INTERNAL AUDIT IN BANKS IN A FUNCTION OF RISK MANAGEMENT

Blagica Jovanova, Asst.M.Sc
Aleksandar Kostadinovski, Assoc.Prof. PhD
Olivera Gorgieva- Trajkovska, Assoc.Prof. PhD

Abstract
The internal audit is an independent activity which provides objective and professional opinion, with consultative character, and its purpose is to increase the value and improve the bank working.
The philosophy of the internal audit is reflected in the constant continuous following of the entire bank working, in order to check if the bank is systematically managing risks, which result from the operative activities of the bank, in accordance with the principles of stabile working, including managing of resources of information technology and other related technologies.
The development and more and more sophisticated manner of bank working increases the exposure of banks to different types of risks.
This trend of banks' working determines important expansion of the range of the internal and external control process in direction of inclusion and following the managing with all risks that banks face with in their working.

Key words: internal audit, banking risks, risk management, risk estimation.

Introduction

Risk management is the most important part of the strategic management of every bank and represents an essential segment in the accomplishment of the business and financial objectives.
The internal auditors determine the weak points of the system, they estimate risk and they range organizational parts/activities in accordance with the risk profile. The risk estimation, to a great extent is based on good estimation and good informed opinion and on the consolidated experience of the auditors and managers.
One of the most important principles of the internal audit is its independence. The independence is provided with professionalism, that is, with an application of the international standards for internal audit and the best practices, as well as by respecting the codex of the professional ethics.
But, is the independence of the auditors always complete? We will get the answer to this question further on in this work.
The professionalism of the auditors is recognized through the ability for risk estimation and the assessment of the quality of systems and processes, giving recommendations for improvements in working and exemplary behavior when faced with questions of independence injury or occurrence of irregularities.
In order to achieve all this, the internal audit must be implemented by an appropriate profile of people, who have personal skills, competence and evidence of professionalism. The internal audit which functions in a bank facilitates the work of the banking supervisors and improves the bank working. A question is imposed: Do the auditors always successfully project risks, and if not, why is that so?
The internal audit represents independent and objective activity for ensuring (check) and consulting in order to increase the value of the assets and promote and improve the quality of bank working. This function provides the bank to achieve the determined goals implementing

systematic disciplined approach for estimation and improvement of the efficiency of risk management, the controls and the process of bank management. Separate bank departments are included in the implementation of this function: Internal audit department and Audit board. The Internal audit department has its obligations, responsibilities, assignments and principles. The following internal audit departments exist: financial audit, audit of accordance, operative audit, informational system audit, audit of managing function.

An efficient system of internal audit is a priceless source of information about the bank management, its supervisors and the quality of the system for internal control in that organization.

1. Internal audit

1.1. Defining the internal audit

The definition of the internal audits is constantly developing, changing, expanding. Much earlier, the internal audit was defined as: The internal audit is an independent assessment function established within an organization in order to examine and assess its activities in the service of the organization. This statement is more a kind of an introduction than a definition. It has no indications regarding the responsibilities of the internal auditor, or stating that the audit is no longer only limited to control of the financial accounts.

In this context there is a new definition about internal audit. The new definition is not only an expression of the changes which occurred in the profession in the recent decades, but it directs the internal auditors towards greater and far more influential role in the future. The new definition is: Internal auditing is an independent, objective assurance and consultancy activity designed to add value and improve the functioning of the organization. It helps the organization to achieve its objectives by introducing systematic, disciplined approach to evaluating and improving the efficiency of the risk management, control and management process.

In the book on internal auditing by Sawyer[1], the following definition is indicated in order to describe the broad, unlimited range of the modern internal audit:

The internal audit represents a systematic, objective assessment by the internal auditors of the various activities and controls within an organization in order to determine whether:

(1) the financial and operating information is accurate and reliable;

(2) risks for the bank are identified and minimized;

(3) external regulations and generally accepted internal policies and procedures are being followed;

(4) appropriate criteria of work are met;

(5) resources are used in an efficient and economical manner; and

(6) organization's objectives are met in an effective manner - all this in order to provide consultation with the management and to assist members of the organization in relation to the effective fulfillment of their management responsibilities.

