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Internal Control and Performance of Commercial Banks in the Context of Digital Transformation

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Abstract

In the current market mechanism, commercial banks face major barriers in terms of competition with domestic and foreign banks. Improving competitiveness and effectively using resources is the goal of any commercial bank. The requirements and limitations in banking operations can only be met and overcome thanks to a scientific and effective internal control system. Since then, strengthening internal control to improve operational efficiency has become an urgent need in management at every commercial bank.

Digital transformation has been changing the methods and ways of implementing control activities in general and internal control in particular. Control 4.0 will rely on technology driven by the development of the 4.0 industrial revolution to collect financial and non-financial information and analyze and model it to ensure a meaningful way.

Effective. The application of technology has helped improve the ability to automate control activities, expand control scope, shorten implementation time, and ultimately improve control quality; at the same time, it changes standards, principles, technology, and awareness of controllers. In particular, digital transformation is also a factor that changes the environment, the context in which risks arise, and the types of risks as well as influencing the behavior of adjusting resources to perform audits for these risks.

This article aims to provide recommendations to strengthen the internal control system and minimize risks in commercial bank operations, making an important contribution to improving the operational efficiency of banks. Commerce in the context of digital transformation.

Keywords: Commercial Banks, Digital Transformation, Internal Control

1. Introduction

In the context of strong digital transformation in most fields, increasing competition and risks greatly affect managers' ability to achieve their goals. For managers, building and applying effective internal control is an important task. Ensuring operational stability and sustainable development has become an important goal in the management and operation of commercial banks. One of the strategic and urgent solutions is to establish, organize, and upgrade the internal control system of each commercial bank. The internal control system has become an important and effective risk prevention mechanism in commercial bank operations, helping commercial banks achieve their set goals.

Based on research on the relationship between internal control and bank performance, the authors propose several recommendations to enhance the performance of internal control, helping banks minimize risks, achieve the goals of improving operational efficiency, and enhancing competitiveness in the context of a strong wave of digital transformation.

2. Theoretical basis for the internal control system of commercial banks

The concept of internal control has formed and developed into a theoretical system on control issues within the unit and is closely related to organizational management issues.

Lakis, V. (2008) and Shim, J.K. (2011) approach according to the representative theory that the internal control system is a "system", part of the corporate governance system. Internal control is a system of internal control mechanisms established by managers to ensure the company's operational objectives, including ensuring prudent and effective company operations, Ensuring the detail and accuracy of accounting data, ensuring safety and reasonable use of assets, and managing risks within the company. Simmons, M.R (1995), Simmons, M.R (1997), King, A.M. (2011), and Lakis, V. & Girinjnias, L. (2012) approach based on context theory, arguing that the internal control system is a "process". The authors believe that the internal

control system is a necessary process that is widely established to achieve the following goals: economic efficiency and effectiveness, accounting and financial reliability, and compliance. Regulations and laws. Pfister, A.J. (2009) said that the internal control system is a system to identify, prevent, and correct errors that may occur during the information processing process. Besides, Barnabas, C. (2011) believes that the internal control system is a set of components of a company, including resources, systems, processes, culture, structure, and tasks that help employees achieve company goals. King, A. (2011) believes that the internal control system is a process through which a company achieves the goals, results, and operational plans of managers, and organizes, and supervises all company activities or activities. Every small activity of the company.

The COSO framework was born in 1992 and updated in 2013, providing a concept, a widely accepted general understanding of the internal control system, and also intended to assist company managers in conducting internal control. Take better control of your company. conceptualized the internal control system as follows: "The internal control system is a process governed by a company's board of directors, managers, and employees, designed to provide reasonable assurance to achieve the following goals: the goal of effectiveness and efficiency of operations; the objective of financial reporting reliability; compliance with laws and regulations".

