ministries and organizations	Defines special requirements for auditing activities	Special requirements were specified by the Central Bank for conducting internal audit in commercial banks
Internal audit standards	Determines the mechanism of internal audit in organizations and enterprises, as well as in banks	Requirements were developed for the internal audit service in commercial banks by the Central Bank

For an objective assessment of the applicant's professional level and the issue of issuing a qualification certificate, the Central Bank established the Banking Audit Commission. The Commission's tasks are to review applications for a certificate, as well as to issue or refuse to issue a qualification certificate to auditors; on the inclusion of audit organizations and auditors in the register of audit organizations and

auditors who have a certificate for the right to conduct audits in banks and a qualification certificate, respectively; in the event of changes in registration data, the introduction of appropriate updates to the register; development of qualification requirements for auditors; conducting qualification examinations and attestation of auditors; consideration of other issues related to the issuance, re-issuance, suspension, termination and cancellation of the qualification certificate.

Each bank should create an internal audit service, develop and approve a provision on the internal audit service, which consists of goals, tasks and functions, the management of the service, the authority and responsibility of staff, as well as the "Internal audit procedure and procedures", "Job description Chief Internal Auditor ", approved by the Council of the Bank. (Abbasov, 2007)

The system of regulatory regulation of audit activities in the Republic of Azerbaijan, including banking, includes documents of four levels. The first level documents are Republic laws and other legislative acts, such as decrees of the President, resolutions of the Government, the Ministry of Finance of Azerbaijan, the Central Bank of the Republic of Azerbaijan, directly or indirectly regulating auditing in the Republic of Azerbaijan.

These provisions define the legal framework for banking audit in the Republic of Azerbaijan regarding the procedure for attestation for the right to conduct auditing activities in the field of bank audit, the procedure for licensing bank audit, the rights and obligations of audit firms (auditors), the organization of audits and work in the territorial offices of the Central Bank Of the Republic of Azerbaijan, the main requirements for conducting an audit, the composition and content of the audit report, its presentation in the Central Bank of the Republic of

Azerbaijan, measures of influence to audit firms (auditors) and cancellation of licenses.

Among such internal standards for audit firms performing a bank audit, it is possible to include operational provisions for conducting an audit: the state of analytical and synthetic accounting, the accounting policy of the bank for document circulation, the establishment of intra-bank control, the correctness of the implementation of individual banking operations and their reflection in accounting and reporting, the correctness of accounting for business transactions, the formation of accounting and tax reporting and etc.

The Chamber of Auditors of Azerbaijan is an independent non-commercial public organization, certified auditors on a voluntary basis. The purpose of the Chamber of Auditors of Azerbaijan is to promote the development and maintenance of the professional level of auditors on the basis of unified international standards and the development of audit theory and practice, the protection of the professional interests of its members in state and public bodies, the protection of public interests, seeking from its members compliance with professional standards.

2.1.3. Organization of internal audit service in banks

The Internal Audit Service, in the opinion of the Basel Committee, is an important part of the continuous monitoring of the Bank's functioning, provides an assessment of the adequacy of the established rules and procedures, as well as their compliance. It is important that the internal audit service is independent of the daily work of the bank and has access to all types of operations.

The Internal Audit Service (IAS) is an independent structural unit of the Bank established to exercise internal control in accordance with the authority vested in the IAS and continuously monitoring the Bank's internal control system with a view to improving internal control to

ensure its effective functioning, including taking into account changing internal and external factors affecting the Bank's operations.

IAS operates on the basis of the Charter of the Bank, and is directly subordinate to the Council of the Bank, the Audit Committee in accordance with the Regulation on the Internal Audit Service.

The IAS, on its own initiative, reports to the Bank Council and the Audit Committee on issues arising in the course of carrying out its functions and proposals for their solution. IAS has an independent status, is subordinate and accountable to the Council of the Bank.

IAS - performs the following functions: (Fayziev and Karimov, 2013)

- checking and evaluating the effectiveness of the internal control system in general, the implementation of decisions of the Bank's management bodies;
- verification of the effectiveness of the methodology for assessing banking risks and procedures for managing banking risks, established by internal documents of the Bank, and the completeness of the application of these documents;
- checking and testing the reliability, completeness and timeliness of accounting and reporting, as well as reliability (including reliability, completeness and timeliness) of information collection and reporting;
- assessment of the economic feasibility and effectiveness of transactions and other transactions performed by the Bank.

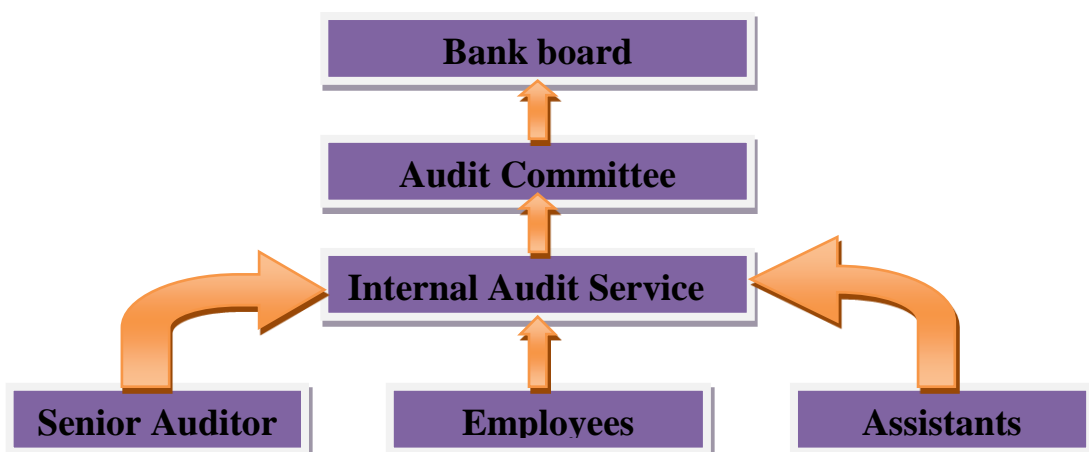


Fig. 1. The structure of the internal audit service

IAS is not involved in banking transactions and other transactions. The senior auditor or employees of the IAS do not have the right to sign on behalf of the Bank payment (settlement) and accounting documents, as well as other documents in accordance with which the Bank accepts banking risks, or to visually view such documents.

The head of the IAS cannot head other divisions in the Bank. The head and employees of the IAS cannot combine their activities with activities in other divisions of the Bank.

IAS presents for approval to the Council of the Bank the developed annual and semi-annual work plans and inspections.

