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Using Internal Auditing in E-Banks and E-Credit Financial Institutes

Mohammad Ebrahim.Pourzarandi
Associate Professor of Management, IAU

Shadi Shams Majd
Senior Student of CIMA

Introduction:

Internal audit is a process affected by an entity 's board of directors, management; and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.

This definition reflects certain fundamental concepts. Internal control is:

- Geared to achievement of objectives in one or more categories operations, reporting, and compliance
- A process consisting of ongoing tasks and activities- a means to an end, not an end in itself
- Effected by people- not merely about policy and procedure manuals, systems' and forms, but about people and the actions they take at every level of an organization to affect internal control
- Adaptable to the entity structure flexible in application for the entire entity or for a particular subsidiary, division, operating unit. Or business process

Regarding to the Basel committee enforces that whole activities of financial organizations should be covered by internal audit.

Also, as necessity of Securities& Exchange Organization due to corporate governance and internal audit regarding to protect stockholders benefits makes it as an inseparable part of financial organizations at this period of time.

the necessity of internal audit includes all type of banks such as traditional, electronic and virtual banks.

This paper explain about internal controls in E-banks and E-credit financial institutes.

Types of Banking:

Banking includes activities such as buying and selling products and exchange and information transfer through the bank branches or network and internet.

Banks are categorized to 3 dimensions according to virtual volume:

- **Traditional banks:**

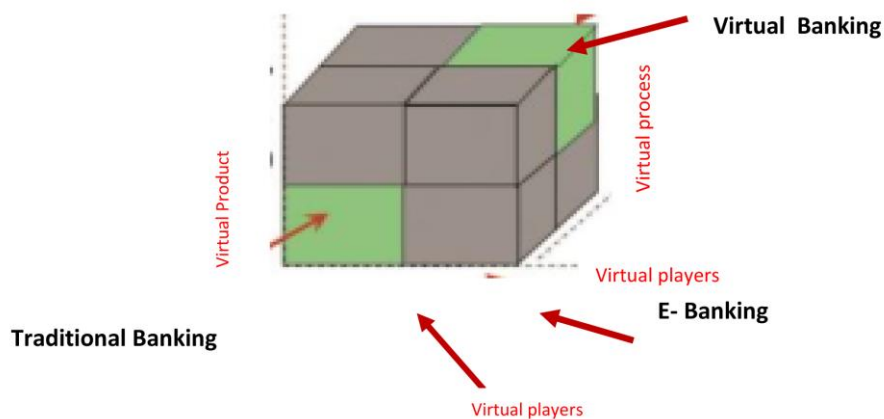
Traditional banks are centralized on the branch and branches are most important channels for relation with customer

- **Electronic banks:**

Electronic banks have more share of E-commerce structure. also they use traditional structure but new generation of software systems have main role in this type of banking.

- **Virtual banks:**

Virtual banks have no branches and bank’s transaction perform by internet. In fact a virtual bank is a software system that represent more transparency of banking business by the computer engineering capacities.



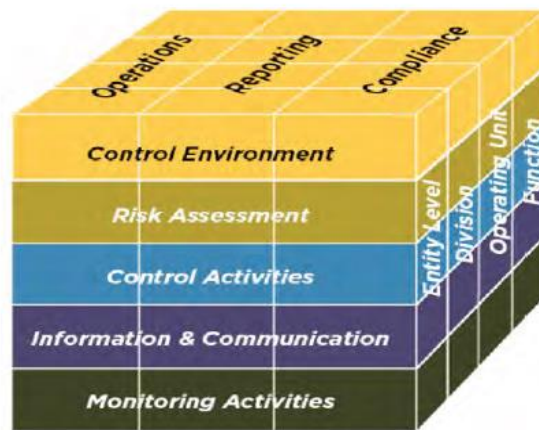
There are many standards which cover control list of internal controls but the most usual of them are COSO and COBIT frameworks:

COSO framework:

The COSO framework comprises three dimension- objectives., components and organizational structure of an entity.