This definition not only indicates the role and the objectives of the internal auditors, but it also identifies the opportunities and responsibilities.

Additionally, important requirements listed in the Standards are embedded in the definition and it contains the modern extended activities of internal auditors and the emphasis which is put on the added value and all other issues related to risk, management and control.

[1] Internal audit of Sawyer, Institute of internal auditors, 2003, page.10.

The internal audit is an independent activity of giving objective assurance and advice, established to contribute for value increase and improvement of bank's working. It helps the bank to meet its objectives by using a systematic, disciplined approach for assessment and improvement of the effectiveness in the processes of risk management, control and management.
The objective of the internal audit is to provide to the head of the public sector subject, a reasonable independent objective assurance and an advice in order to improve the working of the bank and to increase the effectiveness of the internal control systems.
The role of the internal audit is to support managers in the bank to achieve the objectives of the bank. The internal audit realizes this support through a self-development of strategic and annual plans for internal audit of previously conducted objective assessment of the risks and execution of individual audits in accordance with the adopted internal audit plans. The purpose of the individual internal audits is assessment of the appropriateness, thriftiness, effectiveness and the efficiency of financial management and control system. The internal auditors conduct this by assessing the success of the determination, estimation and risk management of the subject in relation to: the compliance with laws, bylaws and internal acts and contracts, the reliability and completeness of the financial and operative information, the safety of the property and the information and the execution of tasks and achieving the goals.
The internal audit provides support for the managers in the public sector to achieve the objectives of the subject by making recommendations to improve working and work procedures and monitoring of the implementation of the measures taken by the manager of the subject from the public sector based on the performed audits.
The internal audit is conducted in accordance with the principles of legality, independence, objectivity, competence, professionalism, integrity and confidentiality and with the accepted international standards for Professional Practice of Internal Auditing, the bylaws, internal audit charter and the internal acts of subject of the public sector. The Internal Audit Unit has the authority to conduct internal audit in all organizational structures, programs, activities and processes in public sector entities.

1.1. Objectives of the internal audit

An efficient internal audit of the internal control systems should be performed in the bank by an independent service in which professionals, appropriate for this function, are engaged. The internal audit service has an important role considering that it provides an independent assessment of the adequacy of internal control systems, as well as the adequacy and the compliance with the established politics and procedures in the bank. Hence, main objectives of the Internal Audit Service are:
*** Compliance with the regulation in force.** The purpose of compliance provides performance of activities in accordance with regulations, internal policies and procedures. The recognition of this objective provides protection of the bank reputation.
*** Completeness of the financial statements and reports for the governing bodies.** The purpose of getting information presupposes making timely, realistic, quality and accurate statements, necessary for the governing bodies in the decision making process at the bank. This objective is important also from the aspect of the need for public publishing of accurate financial statements, for the external auditors as well as for other market users. In the context of the financial statements, the word “accurate” means full and fair presentation in accordance with accounting principles and rules.

*** Efficient use of funds and other resources of the bank.** The business objective implies efficient use of funds and other resources of the bank, as well as limitation of the risk of loss in the performance.

Besides the existence of different objective, certain wider categories could be established:

Operational objectives - these refer to the effectiveness and efficiency of the organization's activities, including the performances and profitability objectives and provision of resources from possible losses. They vary based on the selection of management regarding the structure and the performances.

Objectives of financial reporting - These mostly refer to the presentation of credible and published financial statements, including the prevention of possible dishonest public financial reporting. They are mostly run by external applications.