Internal audit services are assigned the following tasks:

- providing the Bank's Council with reliable and independent information on the real state of the bank and the effectiveness of the internal control system, based on the results of the internal audit;
- analysis and evaluation of the effectiveness and adequacy of the internal control system and the effectiveness of the internal audit procedures adopted;
- review of the banking system for assessing capital associated with the assessment of its risks;
- checking operations or programs to see if their results are consistent with their goals and objectives, and whether operations or programs are being carried out as planned;
- Assessment of the adequacy of accounting, operational and administrative control systems;
- preparation of the bank's activity for external audit. (Rzayev: 2002)

2.2. ANALYSIS OF ACTIVITY OF INTERNAL AUDIT IN COMMERCIAL BANKS

2.2.1. Organization of internal audit by example “Unibank” and “Demirbank”

In “Unibank” and “Demirbank” the audit is conducted in accordance with the Regulation of the Central Bank for the internal audit of commercial banks, on the basis of which the Internal Audit is conducted solely by the employees of the audit service; Internal audit is conducted in accordance with the Audit Plan approved by the Board of the Bank. Based on the Audit Plan, a detailed audit program is prepared.

On the way to achieve its goals, the Internal Audit Service performs the following functions: (Law of the Republic of Azerbaijan "On Internal Audit", 2007)

- Provides honest, objective, independent and reasonable information on the financial condition of the bank, and on the status of the internal control service, to the Bank's Board;
- conducts an analysis of the effectiveness of the bank's activities in achieving its objectives, used to analyze the effectiveness of administrative and practical measures;
- analysis of the effectiveness of measures and measures taken to manage risks and methods for their assessment;
- Financial information systems, including the analysis of the electronic information system and electronic banking services;
- analysis of reliability and reliability of accounting and financial reporting;
- checking compliance with the bank's internal policy, as well as checking compliance with the bank's internal rules;

- completeness of regular reporting, reliability and verification of their timely provision;

- Analyzes the capital structure and its adequacy, the creation of a reserve based on the classification of the loan portfolio and the quality of assets, changes in the structure of the balance sheet and outside the balance sheet, as well as the nature of their movement, the implementation of the financial plan approved by the Central Bank;

- conduct special inspections and investigations at the request of the Council of the Bank or assist in carrying out special inspections;

- helps to assess the adequacy of the accounting system of operational and administrative control.

In addition, the Internal Audit Service: (Sabzaliev and Hajiyeu , 2003:20)

- cooperates with internal audit services of other organizations and banks in order to exchange experience and improve skills;

- employees of the internal audit service assist in the work of external auditors through the exchange of information;

- summarizes all the information on the work done, and submit a report on the audit results to the Audit Committee;

- carries out constant control over the implementation of decisions taken by the Bank's Board and the Office in eliminating the deficiencies identified during the audit.

Management of the audit service is entrusted to the main internal the auditor. The main duties of the chief internal auditor is the development and implementation of the audit program, written policies and procedures mandatory for the audit service staff.

The Chief Auditor is responsible for the compliance of these documents with the internal audit standards, ensuring that the Audit Service performs written procedures for the operation of the audit

service, selecting qualified and competent audit staff and direct management of its work.

The main duties of the chief auditor include:

- development of an audit program, written policies and procedures that are mandatory for audit staff. The Chief Auditor is responsible for the compliance of these documents with the internal audit standards;

- ensuring that the audit service staff performs written procedures for the activities of the audit service;

- selection of qualified audit staff and direct management of its work;

- work to improve the skills of staff;

- interaction with the Board and the board of the bank. Submission of regular reporting by the audit service to the Council of the Bank or the audit committee on the work of the internal audit system and the achievement by the audit service of the objectives of its activities. In particular, the audit service should inform the Council of the bank and the audit committee about the implementation of the audit plan;

- quarterly report to the audit committee on the results of the audit service.

Responsibility for the development of the Audit Plan is assigned to the Audit Committee, for the development and implementation of the audit program for the bank's chief auditor; The audit plan shall be reviewed and approved by the Council of the Bank at least once a year before January 1 of the relevant year in order to ensure the effectiveness and adequacy of the work of the Audit Service; The audit program should clearly define and describe the audit objectives, as well as include a detailed work plan, a schedule of audits and a description of the necessary procedures for each area in question; The scope of the

program should be sufficient to achieve audit objectives. Each program should provide a clear and concise description of the required work and can cover the activities of both a single department and several departments, depending on the specifics and complexity of the operations.

The procedures included in the program can be changed depending on the volume and complexity of the operations or other factors; Internal audit in commercial banks should be conducted at least once a year; The frequency of internal audit should be based on risk assessments related to each area that should be audited (among the factors that the Audit Service employee must take into account when determining the risk of an operation, the nature of specific transactions, as well as related assets and liabilities, appropriate policies and standards of internal control, efficiency of management and internal control).

The scope of internal audit should include checking and assessing the adequacy and effectiveness of the bank's internal control system and the quality of the work in the performance of the assigned duties.

The audit service should verify the reliability and integrity of the financial statements in accordance with applicable law. (Law of the Republic of Azerbaijan "On Audit Service", 1994)

During the internal audit, compliance with those rules, plans, procedures, legislative acts that can have a significant impact on the operations and reports of the bank, as well as determine the degree of their compliance by the bank itself, should be checked.

The audit service should review the issues of capital adequacy assessment, asset classification, risk management and liquidity assessment, timeliness, completeness and accuracy of accounting for banking operations in accounting and financial reporting.

The audit service should check the ways of protecting assets and, as necessary, check the availability of these assets. In addition, the Audit Service should check transactions or programs to determine whether the results are consistent with the goals and objectives and whether the operations and programs are being carried out as planned.

The audit service to ensure the protection of the interests of depositors and clients of the bank should at least once a quarter check the availability of funds received from customers in the bank and its structural subdivisions (branches, mini-banks, operating cash desks created outside the premises of the bank), including number of deposits of the population and their compliance with the deposit books (certificates).

The results of the internal audit should contain a report on the audit and a complete package of supporting working papers. The working documentation on the audit is prepared by the employee of the Audit Service and is checked by the heads of the Audit Service department.

These documents should record the information received and the analysis performed, and they should support the grounds for the facts identified in the course of the audit and recommendations for possible improvements.

Employees of the Audit Service are responsible for protecting confidential information that was provided to them or became known in connection with the performance of their official duties. In the event of disclosure of information constituting bank secrecy and confidential information prohibited for disclosure by the management of the bank to a third party, the measures established by law are taken.

Before and during the audit, the auditor performs various procedures that are documented by the relevant documents, which together constitute the auditor's documentation.

The auditor's documentation is a set of material information carriers that is compiled by the auditor, employees of the credit organization and third parties at the request of the auditor and contains the information necessary to prepare a reliable report and the auditor's conclusion, as well as for the possibility of current and subsequent audit quality control.

The form, content and storage of such documentation must comply with the provisions of the relevant auditing standard.

Planning is the initial step in conducting an audit. During this period, the auditors develop a general audit plan with an indication of the expected volume, schedules, timing of the audit, and the development of the audit program.

Planning implies - complexity, continuity and optimality. Audit planning is documented through detailed plans during the audit (including the duration of the audit); banking services (activities) subject to audit; the names of the auditors conducting the audit; time distribution by hours to the auditor performing specific tasks.