Basel Committee (1998), "*The internal control system is a process carried out by the Board of Directors, Executive Board, and all employees. It is not just a procedure or a policy implemented at a certain time but continues at all levels within the bank. The Board of Directors and Executive Board are responsible for establishing an appropriate cultural environment to facilitate the effective internal control process and monitor that effectiveness on an ongoing basis; however, every individual within an organization must participate in this process*". Objectives of the internal control system: efficiency and effectiveness of banking activities (operational objectives); reliability, completeness, and timeliness of financial and banking management information (information objective); compliance with applicable laws and regulations within the bank (compliance objective).

There are many concepts about the internal control system in general and internal control at commercial banks in particular, which are conceptualized in many different ways, emphasizing different aspects, but there are two basic terms that are the same. In the concept of internal control system by the authors according to two theoretical approaches to the internal control system: (i) the internal control system is a system and (ii) the internal control system is a system. Internally is a process. This is consistent with the view that the internal control system at commercial banks is maintained in two basic parts: (1) Necessary procedures to carry out business activities are called the system. Operating system, (2) the procedure to ensure that commercial banks are operating according to expectations is called the control process by agency theory and context theory. The goal of implementing the internal control system at commercial banks is to: Protect assets, documents, and accounting books; Control risks to ensure economic efficiency of commercial banking operations; ensure reliable and comprehensive information; comply with accounting principles and present reliable financial reports; Comply

with laws, current legal regulations and regulations at commercial banks. Therefore, the internal control system at commercial banks is understood as follows: "*The internal control system at commercial banks is a process including procedures and control mechanisms implemented by the Board of Directors, Board of Directors, executives and all employees to achieve company goals including: protecting assets, documents, and accounting books; control risks; effectiveness and efficiency of operations; reliability of financial reporting; compliance with laws and regulations*".

In commercial banks, managers are always looking for ways to effectively control commercial bank activities. The internal control system is established to help commercial banks achieve their goals and limit problems that are detrimental to commercial banks. The internal control system helps managers adapt to the constantly changing external and internal environment of commercial banks. The role of the internal control system promotes commercial banks to establish an effective internal control system. The internal control system is expected to solve many problems in commercial banks.

Commercial banks need to establish and operate an internal control system to deal with the risks of not achieving goals. The nature of the internal control system is the measures to deal with risks in implementing the goals of commercial banks. The goal of the internal control system is to deal with risks to the implementation of goals, so the goals of the internal control system are also consistent with the goals of commercial banking activities.

The internal control system needs to be established and integrated into the steps and stages of the process of implementing commercial bank activities. The internal control system is not the main activity of commercial banks, main activities are activities that directly create value for commercial banks. The internal control system acts as a measure to support key activities carried out towards achieving the objectives of commercial banks. Without an established internal control system, the ability of commercial banks' activities to achieve their goals will be reduced, or even the possibility of not achieving their goals will be high. However, due to the limitations of the internal control system, establishing an internal control system with a certain level of effectiveness does not necessarily help commercial bank operations achieve all goals. A properly established internal control system only provides a reasonable level of assurance about a commercial bank's ability to achieve its objectives. On the other hand, the internal control system also needs to be set up by the level of risk that commercial banks can accept. With each operational objective and acceptable risk level determined, the internal control system is established and performs the function of controlling activities within the risk level that the commercial bank can accept.

The internal control system is one of the governance mechanisms within commercial banks, contributing to the implementation and achievement of goals in commercial banking operations. Behind the existence and success of any commercial bank is an effective and reasonable internal control system. A weak internal control system can be the cause of losses, failures, and damage to the reputation of commercial banks.

It can be seen that the internal control system is one of the components that plays a key role in the risk management of commercial banks and is an important internal governance

mechanism in commercial bank management. An effective internal control system facilitates the sophistication, efficiency, and effectiveness of operations, the reliability of internal and external reporting, and enhances compliance with laws and regulations. Determined. On that basis, the internal control system contributes to ensuring the profitability of investments of commercial bank owners.

According to the theoretical model of internal control in the COSO report (1992), the internal control system consists of 5 components: control environment, risk assessment, control procedures, communication information, and supervision. The 2013 COSO internal control model still includes the above 5 components but has 17 additional principles.