Objectives of compliance - These objectives refer to compliance of the laws and regulations which refer to and apply for the particular organization. They depend on external factors, such as regulations governing the working environment and usually, in some cases these are quite similar in all organizations, or at the level of an industrial branch. This definition of categories of objectives provides the starting point for risk assessment. The wide objectives provide categories which can further on be processed to detailed objectives with identified risks.

1.2. Objectives of the internal audit

The basic tasks of the Internal Audit Service can be summarized as follows:

* assessment of the adequacy and efficiency of the internal control systems;

* insight into the implementation of the risk management procedures;

* insight into the positioning of the management information system, including the electronic information system and the electronic banking services;

* insight into the accuracy and reliability of the accounting records and financial statements;

* testing of implementation of certain transactions, or implementation of procedures for internal control in certain segments;

* assessment of the thriftiness and the overall efficiency in the bank working;

* monitoring the compliance of the regulatory framework, the ethical code of the bank, as well as monitoring the implementation of the policies and procedures of the bank

* check of the accuracy, reliability and timeliness in delivering prudential and other types of reports to the relevant institutions;

* implementation of certain investigations in the bank; and

* consultative and advisory role in the part of establishment of adequate systems of internal control, adequate financial reporting, significant organizational issues in the bank, introduction of new banking products and risks associated with it etc.

1.3. Subject of audit

Subject of audit by the internal audit Service are:

* all functions and activities of the bank;

* all organizational parts and subjects, all subsidiaries and affiliates (audit of consolidated basis); and

* external providers whose interruption of service performance for the bank may cause discontinuity of the activities performance, or an interruption of the business processes, which can ultimately be the reason for expressing loss.

1.4. Principles of the internal audit

The basic principles on which the functioning of the service is based are:

1/ continuity in the function performance;

2/ independence in the function performance;

3/ professional competence;

4/ policy and procedures for internal audit performance;

5/ objectivity;

6/ scale of activities and

7/ internal procedures for assessment of the necessary level of capital according to the risk profile of the bank.

1/ Continuity in the function performance

Each bank should have constant internal audit functioning. In fulfilling its tasks and responsibilities, the Executive Board should take over all necessary measures for setting adequate internal audit function appropriate to the size and nature of the activities, as well as the risk profile of the bank. That implies providing appropriate assets and placing people in order to fulfill the objectives of internal audit.

2/ Independence in the function performance;

The internal audit should be independent from the activities which are subject of audit, as well as from the everyday processes of internal control. That means that the Internal Audit Service has a special position in the bank and it performs its work objectively and neutrally. Also, it should have freedom when reporting of its findings and assessments, as well as freedom for their internal publication.

3/ Professional competence;

The professional competence and expertise of each internal auditor or of the internal audit as a whole, is a basis for its proper functioning.

4/ Policy and procedures for internal audit performance;

The policies and procedures for internal audit are fundamental guide in the work of the Internal Audit Service. Each bank needs to have policy and procedures for internal audit performance which give authorization for performance of this function in the bank.

The policies and procedures should be developed and they should be periodically reviewed by the Internal Audit Department, and approved by the Executive Board.

5/ Objectivity;

The internal audit function should be carried out objectively and neutrally, whereupon one should seek to avoid conflict situations. The adherence to this principle imposes a need of occasional rotation of the tasks of the people in this Service.

The objectivity means that the people from the Internal Audit Service should not be involved in the execution of the bank activities and in the setting of the internal control systems. Otherwise, they would be responsible for the performed activities and this impairs the independence in the assessment of the bank working.

The objectivity of the working should not exclude the possibility of providing advices and consultations of the Executive Board and the Governing body on certain issues related to the internal audit.

6/ Scale of activities

The Internal Audit Service should cover all activities and entities in the bank, the affiliates and the subsidiaries of the bank, as well as the activities which are performed by external service providers.