The Chief Auditor develops an audit program for conducting inspections. The audit program is a set of methods and methods of audit, documented in a prescribed form. The audit program includes a list of audit procedures used in a specific audit, as well as their nature, timing, scope and specific performers. (Kochiniv, 2015)

The auditor should draw up and document an audit program that determines the nature, timing and scope of the planned audit procedures required to implement the overall audit plan. The audit program is a set of instructions for the auditor performing the audit, as well as a means of

monitoring and verifying proper performance of the work. The audit program may also include auditable prerequisites for the preparation of financial (accounting) statements for each of the audit areas and the time planned for various audit areas or procedures.

The audit program should contain goals, the coverage of the program should be sufficient to achieve audit objectives. In addition, the program should include a detailed work plan and descriptions of the necessary procedures for each department. The program determines the scope, types and sequence of the implementation of audit procedures necessary to form an objective and reasoned opinion on the financial statements of the audited bank.

In preparing the audit program, the auditor is obliged to take into account his risk assessments of the bank's activities and the risk of controls, as well as the required level of confidence that must be provided for substantive procedures, time frames for testing controls and substantive procedures, coordination of any assistance that is expected to be received from the audited entity, as well as the involvement of other auditors or experts.

The audit program should be compiled in the form of a test program for control tools and in the form of a program of substantive audit procedures.

The program of tests of control means is a list of the set of actions intended to collect information on the functioning of the internal control and accounting system. The purpose of tests of controls is that they help to identify the significant flaws in the means of control of the economic entity.

Audit procedures in essence include a detailed verification of the accuracy of the reflection in the accounting turnover and the balance of accounts. The program of audit procedures is essentially a list of

auditor's actions for such detailed specific checks. For substantive procedures, the auditor should determine which parts of the accounting he will audit, and draw up an audit program for each section of accounting.

The auditor's conclusions on each section of the audit program documented in the working documents are the actual material for the preparation of the audit report (written information to the management of the economic entity) and the audit report, as well as the basis for forming an objective opinion of the auditor on the financial statements of the economic entity.

At the final stage of the audit, all materials are summarized and an act is signed in which all participants of the audit are signed, as well as the branch management. (Novruzov, 2011)

2.2.2. Analysis of key indicators of “Unibank” and “Demirbank”

Commercial Bank "Unibank" successfully works in the financial market of Azerbaijan for more than twenty five years. And today it is known as a reliable partner with an impeccable reputation, a universal financial and credit institution with a wide range of traditional and modern banking services. Providing financial support to priority sectors of the economy, Unibank contributes to the development of the whole country and its integration into the world community, as well as to the welfare of the country's population. (<https://www.unibank.az/locations/index>)

In 2016, Unibank's activities were aimed at ensuring long-term sustainable growth and development, increasing investment attractiveness, liquidity and sustainability, improving the core performance indicators of the bank and bringing them to the level of

international standards. This gave the financial institution the opportunity to provide high-quality banking services to domestic customers and foreign partners focused on the production of competitive products, both for exports and for saturation of the domestic market. Leading and authoritative international rating agencies Moody's and Fitch Ratings have repeatedly confirmed the rating of Unibank at the level of Stable. The high ratings assigned to the bank confirm once again the reliability of the bank and strengthen the people's confidence in the stability of Unibank. Attaching great importance to strengthening its financial stability, Unibak Bank intensively developed at a qualitatively new level of a modern and universal bank. The development of the bank and its success became possible due to the active introduction of modern technologies, the completeness and quality of the offered banking products and services.

As shown in figure 2, total assets increased by 4,26 billion manats and as of January 1,2017 amounted to 15,59 billion manats, i.e. increased by 37% .(banker.az/daxili-audit-departamentinin-auditoru-unibank)

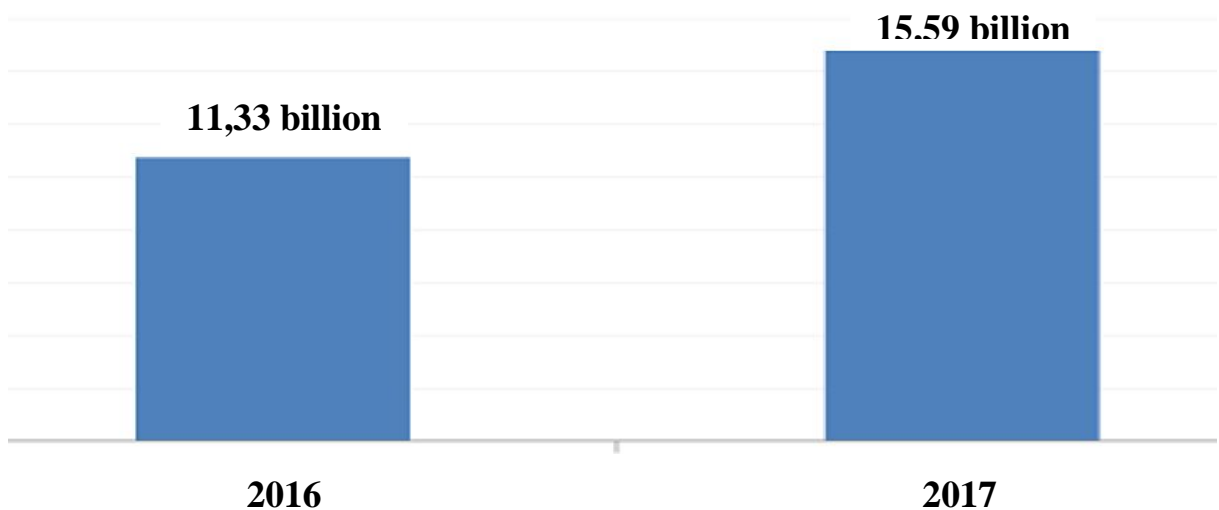


Fig.2. Aggregate assets of "UNIBANK" (in billion manats)

The development of the bank and its success became possible due to the active introduction of modern technologies, the completeness and quality of the offered banking products and services. In this connection, as Figure 3 shows, the total capital of the bank increased by 0,24 billion manats and amounted to 1,93 billion manats, i.e. increased by 14%.