A direct relationship exists between objectives, which are what an entity strives to achieve, components which represent what is required to achieve the objectives, and the organizational structure of the entity(the operating units, legal entities, and other). The relationship can be depicted the form of a cube.

- The tree categories of objectives- operations, reporting, and compliance- are represented by the columns.
- The five components are represented by the rows.
- An entity 's organizational structure is to be represented by third dimension



COSO frame work objectives:

- Operating objectives: these pertain to effectiveness and efficiency of the entity 's operations, including operational and financial performance goals, and safeguarding assets against loss.
- Reporting objectives: these pertain to internal and external financial and non financial reporting and may encompass reliability, timeliness, transparency, or other terms as set forth by regulators, recognized standard setters, or the entity's policies.
- Compliance objectives: these pertain to adherence to laws and regulations to which the entity is subject.

COSO frame work components:

- Control environment:
Control environment is the set of standards process and structures that provide the basis for carrying out internal control across the organization and its about the conduct and believes principle of organization.
- Risk assessment:
Risk assessment involves a dynamic and iterative process for identifying and assessing risks to the achievement of objectives.
- Control activities:

Control activities are the action established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out.

➤ Information & communication:

Information is necessary to carry out internal control to achievement of its objectives. Management obtains or generates and uses relevant and quality information from internal and external sources to support the internal control. internal Communication is the means by which information is disseminated throughout the organization, following up down and across the entity.

➤ Monitoring activities:

Ongoing and separate evaluations to ascertain whether each of the five component of internal control, including controls to effect the principles within each component is present and functioning.

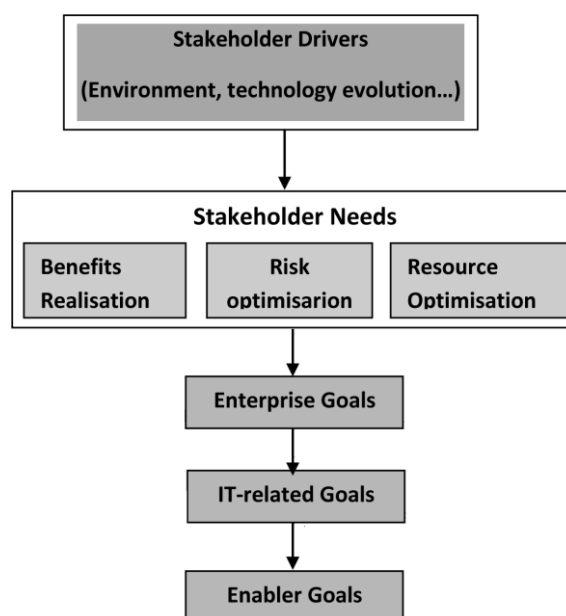
COBIT5 framework:

COBIT5 provides a comprehensive framework that assists enterprises in achieving their objectives for the governance and management of enterprise IT.

Simply stated it helps enterprises create optimal value from IT by maintaining a balance between realizing benefits and optimizing risk level and resource use.

COBIT5 enables IT to be governed and managed in a holistic manner for the entire enterprise, taking in the full end to end business and IT functional areas of responsibility, considering the IT-related interests of internal and external stakeholders. COBIT5 is generic useful for enterprises of all sizes. Whether commercial, not for profit or in the public sector.