Some banks have established special organizational parts for control and monitoring of some specific activities and entities of the bank (e.g. “compliance officer”, a person responsible for the security of the information system). These parts, as part of the internal control system, are subject to control by the Internal Audit Service as responsible for assessing the adequacy and efficiency of the internal control systems. In order to maintain the efficiency, the Internal Audit Service in the performance of its tasks can use information from the reports of “compliance officer” or persons performing independent assessment. Also, services provided by an external provider may be used for precisely determined activities. Thus, in accordance with the Decision on defining the standards for preparing and implementing the security of the information system of the banks, the testing of systems and control procedures, which are part of the policy of the bank's information system, should be performed by an independent and appropriately trained team. But however, the Internal Audit Service is responsible for the performed control for assessment of the adequacy of the control systems for a particular activity or subject of the bank.
7/ Internal procedures for assessment of the necessary level of capital according to the risk profile of the bank
The internal audit should perform regular and independent assessment of the positioning of the management function, monitoring and control of risks in order to limit the risk up to the level that is acceptable to the bank's equity. Also, the Internal Audit Service performs evaluation and of the set methods for assessment of bank's compliance with internal procedures for equity.
The bank should accurately specify a person or organizational part responsible for the procedures for assessment of the equity. This control can be performed by the Internal Audit Department or by another person or organizational part which is sufficiently independent of the activities of the bank.

1.5. Internal audit functioning
The adequate functioning of the Internal Audit Service implies existence of audit plan, procedures, efficient managing with the Service and developed types of audit.
1.5.1.Internal audit plan and assessment of risks
The Internal Audit should carry out their activities in accordance with the annual audit plan. The plan should be realistic and should provide periodic inspection in all major aspects of the bank’s working (the regular, that is, the planned audits), including conducting unannounced controls (unplanned, that is, special audits) depending on the nature of the particular control. Also, the other tasks should be listed in the plan, such as the provision of advices and opinions on certain issues and staff training and the necessary preconditions realization of the plan. The plan should include details of the persons in terms of the number and their professional competence, as well as the necessary time and frequency of the planned audits. The plan should be constantly revised according to the needs, and the Executive Board needs to be notified about this.
Methodologically, the plan should be based on an assessment of all risks of operation, which at the same time represents a confirmation that the Internal Audit Service has understanding of the important activities of the bank and the risks these activities carry. The Director of this Service should establish principles for risk assessment in a form of written procedures which should be constantly reviewed in accordance with changes to the system of internal control or the work processes. The risk analysis refers to all activities and entities in the bank, as well as to entire internal control system. Based on the results of these analyzes, the plan for audit for one year is prepared. In preparing the plan, one should consider the introduction of new activities, products and innovations, as well as the risks which the new activities carry, the change of the

environment, the improvement of information systems etc.. Also, one should consider the scope, the nature and frequency of the tasks to be performed, the time since the last audit, the unusual and the untypical changes and other data and information.
The annual plan of the Internal Audit Service should be prepared by the Internal Audit Service and approved by the Audit Committee and adopted by the Executive Board not later than the end of January in the current year.

2. Identification and assessment of risks

An efficient internal control system involves identifying and continuous monitoring of the material risks that could have an adverse impact on the accomplishment of the set goals of the bank. From the perspective of the internal control systems, the risk assessment involves identifying, measuring and analyzing of all risks that the bank faces with. The risks may be caused by internal and external factors, risks that can or cannot be quantified, risks that can be controlled by the bank or that are not under its influence. The process of risk assessment includes internal factors (complexity of the bank, the nature of the activities of the bank, the quality of the employees, the organizational changes and transfer of the employees, breach of the information system, access to the assets by the employees, inefficient Audit Committee) and external factors (change of the economic conditions, industry, technological advancement, monetary policy, regulation, exchange rates, general liquidity) which can adversely affect on the accomplishment of the set objectives of the bank. This process differs from the process of risk management which is usually more focused on the evaluation of the business strategies directed towards risk reduction.
Risk assessment is a continuous process that should be implemented at all levels in the bank, whereupon all activities need to be included, as well as all the organizational parts of the bank, including the branch offices and affiliates, as well as the subsidiaries of the bank and the organizational parts responsible for risk management. In this context, it is necessary that the Governing Body and the Executive Board monitor and assess all risks that may affect on the accomplishment of the objectives of the bank, as well as to timely react to changes and conditions of the environment. The internal control systems should be continuously reviewed in order to implement control systems for assessment and monitoring the emerging risks arising in the bank working.
Positive step towards continuous risk monitoring of in banks is the legal obligation to form a Board for risk management. This board is an operational authority of the Executive Board. Its primary task and responsibility is to establish policies and procedures for identifying, measuring, control and monitoring of risks that the bank working is exposed to. The Board is also responsible for monitoring the prescribed supervisory standards as well as the internal policies and procedures of the bank.