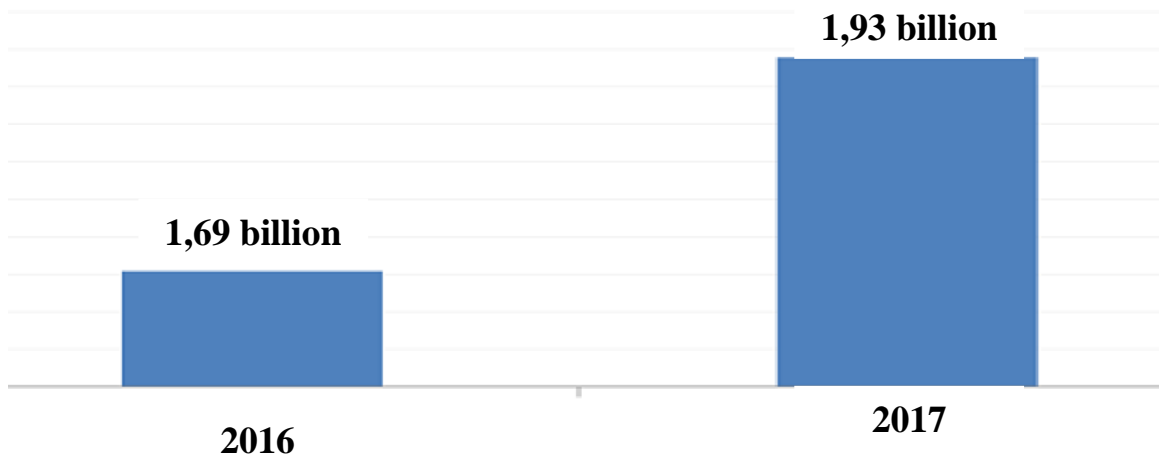


Fig. 3. The total capital of "Unibank" (in billion manats)

The Bank conducted an active work to expand the client base. It increased by 0,45 thousand units and amounted to 0,35 thousand units. The Bank is constantly working to improve the efficiency of its structural divisions and expand its presence in the banking market. As of January 1 in 2017, 31 branches, 73 ATMs, 32 terminals in the Unibank system.

As can be seen in Figure 4, as of January 1 in 2017, the volume of credit investments and leasing amounted to 0,72 billion manats in a manat equivalent, i.e. increased by 24%. (<https://www.stat.gov.az/>)

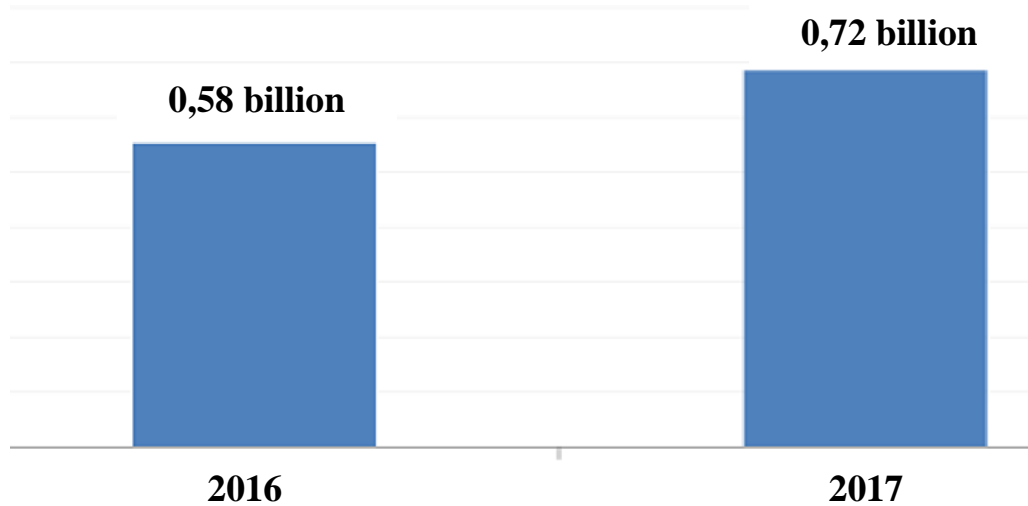


Figure 4. Credit investments (in billion manats)

In the structure of the loan portfolio, long-term loans amount to 6,41 billion manats, including investment loans - 5,50 billion manats.

In the sphere of unconditional priorities of the bank's activity, there remains support for small businesses and private entrepreneurship.

Unibank provided loans to the subjects of small business and private entrepreneurship in the amount of 0,25 billion manats for 2017, which is 29% more than last year.

To expand the production of food products and saturate the domestic market, loans worth 0,05 billion manats were issued.

Demirbank is formulated in 1989. According to the audit report of DemirBank in 2016, assets are estimated at 359 mln. 33 thousand manats. This is 55.6% lower than the preceding year. According to the report, the bank's liabilities amounted to \$ 489 million. 580 thousand manats.

Last year Demirbank's loan portfolio decreased by 39.4% and amounted to 251 million 918 thousand manat.

It should be noted that the bank will finance 151 mln. Has damaged 96,000 manat. This is 5 times more than in 2015.

According to the Financial Markets Control Chamber, the reason for the closure of DemirBank is that the total capital of the bank is lower than the normative demand, the low capital adequacy and the failure of the bank to meet its creditors' commitments. The Bank has lost its ability to fulfill its obligations to the lenders.

By 2017, Demirbank ranked 20th in terms of assets (among 31 banks), 12th in credit portfolio and 20th in deposit portfolio. At the same time, the bank has fallen more than 20 million dollars in 9 months. Balance capital was twice less than the minimum requirement: "About 53 million manats were created to compensate for possible losses on assets, which is a little over 10% of current assets of the bank".

Consequently, the closing bank is in the middle of the rating does not guarantee that it will not be bankrupt. Auditors link the bank's success with oil money. Before the devaluation, the bank grew considerably. The bank's assets in 2010-2015 increased by 73% and reached 589 million, but decreased by about 30% in the last two years to 429 million manat. (<http://strateq.az/iqtisadiyyat/222154/d%C9%99mirbank-niy%C9%99-baglandi.html>)

Experts point out that the bank's assets have almost doubled in a short period of time, during the big oil money. In this period, the bank mainly preferred consumer lending. As of the end of 2015, 63.3% (270 million manat) of consumer loan portfolio of the bank amounted to 428 million manat.

The main reason for the closure of Demirbank is the lack of competition in the banking sector and the lack of proper management.

Out of standing, 1-2 emerging banks are just due to the state resources and the economic power behind these banks through the dominating power they possess over the economy.

2.2.3. Internal audit of credit operations of “Unibank” and “Demirbank”

Among the traditional activities of commercial banks, lending is the basic banking operation that ensures the profitability and stability of the existence of banks.

Audit of credit operations is mandatory for both internal and external audit. During the external audit, when confirming the annual financial statements, credit operations are necessarily verified.

They can be considered and when performing a special audit task.

The purpose of the audit of lending operations is to check the bank's compliance with the current rules for the execution of these transactions and their correctness in accounting in order to prevent violations and reduce credit risks.

The main stages of the audit of credit operations are, audit planning; obtaining audit evidence; documenting the audit; summarizing the findings; Formation and expression of opinion on the general level of the setting of credit work and the state of accounting and reporting on credit operations.

When obtaining audit evidence for the evaluation of credit operations proceed from the principle of "from general to particular", i.e. first determine the state of the entire loan portfolio of the bank in dynamics, and then, in accordance with the rules of materiality and audit risk, audit the individual credit transactions based on the audit sample.

When checking the compliance of the bank with the current rules for the performance of credit operations, it is necessary to be guided by such regulatory acts as the Regulation of the Central Bank of the Republic of Azerbaijan "On Requirements for the Credit Policy of Commercial Banks" in accordance with which the Bank's credit policy is

a document that determines the approaches and methods adopted by the bank's management for managing risks arising from lending, and providing management and bank personnel with guidance on effective management of the credit portfolio. Credit policy has a number of elements, which allows us to speak about the forms of its manifestation. Different criteria can be used to classify forms of credit policy.