Table 1: Components and principles affecting the Internal Control System according to COSO

TT	Ingredient	Rule
1	Controlled environment	<ol style="list-style-type: none"> 1. Commitment to honesty and adherence to ethical values virtue 2. Responsible for supervision and close 3. Establish authority and responsibility structure responsibility 4. Implement performance commitments force 5. Ensure accountability submit
2	Evaluate risk	<ol style="list-style-type: none"> 1. The goals are relevant and specific and can 2. Identify and analyze risks ro 3. Assess fraud risk cheat 4. Identify and analyze key changes and weak
3	Control operations	<ol style="list-style-type: none"> 1. Select and develop testing activities control 2. Select and develop common technology control activities 3. Implementation through control policies and procedures
4	Information and communication	<ol style="list-style-type: none"> 1. Use relevant information accordingly fit 2. Internal communications set 3. Communication outside the team position
5	Monitoring activities	<ol style="list-style-type: none"> 1. Carry out regular or scheduled assessment period 2. Evaluation and communication of supervisory reports close

Source: COSO (2013)

Basel sets out 13 principles for designing and evaluating banking internal control systems. These principles are similar to the elements that constitute the internal control system according to COSO's report. Specifically: Executive supervision and control culture includes 3 principles, Risk identification and assessment includes 1 principle, Control

activities and assignment and assignment of responsibilities include 2 principles, Information and exchange Information consists of 3 principles, activities of monitoring and correcting errors include 3 principles, and 1 principle of evaluating the internal control system through the banking inspection agency. The specific principles are as follows:

Table 2: Principles for designing and evaluating the Internal Control System according to BASEL

TT	Content	Rule
1	Executive supervision and control culture	<ol style="list-style-type: none"> 1. The Board of Directors is responsible for establishing and maintaining a complete and effective internal control system. 2. The Executive Board is responsible for implementing the strategies and policies approved by the Board of Directors. 3. The Board of Directors and Executive Committee are responsible for promoting ethics and integrity.
2	Identify and assess risks	4. Continuously evaluate key risks that may affect the completion of the bank's plans
3	Control activities and assignment and assignment of responsibilities	<ol style="list-style-type: none"> 5. Establish an appropriate control structure in which control is defined at each level of activity. 6. Reasonable assignment, employees' tasks do not conflict with each other.
4	Information and information exchange	<ol style="list-style-type: none"> 7. Comprehensive and comprehensive compliance, operational, and financial data, as well as external market information can influence decision-making. 8. The information system is reliable and can meet most of the main activities of the bank. 9. Effective information exchange channel.
5	Monitor and correct errors	<ol style="list-style-type: none"> 10. Monitoring and checking must be continuous. 11. There must be an internal audit that is comprehensive, effective, and carried out by competent people who are appropriately trained and can work independently. 12. Report promptly to appropriate management and record.
6	Evaluate the internal control system through the banking inspection agency	13. Inspectors determine the internal control system

Source: Basel Committee on Banking Supervision

3. Internal control of commercial banks in Vietnam today

Managers of Vietnamese commercial banks are aware of the important position and role of the internal control system in bank operations. Up to the present time, commercial banks are the only type of enterprise in Vietnam that has specific regulations and instructions on the internal control system to orient the improvement of the organization and operation of the system. Internal control system.

3.1 Results achieved

Controlled environment

Commercial banks now have a Board of Directors that reviews and approves important business strategies and policies of commercial banks; determines risk tolerance for achieving goals; provides complete and timely information to monitor commercial banks' goals and strategies. Commercial banks today have built an organizational structure appropriate to their scale and operating characteristics, and the board of directors has shown independence from managers; Carry out supervisory responsibilities through assignment and delegation of authority. Managers have assigned responsibility to each individual and department for implementing the responsibilities of the internal control system to meet the commercial bank's operational goals.

Risk assessment

Most commercial banks choose to implement Basel II and up to now, there have been 6 banks implementing Basel III including: Vpbank, Tpbank, Seabank, Nam A Bank, Ocean Bank, and ACB. Commercial banks have established a Risk Management Board or Risk Management Block. Many commercial banks have developed risk management policies related to potentially high-risk activities, as well as response plans when incidents occur.