2.1. Risk management

The subject should systematically, at least once a year, analyze the risks related to the activities, given that every activity or non-enforcement activity represents a risk for not fulfilling the objectives. A development of appropriate plans for limitation of the possible negative consequences of these risks is necessary, as well as determination of employees who should be responsible for the implementation of the adopted plans.
Measures should be taken for the creation and maintenance of an efficient system of internal controls, based on the determination of the important risks which may have negative impact on

the effectiveness and efficiency of activities, the adherence of the rules and regulations, the reliability of the financial and management information, protection of the assets and the prevention and detection of frauds.

Also, the following needs to be determined: the acceptable level of exposure to risks, the assessment of the probability of risk occurrence and its impact, monitoring and assessment of the risks and establishing appropriate internal needed for the risk management and check of the reports for budget execution, including those for programs execution.

The manager of the subject should adopt a Strategy for risk management which is updated every three years and in cases when the risk varies greatly.

The strategy for risk management includes the usual elements of known systems of management of risks in the subject which are presented in this text in an appropriate manner and in appropriate positions.

The strategy should include activities and measures that the subject should undertake or plans to undertake in the following short-term and medium-term period.

The strategy for risk management should determine the policy for risk management that the management will use in order to clearly support the process of risk management. The strategy also needs to determine the role and responsibility of all employees in the subject in the determination and managing of the risks in the operation.

The policy of risk management should inter alia contain:

- objectives of the policy;
- defining the possible risks;
- the type and scale of necessary documents for risk management;
- plan for monitoring and control of the activities due to risks' reduction and
- a report for implementation of the undertaken measure.

Risk management is a responsibility of all employees in the subject. The establishment and development of the risk management in the subject is a responsibility of the subject's manager and the managers of the organizational parts in the subject. Their support is extremely important, and especially important is the role of the internal audit unit in the process of control, but not in management of the strategy. For preparing the strategy, a Working group on risk management needs to be formed, composed of employed persons in the subject. Its main task should be encouraging all other participants in the implementation of the guidelines and achieving the objectives of the strategy.

After identifying the risks, different control options many be applied on them, in order to determine which are the most optimal control procedures that need to be applied.

The auditor develops a list of risks through monitoring the activity and using the analytical approach, ingenuity and imagination. The auditor should determine what may get in the way towards meeting the objectives - what may go wrong.

Once risks are identified, the auditor can evaluate existing controls and determine whether these controls are appropriate and adequate, compared with the identified risks. If any of the risks is not adequately covered, the auditor will provide recommendations regarding the identified weaknesses. The auditor is constantly looking for the most optimal control structure.

The optimal solution is the best control structure for the specific conditions and this implies analysis of costs and benefit. The next chapter explains about the assets which are at the disposal of the auditor to identify and assess the objectives, risks and control activities.

Effective risk management adds value to all activities, increasing the likelihood of success and reducing the possibility of failure. The internal auditors determine the weak points of the system, they assess risk and rank the organizational parts / activities in accordance with the risk profile. The risk assessment is largely based on good assessment and well-informed opinion, and finally it is based on the consolidated experience of auditors and managers. In this direction, risk assessment, which begins by defining a system which includes all objectives, should be performed with extensive consultations with senior management representatives.