The credit policy of a commercial bank should clearly define the purposes of lending, contain rules for the implementation of specific objectives, including standards and instructions, which are methodological support for its implementation.(Gracheva and Maria, 2014)

The objectives of the analysis include, along with determining the quality of loans, an assessment of the quality of management of the lending process, including ensuring compliance with approved credit policies and procedures for issuing credit documentation, financial analysis, processing and assessment of collateral, separation of lending authority, and compliance with legislation.

During the audit, the auditor checks the validity of the accrued interest, in accordance with the Regulation "On Calculating Interest in Commercial Banks", it is determined that interest (income) is the income received for the use of money, or their equivalents. Also interest (income) includes the amount of depreciation of any discount, premium or other difference between the initial balance sheet value of a debt security or a loan and the amounts of their redemption.

In the Decree of the Central Bank of the Republic of Azerbaijan "Instruction on the procedure for writing off money from bank accounts of economic entities", the Regulations of the Central Bank "On the procedure for maintaining credit documentation in banks of the Republic of Azerbaijan" in which the general provision, procedures for

maintaining documentation on the loan, procedures for maintaining documentation on acquired rights for loans, procedures for maintaining documentation on the assignment made by the bank, procedures for maintaining records on the assignment made by the bank, the documentation on the guarantee of the obligations of the bank, the documentation on the monitoring of loans, as well as the Bank's Charter, the Bank's Credit Policy and other regulatory documents of the Central Bank, etc. In the course of checking the accuracy of credit transactions, Instruction on accounting and reporting in banks of the Republic of Azerbaijan, Regulation "On Accounting Policy and Financial Reporting of Banks", Resolution of the Board of the Central Bank "On the order of accounting of loans in commercial banks". (Novruzov, 2011)

In accordance with the goal in the audit, the following basic checks are carried out:

- active lending operations;
- passive credit operations;
- lending operations when closing contracts in non-monetary form;
- foreign currency lending operations.

In the course of checking the bank's compliance with the current rules for the performance of credit operations, the following documents are examined: the credit policy of the bank; provision on the credit department; credit dossiers, including contracts and documents for ensuring the fulfillment of obligations; general agreements on cooperation in the market of inter-bank loans (IBC), additional agreements to them; minutes of meetings of the credit committee; the instructions of the head of the bank on the opening and closing of loan accounts; the conclusion of the security service and legal service; other documents related to the organization and implementation of credit work in the bank.

During the verification of the correctness of the reflection of credit transactions in off-balance accounting, the data of analytical accounting for off-balance accounts are studied: "Obligations to issue a loan", "Borrowers' obligations for loans", "Securities as collateral", "Property and rights (claims) in as collateral ", " Guarantees and sureties accepted as collateral ", " Securities transferred as collateral for obtaining a loan ", registers of analytical and synthetic accounting, accounting statements: the accounting journal; a statement of balances on the accounts of the credit institution; statement of the balances of the placed (attracted) funds of the credit organization, negotiable statements on the accounts of the credit organization; Profit and Loss Accounts; bank balances.

Loans are classified in the following areas: loans to legal entities and loans are presented to individuals.

Loans to legal entities:

- Corporate loans - loans granted to legal entities other than net investments in financial leases.
- Lending to small businesses - loans provided to individual entrepreneurs;
- Net investment in financial leases - loans granted to customers that are consistent with the definition of a finance lease.

Table 2

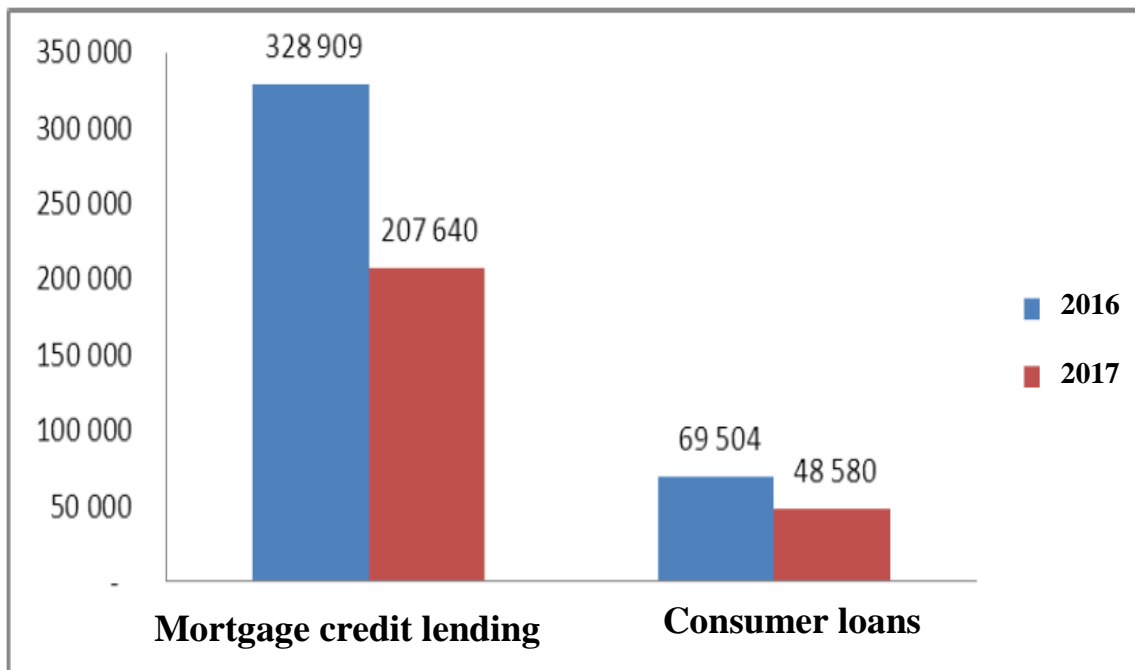
Loans to legal entities (in millions of manats)

The name of indicators	Years			
	2016	%	2017	%
Corporate loans	3,427,994	95%	4,911,092	97%
Net investment in finance lease	165,173	4,5%	160,262	3,1%
Lending to small businesses	28,984	0,8%	21,353	0,4%
Total loans provided to legal entities	3,622,071	100%	5,092,707	100%

As the table shows us, a considerable part of the loans was presented to companies operating in the territory of the Republic of Azerbaijan, which represents a significant geographical concentration in one region.

Loans to individuals: (Richard, 2015)

- Mortgage credit lending;
- Consumer loans.



As chart 5 shows us in comparison with 2016, in 2017 mortgage lending increased by 15%, as well as consumer loans by 43%. Table 3 shows the book value of loans to customers, analyzed by type of collateral.