Control operations

Commercial banks have issued regulations, but have not fully described the duties of members of the organization, have developed full business processes, and established control points to prevent, Detect, and handle violations, but the effectiveness of control activities depends greatly on compliance with regulations on the part of employees.

Information and information exchange

Information and information exchange in commercial banks Vietnam has built an accounting information system in commercial banks by the requirements of the State Bank, as well as an information system that meets the requirements Regarding management at commercial banks, management reports have been provided promptly to management levels, the Board of Directors, the stock exchange, and the State Bank. Most commercial banks have focused on building information technology systems, developing internal management information systems, and upgrading core banking under their scale of operations and operating and administrative requirements. Banking: building a backup system according to international standards, an information technology system to meet the needs of product and service development, and applying science and technology to modern management processes. The construction of information technology processes is carried out in commercial banks mostly by information technology experts.

Monitoring activities

Monitoring includes regular and periodic assessments by

managers of the internal control system to see if its operation is as designed and what adjustments need to be made to suit each situation. Period. Commercial banks maintain components of regular supervision activities and periodic supervision activities.

3.2 Existence and causes

Besides the achieved results, the actual organization and operation of the internal control system at commercial banks in Vietnam currently still has many shortcomings. The current internal control system in commercial banks is not completely proactive in identifying and preventing risks but often focuses on detecting and minimizing risks. The risk management function, identification, assessment, and response to risks in banking business activities of the internal control system are still limited. Implementing and applying legal and administrative regulations still faces many difficulties. In recent times, reality has shown that serious violations have occurred in some banks, including those directly related to several officers and employees at the banks. The phenomenon of collusion, connection, and falsification of documents for personal gain still exists and greatly affects the interests of customers as well as the reputation of the bank. Specifically:

Regarding the control environment: The specific job description and responsibilities of each member, especially key members, have not been established. The principle of non-concurrent work is not strictly followed, especially in small branches. Methods and standards for evaluating employee performance are still general and not specific. The results of performance evaluation have not been responded to or discussed with employees, and are not closely tied to salary and promotion regimes, reducing the effectiveness of the evaluation work.

Regarding risk assessment activities: Commercial banks have developed risk assessment documents but have not been proactive in identifying risks, often focusing on detecting and minimizing risks. Some commercial banks have not paid attention to factors that can lead to risks such as changes in the operating environment, the appearance of new personnel, especially senior personnel, applying new technology and new business models, and changes in accounting policies.

Regarding control activities: Some commercial banks have not paid much attention to environmental control of information technology activities through information technology development strategies, procedures for establishing and developing programs; Procedures for using abnormal reports, establishing hotlines to promptly detect and handle unusual problems, errors due to fraud and error; Procedures require middle management levels to immediately report to leaders any cases of fraud, suspected fraud, violations of the bank's rules and regulations as well as legal regulations that reduce reputation and cause harm. Economic loss for commercial banks.

Regarding information and communication: with large-scale commercial banks, the organizational structure includes many branches and transaction offices, so the establishment of current information channels is still limited. The management levels below have not grasped the instructions of upper management promptly. Higher management levels do not receive feedback from subordinates on time, information mainly flows in one direction from top to bottom.

Regarding monitoring activities: Senior managers are not interested in regular monitoring. During operations, monitoring is usually only done when unusual events occur. At some commercial banks, the Board of Directors and the Supervisory Board have not yet assigned and stipulated for the Internal Audit Department to check and supervise the safety ratios established by the operational departments at the Bank. Commercial Bank. Commercial banks have regulations on periodically evaluating the internal control system, but the report does not go into depth evaluating the basic principles of the internal control system but mainly describes the organizational structure. Bank officials, summarizing the implementation of the audit plan for the year; reviewing the system of internal documents and regulations.