In this sense the internal audit function should be established as clearly identifiable organizational unit for internal audit in the bank. This arises from its subordination to the Supervisory Board of the bank or the Audit Committee, to which she regularly submit plans and reports, in accordance with the international standards for internal audit. The independence is provided with professionalism, that is, with the application of international standards for internal audit and best practices, as well as with adherence to code of professional ethics. The professionalism of auditors is recognized through the ability of risk assessment and the evaluation of the quality of systems and processes, providing recommendations for improvements in the working and exemplary behavior when faced with issues of violation of the independence or appearance of irregularities. In order that the internal audit achieves all this, it must be implemented by a corresponding profile of people who have personal skills, competence and evidence of expertise.

2.2. Types of risks in banking work and their management

Liquidity risk

Determination, assessment and management of liquidity risk of the bank implies a manner of managing the assets and liabilities which will enable timely and regular payment of obligations, in normal or emergency conditions of its working.

The Bank actively monitors, manages and controls the exposure to liquidity risk and manages the funds in the assets and the sources of funds in the liabilities in accordance with the financial liabilities and cash flows, as well as their concentration, in order to harmonize the cash inflows with outflows. To achieve the above mentioned, the bank should monitor and plan the process of liquidity which will provide an assessment of future needs for liquidities, taking into consideration the economical, political, regulatory and other changes affecting the working of the bank. Such planning includes identification of known, expected and potential cash outflows and creation of different strategies for managing assets and liabilities, with the purpose of provision of the needs of the bank for cash flows.

The strategy of the bank in terms of the liquidity risk should be oriented toward providing an adequate level of liquidity that would satisfy the expected and unexpected needs for cash. To the needs for maintaining of liquidity, the bank responds by holding highly liquid assets in its asset, whose price (expense) is the income that the Bank does not realize by investment these funds in other more profitable instruments (opportunity cost) and by providing additional financial sources that are mostly more expensive.

Currency risk

The main objectives for managing the currency risk are effective managing of the currency risk within the bank and reduction of losses arising from currency risk.

Currency risk management means setting limitations of the individual open positions that are an integral part of the process of managing the assets and liabilities. The limitations of the open positions limit the maximal loss that the bank can register as a result of the currency risk.

In order to properly manage the currency risk and limit the losses to a minimum, the following activities for adequate identification, measurement, monitoring and controlling it are projected:

- identification of sources of currency risk;
- methods for measurement of currency risk;
- determination of limits;
- control mechanisms;
- reporting forms and
- procedures for implementing the Policy.

Risk of changing the interest rates in the portfolio of banking activities

Risk management of interest rates on the Bank covers the establishment and enforcement of a prudent policy of interest rates, development and application of adequate techniques for measuring the exposure of positions of risk to interest rates, as well as identification and implementation of control procedures.

Reputational risk

The management of the reputational risk is based on the following principles:

- the Bank establishes a system for monitoring and assessing the Bank's exposure to a reputational risk to which it is exposed or may be exposed;
- the Bank establishes strict procedures for protection of the confidentiality of data of its customers in accordance with the legislation regulating the confidentiality of data;
- the Bank establishes and implements procedures to prevent misuse by employees, as well as prevention of money laundering activities and financing of terrorism, violations of prohibitions or undertaking other activities that imply violations of regulations or are intended to harm third parties;
- the Bank establishes procedures for handling complaints by clients and ensures proper implementation;
- the Bank establishes and implements procedures for timely and accurate reporting to the regulatory, supervisory and other authorities of all cases on all grounds provided by the regulations;
- Undertaking other measures and activities for elimination of the reputation risk.

The process for managing reputational risk implies:

- Identification of activities, transactions and other events that bring reputational risk;
- Identification of the reputational risk;
- Measurement of the reputational risk;
- Control and undertaking measures for eliminating and reducing the reputational risk.