Table 3

The carrying amount of loans by type of collateral (in million manats)

The name of indicators	Years			
	2016	%	2017	%
The property	1,536,734	40%	1,781,086	32,4%
Cash	842,806	21,7%	1,651,003	30%
Third-party guarantee	897,836	23%	842,749	15,3
Guarantee of the state	53,587	1,3%	721,978	13,1
Equipment and goods in circulation	333,288	8,6%	293,615	5,3
Unsecured loans	49,246	1,2%	53,311	0,9
Other	164,794	4,2%	147,378	2,7
Total (before provision for impairment)	3,878,291	100%	5,491,120	100%

To verify the correctness of accounting for the security of loans received, the data of analytical and synthetic accounting for off-balance accounts are used: "Securities as collateral", "Property rights (claims) as collateral", "Guarantees and sureties accepted as collateral security, "" Securities transferred as collateral for obtaining a loan".

Table 4.

Breakdown of loans by industry (in millions of manats)

The name of indicators	Years			
	2016	%	2017	%
Industry	2,547,024	65,6%	3,878,693.	70%
Trade and general food	433,587	11,1%	429,029.	7,8%
Individuals	261,964	6,7%	398,413.	7,2%
Building	162,286	4,1%	253,752.	4,6%
Agriculture	156,662	4%	241,088.	4,3%
Utilities	78,184	2%	102,709.	1,8%
Transport and communication	62,560	1,6%	30,909.	0,5%
Other	176,024	4,5%	156,527.	2,8%
Total (before provision for impairment)	3,878,291	100%	5,491,120.	100%

In the course of 2017, the gross amount of loans extended to customers increased by 1,612,828 thousand manats or 42%, of which 1,404,902 thousand manats or 87% were issued to two borrowers. Loans to these borrowers are secured by cash and state guarantees.

During the verification of the correctness of accounting for the issuance and repayment of loans, compliance with the procedure for issuance and repayment of the principal amount of the loan is verified (legal entities are transferred to the correspondent account by cashless or by cash or non-cash funds). (Sonin, 2017)

The audit uses the data of analytical and synthetic accounting for active balance accounts: for client loans (depending on the legal structure of the borrower) on the corresponding second-order accounts (depending on the terms of granting loans); data of analytical and synthetic accounting for off-balance accounts "Securities as collateral", "Property rights (claims) as collateral", "Guarantees and sureties accepted as collateral", "Securities pledged as receivable credit"; data on customer borrower accounts if they have settlement (current) accounts with a lender bank or correspondent account statements if customers are serviced in another bank.

An important step is to check the timeliness and completeness of repayment of loans and return of collateral items. At this check, there are statements on loan and settlement (current) accounts of borrower clients if they are serviced by a lending bank or statements on a correspondent bank account of a creditor bank if they are serviced in another bank. Selectively check the compliance with the order of repayment of amounts of debt: fines, penalties, interest, principal (unless otherwise established by the loan agreement).

When checking the timeliness and completeness of creation, adjustment and use of reserves for possible losses on loans, it is

necessary to be guided by the "Procedure for Classifying Asset Quality, Forming and Using Reserves Created by Commercial Banks to Cover Possible Losses Thereon," approved by the Central Bank, classification of loans issued based on formal criteria for assessing credit risks, the amount of allocations to provisions for possible loan losses was determined, and established accounting procedure of creation and use of these reserves too.

Verification of the correctness of the creation and adequacy of the created reserves reduces to an assessment of the correctness of the classification of loans made by the bank, that is, the assignment of a loan to a certain risk group based on formalized criteria. From these criteria depends on the ownership of each loan to one of the four risk groups (standard, non-standard, doubtful and bad loans), and this in turn determines the correctness of determining the amount of deductions to the created reserve.

In the event that the created reserve is sufficient to cover the amount of the principal debt, this amount written off from the balance sheet is debited with the reserve account and credited with the overdue debt account for the loans granted. It should be checked whether the amount of the principal debt transferred to the balance sheet is simultaneously transferred to the off-balance account where it will be accounted for in the next five years, which should be reflected in the debit of the account "Arrears on loans and other allocated funds provided to customers (other than credit institutions), written off from the reserves for possible costs associated with writing off the loan debt in the absence (insufficient) of the reserves and reserve fund, where the remaining amount will be written off s amount not overlapped to create a reserve.

It should also be checked whether the amount of the principal debt that was not offset by the created reserve is simultaneously transferred to the off-balance account "Debt written off at a loss," where it will be accounted for over the next five years. (Kochiniv, 2015)

Verifying the legality of writing off the bank's balance sheet as uncollectible and / or unrealistic for collection of debts from the reserve for possible losses on loans, it should be ascertained whether the facts of writing off large, preferential, unsecured loans, loans to insiders from the reserve by the decision of the board of directors or Supervisory Board without mandatory confirmation by procedural documents.

First of all, it checks the implementation by the audited bank of the daily monitoring of the execution of the terms of the loan agreements and the financial condition of the borrowers. It checks whether the bank uses the rights stipulated in loan agreements for the purpose of monitoring before the established maturity of loans and payment of interest: whether the letters were sent to the borrower in order to notify about the maturity of the principal debt and interest payment in accordance with the established schedule of debt repayment; were the employees of the bank going to the location of the borrower to check his financial and economic activities, observance of the order of proper storage of pledged items, etc. It should be established what measures were taken based on the results of such inspections.

During the audit of passive credit operations of banks, the following basic checks are carried out: compliance with the procedure for issuing documents for obtaining a loan, reissuing (prolonging) loan agreements; correctness of registration and recording of collateral for loans received; correctness of accounting in operations for obtaining and repaying loans; timeliness of cancellation of outstanding loans for delay; correctness of accounting in accounting operations for the accrual and

payment of interest for the use of credit; timeliness of writing off unpaid interest on arrears; correctness of registration and accounting of credit transactions by opening credit lines for obtaining loans.

DemirBank mainly went to the bottom due to a large volume of problem loans. The owners and managers of the bank are going to give out most of the loans to their people. Naturally, this money left with ends. The bank has settled on other borrowers, who for objective reasons could not return loans, and in every way beat money from them. But this did not save their situation.

Since December 23, 2017, the license of DemirBank has been liquidated. According to the information of the Chamber for Supervision of Financial Markets of Azerbaijan, the license was liquidated due to the discrepancy between the total capital of the bank and the minimum requirement established for banks, and the adequacy ratio of the aggregate capital is lower than three percent stipulated by the legislation.

It is noted that the bank does not have the capacity to fulfill its obligations to creditors.

3. METHODOLOGY AND RESULTS OF INCREASE OF EFFICIENCY OF INTERNAL AUDIT IN BANKS

3.1. Methodology

The development of the methodological framework for conducting internal audit is the essence of the work itself. As a toolkit at different stages of the research, depending on the nature of the problems being developed, methods of observation, comparison and generalization of

theoretical and practical materials were used. The studies were carried out using a systematic approach to the study of the range of problems under consideration, statistical methods, logical and comparative analysis.

In the process of the research, various sources of information were widely used: monographs of foreign and domestic scientists on banking, internal audit, periodicals, statistical collections and information data. In the process of preparation, the Laws of the Republic of Azerbaijan, Decrees of the President of the Republic of Azerbaijan and Government Decrees aimed at improving the functioning of the banking system of Azerbaijan, as well as regulatory acts of the Central Bank of the Republic of Azerbaijan and the primary banking documentation were also used.