4. Some recommendations on internal control systems at commercial banks in the context of digital transformation

To improve the operational efficiency of commercial banks in the current context of strong digital transformation, the internal control system of commercial banks needs to further promote and strengthen its role to adapt and Control operations that change in the direction of digital transformation. Some recommendations to enhance the operational efficiency of the internal control system in commercial banks:

Firstly, completing the legal framework for improving the effectiveness of the internal control system. Commercial banks should issue regulations on operational safety for the system based on the regulations of the State Bank, widely accepted accounting and auditing standards and principles, and apply Basel principles on banking supervision. Development of the bank's management system must be consistent with international standards, practices, and current practices of units. Board of directors and bank managers need to actively participate in establishing and maintaining internal control; Complete the organizational structure towards clearly defining functions and tasks; and Ensure the internal control system operates professionally and independently.

Second, strengthen the control of information technology, high technology, and control of financial technology. Digital transformation is taking place strongly in the professional activities of commercial banks, posing great challenges to the function of internal control for the Bank's Board of Directors in ensuring regulations and strategies., the plan is implemented seriously, fully, and on time; Ensure security solutions against the risk of cyber attacks, information theft, and system disruption are fully implemented. Therefore, information technology control at banks needs to be prioritized to focus resources to ensure safety and security for the digital transformation process at banks such as: (i) Regularly updating regulations new decisions, strategies, and plans to design information technology application control content with focus and focus; (ii) Control the construction and classification of professional information systems according to important levels; Plans to ensure information security by level are continuously updated and supplemented; (iii) Control continuity, backup and data recovery of important information systems: Electronic payment, core banking system, currency market; (iv) Security and safety control from the end user: Review the provision of identification accounts and access rights to

business software according to assigned tasks; Install anti-malware software; update software patches; secure security keys when using business software; separate high-level business software from the Internet.

Third, increase the application of technology in internal control activities. Currently, the application of information technology in managing internal control activities of commercial banks is carried out in many aspects: Receiving and processing information through the executive document management system (Edoc); Exploiting, tracking, and supervising information for auditing through information systems and professional software deployed at the bank (finance, foreign exchange, treasury...). Especially the automation process in reporting and monitoring the implementation of audit recommendations - an important content for audit work to ensure improved audit efficiency.

Fourth, strengthen supervision of the bank's internal control system. Commercial banks must regularly monitor the internal control system. First of all, strengthen the supervision of the Board of Directors to ensure transparency, accordingly, it is necessary to separate the supervision function of the Board of Directors from the business management function of the Executive Board. Besides, strengthening supervision on a risk-oriented basis; auditing businesses with large outstanding debts; and high-risk operations.

Fifth, train 4.0 skills for people working in internal control. People are the decisive factor and key factor in every field, so the first thing to do to perfect the internal control system is that commercial banks need to improve the quality of human resources. For internal controllers, advanced data analysis skills, 4.0 technology, new technologies in the banking sector, digital banking, and technology risk analysis skills are very important issues. It is necessary to pay attention to training and creating conditions for internal controllers to be able to operate professional software fluently and master technology to be able to exploit and use it in the process of collecting information and analyzing information., evaluate audit evidence, and improve working efficiency with high accuracy and reliability.

5. Conclusion

Proactively anticipating and building a strategy for applying digital technology to internal control and a companion role in controlling the content of digital transformation of commercial banks are necessary conditions to ensure success and safety. For digital transformation in all areas of commercial banking operations. Commercial banks, closely follow the digital transformation plan of the Government and the banking industry; strengthen the application of digital technology in performing tasks, and focus resources on identifying technology risks and quality of information technology control to ensure efficiency, safety, and security for systems. Commercial bank information; at the same time, improving the quality of controllers associated with raising controllers' awareness of digital transformation are necessary conditions for internal control to continue to promote its role in the successful digital transformation of the company. Commercial banks in the next stage. Proactively handling challenges and seizing opportunities created by the 4.0 industrial revolution is a prerequisite for internal control to fulfill its mission, contributing to improving the operational efficiency of the company. Commercial Bank.

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