Interest rate risk

The bank should actively monitor, control and manage risk exposure from changes in interest rates in the portfolio of the banking activities. This implies the existence of certain conditions such as involvement of the management bodies of the bank, carefully prepared internal acts, quality human resources, appropriate technology, high data integrity, proven and tested analytical methods and system, experience and capability for assessment and organizational awareness and culture in terms of perception of risk by the employees of the bank.

The Bank manages the risk of changing the interest rates by implementation of measures and activities directed towards minimizing the negative impact of the items of the income statement which are sensitive to changes in interest rates on the stability of the Bank, that is, optimizing the total interest income (short term aspect). Moreover, the impact of the movements in interest rates on the economic value of the bank's equity is monitored (long-term perspective).

The management of the risk of interest rates consists of:

- system for managing the risk of interest rates, and

- Process for managing the risk of interest rates

Basic elements of the system for managing the change of interest rates in the portfolio of the banking activities are:

- Internal acts of undertaking and risk management of interest rates;
- Appropriate organizational structure with clearly defined authorities and responsibilities in the undertaking and risk management of interest rates;
- Efficient information system;
- A mechanism that provides an opportunity to regularly review the policy for risk management of interest rates;
- An appropriate system of internal control and compliance of the internal audit.

Basic elements of the risk management process of change in interest rates in the portfolio of banking activities are the following:

- identifying the risk of interest rates;
- measuring / assessing and monitoring the risk of interest rates;
- limits of exposure to the risk of interest rates;
- controlling and reporting about risk exposure to interest rates.

Market risk

The market risk management should include the preparation and implementation of internal acts for managing the market that the Bank is exposed to, developing techniques for measuring and reporting about it and developing control mechanisms in the form of limits.

The managing of market risk includes managing of currency risk, interest rate risk and the risk of investments in securities.

The Bank regularly monitors and controls the exposure to market risk, in order to reduce it to an acceptable level that can be controlled and which will provide profits maximization and risk minimization. This implies appropriate organizational structure with clearly defined responsibilities, efficient information system as well as an adequate system of internal control

Operational risk

The bank should perform regular identification, assessment, measurement, amortization and control of the exposure to operational risks in order to effectively manage them, and in order to achieve the projected financial results and an increase of the economic and market value of the property and equity of the Bank. In this direction, the bank should review and control the quality of collected data, measure the exposure of the bank in terms of operational risks, prepare a report on the prevalence and severity of operational risks, their causes, characteristics and consequences, assess the risk of new products, develop and implement quantitative and qualitative models for managing operational risks as elements in the process of business decision-making, introduce indicators that show the bank's exposure to operational risks and promotion of the methods for assessment and measuring the operational risks.

Also the bank should actively perform monitoring, management and control exposure to operational risks. This implies a certain set of assumptions such as commitment and responsibility of the bank to implement policies and procedures, hiring quality human resources, appropriate technology, a high level of data integration, checked and tested analytical methods and systems, experience and ability of appraisers, permanent organizational awareness and culture of behavior towards the risks by all bank employees.

Given the specificity of operation, the development of new methods of monitoring, management, amortization and control of the exposure to operational risks will depend on the introduction of quality information support, as well as a highly developed awareness of the employees about operational risks in the bank.

Credit risk

The credit risk is defined as the risk of loss for the bank due to the inability of her client to settle the obligations to her in the agreed amount, and/or within the agreed deadlines. The credit (portfolio) risk is one of the main risks in banking operations, which is determined by the quality of the portfolio which is created by the responsible departments in the bank, while respecting the Banking Law, the other by-law acts and the internal rules of the Bank.

4. Solid business management

The internal audit which is functioning in a bank facilitates the work of bank supervisors and improves the banking work. Strong internal control, including internal audit, as an independent external audit system, represents part of a solid business management, which in turn contributes to efficient and collaborative relationship between the bank management and its supervisors.