COBIT5 goals model

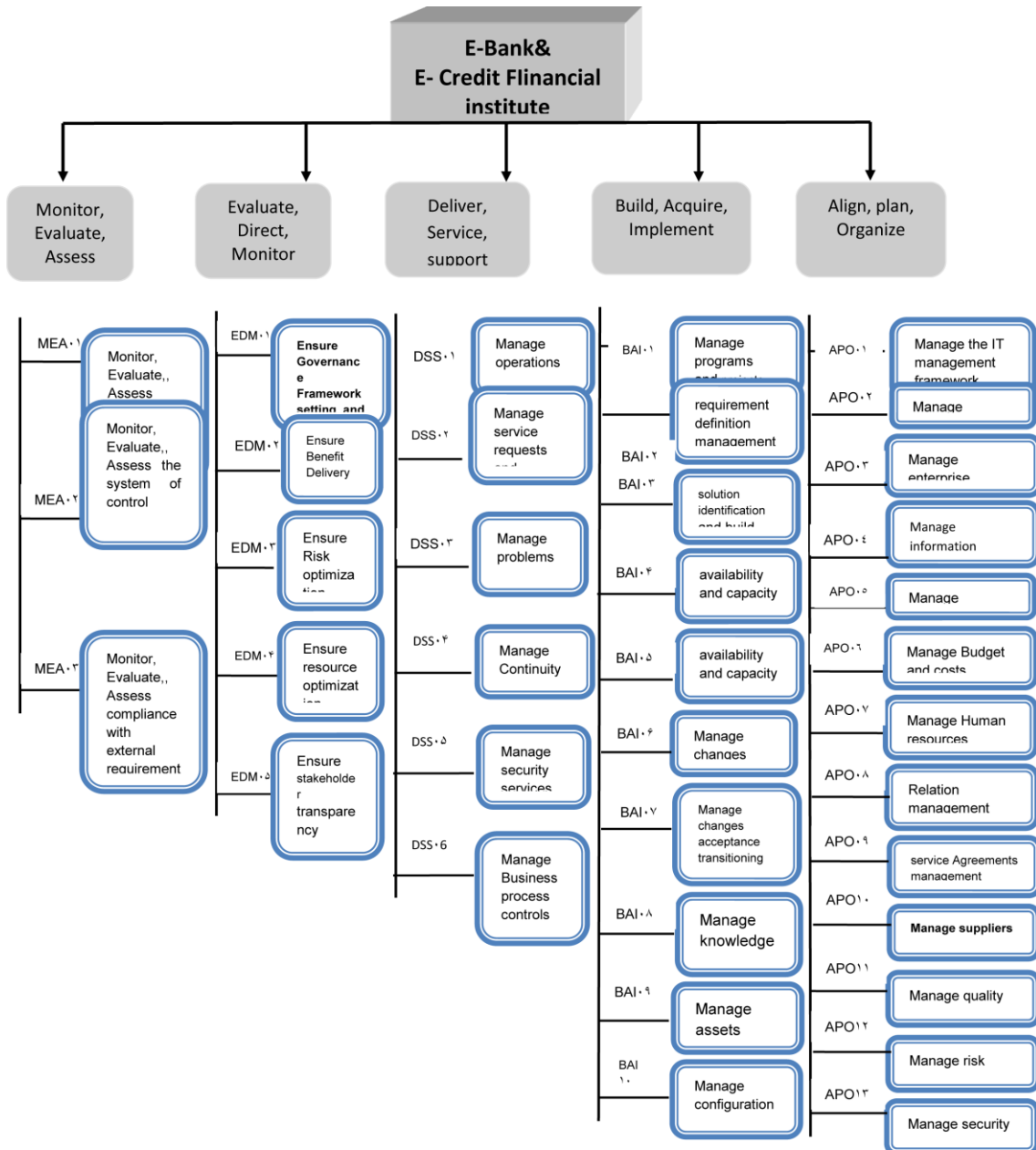


COBIT5 Processes:

COBIT5 include 37 processes that they are categorized in different lines.

this model divided all the processes in 5 line which cover the whole activities of an E-Bank or E-Financial, credit institute.

The name of these processes defines as the first letter of the categories are replaced.



Conclusion:

this article introduce internal audit and its necessity according to Basel committee and Securities& Exchange Organization.

Also explain E-Banking and using internal auditing in this type of banks. and most usual framework and standards which includes COBIT5 and COSO.

COSO framework comprises three dimension- objectives, components and organizational structure of an entity and each dimension has been explained by more details.

COBIT5 enables IT to be governed and managed in a holistic manner for the entire enterprise, taking in the full end to end business.

Finally we used a model by COBIT5's components and processes that all of the activities in E-Bank's summarized in 5 main components.

In fact whole internal control's checklists replace in this model and cover the internal audit in E-Banks and E-credit & financial institutes.

References:

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