The main stages of the audit of credit operations are, planning of audit, obtaining audit evidence; documenting the audit, summarizing the findings, forming and expressing an opinion on the overall level of credit work and the state of accounting and reporting on credit operations.

The purpose of the audit of credit operations is to verify the bank's compliance with the current rules for the performance of credit operations and their correctness in accounting in order to prevent violations and reduce credit risks.

3.2. Results

The following most significant results were obtained during the study:

- The content of the internal audit, its place and role in the corporate governance system of the commercial bank is defined;
- Methodical approaches to the internal audit of the main

activities and business operations of the commercial bank have been developed;

- Developed a methodology for assessing the quality of the system of internal control over the implementation of credit operations and cash settlement operations to determine its effectiveness and sufficiency;

- Recommendations on the organization of internal audit in banks with a wide branch network are given.

In our republic, the audit is conducted in accordance with the "Regulation of the Central Bank for the Internal Audit of Commercial Banks", according to which internal audit is conducted exclusively by audit staff, internal audit is conducted in accordance with the Audit Plan approved by the Board of the Bank.

In accordance with the goal in the audit, the following basic checks are carried out:

- active lending operations;
- passive credit operations;
- credit operations when closing contracts in non-monetary form; operations of foreign currency lending.

The implementation of the research results will help improve the organization of internal audit in commercial banks, which in practice has allowed:

- improve the quality and effectiveness of internal audit;
- increase the professionalism and level of responsibility of personnel;
- improve the image of a commercial bank.

3.2.1. Foreign experience in organizing internal audit

In economically developed countries, special attention is paid to audit problems, including internal ones. In addition to the laws that formulate the main requirements and define general rules, various normative and other documents on the regulation of external and internal audit have been adopted and are in force. In each country, these documents can be prepared by state bodies or professional public organizations or by state bodies and professional public organizations.

It is worth mentioning the existence of the International Organization of Supreme Audit Institutions (INTOSAI), which includes more than a dozen countries, including the United States, Britain and Japan. Special departments of government organizations are working in this direction. For example, in the US, the United States General Accounting Office. In each of the named and other similar foreign organizations there is a division responsible for the development of appropriate audit standards.

The International Federation of Accountants (IFAC) has developed and published International Standards on Auditing (ISA). According to the International Standards on Auditing, "internal audit is an appraisal activity carried out within the entity as a service intended for the entity." One of the functions of internal audit is the examination, evaluation and monitoring of the adequacy and effectiveness of accounting and internal control systems". (Efremova L.S., 2011)

According to the professional standards developed by the International Institute of Internal Auditors, professional internal auditors play a key role in assessing and guaranteeing the effectiveness of risk management, control and corporate governance systems. The internal audit function includes: assessment of the reliability of reporting (both external, financial and regulatory, and internal, management),

verification of the feasibility and cost-effectiveness of operations, the safety of assets, compliance with legislation, regulatory requirements of regulatory bodies and contractual obligations. Standards are designed for auditors in all business areas where internal auditors operate. In connection with the ongoing changes in society and business, these standards are constantly being revised.

The standards cover the following five areas of internal audit activities:

- independence of the internal audit unit from the audited organization and the objectivity of internal auditors;
- the competence and professionalism of internal auditors and the professional care that they observe;
- scope and quality of work performed by internal auditors;
- functions and responsibilities of the internal auditor;
- management of the internal audit department.

In foreign countries, there are various approaches to the organization of internal audit, which is based on centuries of history, tradition and has a national identity. For example, the Bank of England uses such a concept as a risk-oriented approach. An important aspect in this approach is the assessment and control over the risks arising in the course of the organization's activities. Since audits are associated with significant costs, it is important that auditors concentrate their efforts and available resources on areas that involve the maximum risk of financial loss or undermining the reputation.

The Bank of France has a slightly different approach to the organization of internal audit, here it is included in the banking control system, therefore the principles of its organization have their own specifics. It is believed that the control system, which includes an internal audit, must meet the following requirements:

- Functions must be clearly defined;
- Areas of responsibility are optimally distributed;
- Power functions are separated in order to exclude the possibility of one or the same employee performing two or more of the following functions:

- decision-making function
- operating function;
- accounting function;
- control function. (Akhalkatsi, 2017)

In the German Federal Bank, the basic principles of internal audit include: independence; functional isolation; full awareness; high qualification of internal audit staff.

The Internal Audit Department of the Bank of the Netherlands is an independent division that directly reports to the director the secretary who is one of the members of the Management Board of the Bank.

The responsibility for carrying out the internal audit in the Bank of the Netherlands has always rested on an independent division that was directly subordinate to the top management of the bank. The system for carrying out the audit of the annual accounts differed in the traditional nature, which provided for a large number of control checks for a significant volume of transactions and postings. (Lukin and Andrey, 2016)

3.2.2. Recommendations for improving the effectiveness of internal audit

In foreign countries, there are various approaches to the organization of internal audit, which is based on centuries of history, tradition and has a national identity. For example, the Bank of England

uses such a concept as a risk-oriented approach. An important aspect in this approach is the assessment and control over the risks arising in the course of the organization's activities. Since audits are associated with significant costs, it is important that auditors concentrate their efforts and available resources on areas that involve the maximum risk of financial loss or undermining the reputation.

Advantages of a risk-oriented internal audit:

- definition of the scope of audit;
- the relationship between risk factors and management problems;
- process oriented audit. (Karaliev and Faizullaeva , 2012)

Table 5

"Internal audit based on risks" versus "Risk management"

Internal audit based on risks	Risk management
Continuous evaluation of various processes to ensure a quality system of internal control and effective management of the organization. This includes monitoring of inherent business risks.	Development of appropriate policies and procedures for effective risk management based on the entire bank.
Statement of risk based on an internal audit plan for proper allocation of resources	Development of a risk management policy
The internal auditor can conduct an audit of the risk management department of the bank, which is an independent structure.	Risk management systems cannot assess the risk of the internal audit department.

Risks based audit stages:

- preparation;
- planning;
- resource planning;
- clarification of roles;
- assignment of duties;
- cost planning;

- end;
- clear distribution of roles and responsibilities.

The volume of internal audit based on risks is determined, after which the following issues are determined for consideration:

- process of risk identification;
- control environment;
- control of budget execution and review effectiveness;
- transaction testing / asset verification;
- monitoring compliance with legislation based on the internal audit report;
- Variations in risk assessment in accordance with the audit plan.

Risk-oriented internal audit is very beneficial from the point of view of resources and tight deadlines. Using this method will significantly reduce all costs. Risk-oriented internal audit helps achieve maximum results with minimal costs. To achieve these goals, the internal audit service using the above-mentioned risk-based audit plan will pay attention to areas most at risk.