An efficient system of internal audit is an invaluable source of information for the management of the bank, for its supervisors and for the quality of internal control system in that organization. The internal audit is an independent and objective activity of consulting and insurance, designed to increase value and improve the working of the organization. It helps an organization to achieve its goals by introducing a systematic and disciplined approach to evaluation and improving the efficiency of the processes for handling risks, control and management.

The bank should manage the risk of interest rates in a manner adjusted to the conditions and the possibilities of the banking market in the country and by maintaining adequate time compliance of the assets and liabilities sensitive to interest rate and an appropriate structure in terms of the manner of determining the interest rates, which protects the risk of interest rates. By maintaining a proper structure in favor of the adjustable interest rates as decided by the management bodies of the bank, if necessary, an adequate adjustments to interest rates on the side of assets and on the side of liabilities is made, pursuant to the measures of the National Bank, the market conditions, the competition and the bank's objectives. Taking into consideration that one of the strategic objectives of the Bank is the strive towards adjustment it its policies and procedures for working with the best international banking practice, the bank will strive to develop and use financial derivatives, used for protection from the risk of interest rates in the banks of the developed countries.

The bank establishes internal control and audit system to the exposure of risk to invoice rates.

The system of internal control and audit refers to:

- control of proper application of the legal regulations;
- control of implementation of the internal acts.

The internal control system includes:

- appropriate prices for risk identification and assessment;
- Establishment of control activities, such as policies and procedures, with clearly defined authorizations and an acceptable level of risk exposure to interest rates;
- Appropriate information system for monitoring the risk exposure to interest rates;
- regular audit of compliance of the established policies and procedures.

According to acts of the bank, the internal control is performed at the following levels:

- Control at the level of an organizational unit that takes the risk of interest rates;

- Control at the level of an organizational unit that manages the risk of interest rates;
- Control by the organizational unit for internal control and inspection and the organizational unit for control of the compliance of the Bank's working and prevention of money laundering;

According to the Bank's acts, an audit shall be conducted by the organizational unit for internal audit.

Conclusion

Good risk management has an essential importance for successful bank development. If appropriate management resources and the necessary structures are in function – including the risk management Sector, risk management boards and regular reporting – the risks typical for our activities may be identified, assessed, supervised and properly used.

For this purpose, the banks should constantly develop the risk management system, in parallel with their growth, by investing in a dedicated staff for risk management, as well as the wider structure of commissions for risk management. While the Committee for credit risk management is concentrated on the credit risk of the bank, the Commission for management of assets and liabilities is mainly concentrated to the liquidity risk, the finance risk, currency risk and the invoice rate risk, at the same time maintaining visibility of the risk for concordance and the risk of working.

The Board for management of operative risk is formed as a forum for open discussion regarding the operational risks that the bank faces with during the everyday working and for this purpose, the database of events which represent loss continues to serve as a useful source of risk identification.

Efficient risk management adds value to all activities, increasing the probability for success and decreasing the ability of not-succeeding. The internal auditors determine the weak points of system; they assess risk and range organizational parts/activities in accordance with the risk profile. Risk assessment is greatly based on good estimation and well informed opinion, and finally, it is based on the consolidated experience of the auditors and the managers. In this direction, it is necessary that the risk assessment is performed with overall consultations with high management representatives.

Literature:

1. Bozinovska. L. Z., (2001), Audit, University "Ss. Cyril and Methodius" Faculty of economics, Skopje.
2. Internal audit handbook, Financial consulting - October 2000;
3. Financial control and management handbook, Ministry of finance of the Republic of Macedonia, Skopje, 2010.
4. Internal audit handbook, Ministry of Finance of the Republic of Macedonia, Skopje, 2002.
5. Supervisory circular No.1 of internal control systems, positioning of internal audit, role of external audit and relation between internal audit, external audit and banking supervision, Bank regulation Directorate, Skopje, 2005.