Table 6

Risk-based internal audit plan

Levels	Criticalness	Criticality rating	Name of processes	Frequency
1	High	25-30	<ul style="list-style-type: none"> • Income • Human resources 	Quarterly, half a year
2	Average	20-25	<ul style="list-style-type: none"> •Accounts payable • Fixed assets 	Half a year, once a year
3	Low	lower 25	<ul style="list-style-type: none"> • Admin functions 	Annually, once every two years

To identify areas most at risk to internal auditors, it is necessary, as well as in the Bank of England, to consider the following issues in each direction: (Zhminko, S.I., 2017)

- whether this activity is the main one for the bank;
- whether the mistake / loss will damage the reputation of the bank;
- whether the mistake / loss would mean breaking the law;
- whether the error / violation will lead to financial losses;
- how reliable control mechanisms are in this system;
- how mature the system is;
- whether there have been any mistakes / losses in this direction;
- how much management and executive cadres are professional and competent in this system.

Based on the assessments for each issue, the internal audit service will identify the areas that are most closely related to risks, after which the auditors will allocate time and resources as efficiently as possible.

In the period of modernization of our economy, the organization of quality corporate governance in credit institutions is gaining more and more importance. As was noted at the meeting of the Cabinet of Ministers devoted to the results of the country's social and economic development in 2014 and the most important priority areas of the economic program for 2015, fundamental changes require the radical change of principles and approaches in the corporate governance system, the introduction of modern international corporate management standards by production, foreign economic and investment processes.

As international experience shows, the existence of an effective system of corporate governance plays a key role in ensuring the financial stability of the banking and financial institutions. With this in mind, we can conclude that a high-quality and highly developed corporate governance is one of the main levers for managing the financial stability of a credit institution. Among this, it should be noted that internal audit occupies an important place in the corporate governance system. Internal

audit in the corporate governance system plays one of the main roles in the effective functioning of the corporate governance system.

In order to improve the internal audit service, in our opinion, it is necessary to implement the recommendations of the Basel Committee on Banking Supervision "Principles for improving corporate governance", according to which it is recommended that,

- encourage internal auditors to apply national and international standards, for example, as established by the Institute of Internal Auditors;

- Require that the qualifications of the auditors correspond to the business and the risks of the organization;

- support the independence of internal auditors, introduce the procedure for submitting internal audit reports to the board of directors, and provide internal auditors with direct access to the board of directors or audit committee of the board of directors;

- give due importance to audit and internal control and maintain their prestige in the credit institution;

- Require executive bodies to respond in a timely and effective manner to problems identified by internal audit;

- involve internal auditors in assessing the effectiveness of the risk management service, including assessing the quality of risk reporting to the board of directors and executive bodies, and evaluating the effectiveness of other key monitoring services.

In our Republic, the internal audit service is regulated by a number of provisions and regulatory acts of the Central Bank. In practice, many methodological issues of organizing internal audit activities in commercial banks remain unregulated, which affects the quality and effectiveness of internal audit. Proceeding from this, in our opinion, it is necessary to develop national standards for internal audit based on

international professional standards of internal audit, taking into account our economy, which will define uniform requirements for the activity of internal audit. That, undoubtedly, will have a big impact on the development of auditing in our Republic.

After the development of national standards for internal audit, it is necessary to develop certification for future candidates. In our opinion, it is necessary to develop certification based on the international qualification "Certified Internal Auditor" (CIA - Certified Internal Auditor), taking into account our national training program. It is necessary that all public issues related to the development of certification, regulation, and examinations are handled by public and non-governmental non-profit organizations such as the National Association of Auditors and Accountants Azerbaijan, and the Chamber of Auditors of Azerbaijan in cooperation with the Central Bank and the Tashkent Financial Institute. This certificate will be the same for all future candidates.

CONCLUSION

In the course of the scientific research, we have obtained the following most significant conclusions:

1. Audit in any country is an element of its financial and economic system, which determines its content and functions. The presence of various interpretations of the audit indicates that the process of its formation is not yet complete. One of the most common interpretations

of internal audit is the analysis and confirmation of financial statements of an economic entity, a real and objective assessment of the effectiveness of economic activity.

2. The Internal Audit Service of a commercial bank assists the management bodies of the bank by providing objective analysis, assessments, recommendations and information on the control and performance of the bank. In our opinion, internal audit is a key element of the internal control system of a commercial bank, help to reduce risks and maintain executive discipline at the proper level.

3. To ensure the regulatory and legal framework for internal audit, a number of regulatory and legal acts have been adopted in our republic, including the Law of the Republic of Azerbaijan "On Auditing", the Regulation "On the requirements of the Central Bank for the internal audit of commercial banks and a number of other normative acts, which define the goals, tasks and functions of internal audit, establish requirements for the internal audit service and internal auditors.

4. In the economically developed countries, special attention is paid to audit problems, including internal ones. It is important to note the existence of the International Organization of Supreme Audit Institutions (INTOSAI), which includes more than a dozen countries, including the United States, Britain and Japan. In each of the named and other similar foreign organizations there is a division responsible for the development of appropriate audit standards.

5. The International Federation of Accountants (IFAC) has developed and published International Standards on Auditing (ISA). The Institute of Internal Auditors adopted such important documents as the Code of Ethics (2000) and the Professional Standards of Internal Auditing (International Standards for the Professional Practice of Internal Auditing, 1999).

6. According to professional standards, internal auditors play a key role in assessing and guaranteeing the effectiveness of risk management, control and corporate governance systems. Standards are designed for auditors in all business areas, where internal auditors, including the banking sector, operate.

Based on the results of the research based on the analysis of international practice and legislation of the Republic of Azerbaijan, the following measures are proposed for improving internal audit in commercial banks:

1. Develop national standards for internal audit based on international professional standards of internal audit, taking into account the peculiarities of our economy and banking regulation, which will define uniform requirements for the activity of internal audit, including for the internal audit service in banks. Undoubtedly, this will have a positive impact on the development of internal audit and raising the level of corporate culture in our country;

2. In the process of developing national standards for internal audit, it is also necessary to introduce certification of internal auditors. In our opinion, it is necessary to develop certification based on the international qualification "Certified Internal Auditor" (CIA - Certified Internal Auditor), taking into account our national training program. It is proposed that non-profit organizations and educational institutions, such as the National Association of Auditors and Accountants, the Chamber of Auditors in cooperation with the Azerbaijan Financial Institute, work to develop the certification program;

3. Implement the recommendations of the Basel Committee on Banking Supervision "Principles for improving corporate governance" to improve the system of corporate governance and improve the quality of internal audit in commercial banks;

4. Involve internal auditors in assessing the effectiveness of the risk management service, including assessing the quality of risk reporting to the board of directors and executive bodies. This will allow improving the effectiveness of the risk management system and directing the auditors' efforts to solve the most important tasks;

5. Implement a risk-oriented audit in the activities of the internal audit service in commercial banks. Risk - oriented audit allows assessing the organization 's security, identifying existing risks, creating or adjusting the existing plan of measures to minimize risks, improving the interaction of departments responsible for monitoring and managing risks, and much more.

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