



DIRECTIONS OF EFFECTIVE MANAGEMENT OF INCOME AND EXPENSES IN THE STATE COMMERCIAL BANKS

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Abstract

Keywords: *bank income, bank expenses, financial results, bank income and expense analysis, bank management, performance audit, financial competition, effective management*

This article is dedicated to the current situation of the organization of income and expenses in the banking system of Uzbekistan, in which organizational aspects of the bank costs in the banking practice of Uzbekistan, the classification of bank income and expenses, their formation, a comparative analysis of the methodology of planning bank audits , bank costs practical issues of planning and conducting the audit are reflected.

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INTRODUCTON

During the formation of the banking system in Uzbekistan, special attention was paid to the organization of the bank audit meeting international requirements. Currently, commercial banks are considered to be the object of close control by the Central Bank, which is reflected in the Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan". Article 50 of the law states that the Central Bank controls and regulates the activities of banks in order to maintain the stability of the banking system and ensure the protection of the interests of depositors and creditors.

The basis of bank control is the form of financial report prepared by the banks themselves or the information about the financial condition and profitability of the work activity confirmed by the auditing firms. In many international regulatory documents, it is emphasized that the incorrect assessment of bank assets and liabilities, the need for a true assessment of the financial results of their activities. However, even the most perfect international standards may not correspond with the real financial situation of commercial banks and the information in financial reports. By 1996, work was carried out to bring the country's bank audit to a new level. The main reason for this was the increase of foreign investments entering our country. "Audit coordination" department was established within the Central Bank of the Republic of Uzbekistan's Department of Licensing and Regulation of Commercial Banks. The following tasks are assigned to the audit of income and expenses in banks:



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- Reflecting the income and sources of their formation in the account in a correct, accurate and justified manner;
 - Analysis of interest income and expenses, other income and expenses, analysis of accuracy and reasonableness of received income, including the results of conversion of funds in accounts to foreign currency;
 - Timely reflection of expenses in relevant accounts;
 - Preventing errors in the accounting of income and expenses, explaining where the errors occurred. The auditor's focus is on the operational expenses of the bank.

LITERATURE REVIEW

Performance measurement in a non-parametric direction was first introduced into science by Farrell (1957). But his empirical work was limited to the production of a single product and was not suitable for evaluating the efficiency of enterprises producing many types of goods and services. Also, his idea of this mathematical programming was neglected until the scientific work of Charnes, Cooper, & Rhodes (1978).

Charnes et al. (1978) in their scientific work develop a mathematical programming algorithm that evaluates the performance of a set of homogeneous structures known as *decision-making units (DCUs)* that produce several goods and services from several factors of production . This algorithm is called data envelopment analysis (DEA) and is sometimes referred to as a non-parametric method of performance evaluation.

According to the algorithm of the method, first of all, the empirical production limit is built and the enterprises that deviate from the limit are considered to be operating inefficiently. The closer the enterprise is to the base of the coordinate axis, the more inefficient it is. Charnes et al. (1978) has done a lot of empirical work on the data shell analysis (SCA) methodology introduced to the science. The scope of these scientific works shows how powerful the data analysis method (CDI) is and how it is widely recognized by economists.

The basic information shell analysis (MQT) model developed by Charnes, Sooper, and Rhodes (1978) is abbreviated as *SSR in the scientific literature* . This model measures the overall technological efficiency of *decision-making units (DCUs)* . These scientists expressed the efficiency index for each FDI as the ratio of weighted output to weighted factors of production, and calculated the efficiency index by dividing the efficiency index of the enterprise with the maximum ratio by the efficiency index of all FDIs . In this case, the efficiency indicators of QQBs are in the range of zero and one numbers. If the efficiency index of the CSIW is close to zero, it is operating inefficiently. On the contrary, if it is close together, it is considered to have a high level of efficiency. The main assumption of this model is that the PQQBs operate on the basis of constant returns to scale.

Influencing the form of ownership of commercial banks is one of the important instruments affecting their efficiency. Governments try to use state-owned banks to finance projects that are socially important and not profitable for the private sector. Although there is an opinion that state banks play an important role in financing strategic and socially important projects, due to the fact that their activities are extremely ineffective, social goals



are left aside and political interests come to the fore (Boycko& Shleifer, 1995; Boycko, Shleifer, & Vishny, 1995; Cornett, Guo, Khaksari, & Tehranian, 2010; Dewenter&Malatesta, 2001). For example, Dinç (2005) showed that during election years, state banks provide more loans than other banks. Also, the increase in corruption and state intervention in the banking system leads to a widening of the differences between the efficiency of banks with other types of ownership and state banks (Burki& Ahmad, 2010; Caprio& Cull, 2000; Fries & Taci, 2005; Lin & Zhang, 2009). If we observe the experience of the world, the basis of prevention of such negative consequences and improvement of the banking system lies in reducing the role and share of the state in the financial market.

A parametric and non-parametric study of cost effectiveness of US and Canadian banks found that the correlation between these two methods is low. It was also noted that the efficiency indicators evaluated by the parametric method are higher than the efficiency indicators evaluated by the non-parametric method. In addition, parametric performance indicators have a stable average performance over time, with decreasing variance observed. Nonparametric performance indicators, on the other hand, have a mean and variance that increases over time (Liu, 2018).

ANALYSIS AND RESULTS

It is known that commercial banks are the "vascular system" of the economy and provide the economy with the necessary financial resources by distributing the accumulated savings of the population and business. This mediation is a factor that provides the necessary "fuel" for the further development of the economy. As intermediaries, commercial banks attract deposits with the condition of paying interest for the use of funds and provide them to residents and entrepreneurs in the form of loans and investments for interest. Commercial banks provide services related to purchase and sale of foreign currency in cash and non-cash forms, bank consulting and information services, rental of safes and cells for storing documents and other valuables, etc.

Today, in addition to earning income, commercial banks incur the following banking expenses:

- interest expenses: on demand deposit accounts, time deposits, payments to the Central Bank and other commercial banks, on payable loans;
- non-interest expenses: commission expenses and expenses for services (for example, bank advertising or conducting events), losses from negative changes in foreign exchange rates, investments, etc.;
- operating expenses: salary expenses, rent of bank premises and other expenses, business trips, depreciation, insurance, taxes, etc.;
- payments for association membership fees and payments of funds to the Citizens' Deposit Guarantee Fund.

Commercial bank expenses can be divided into the following components (Figure 1):

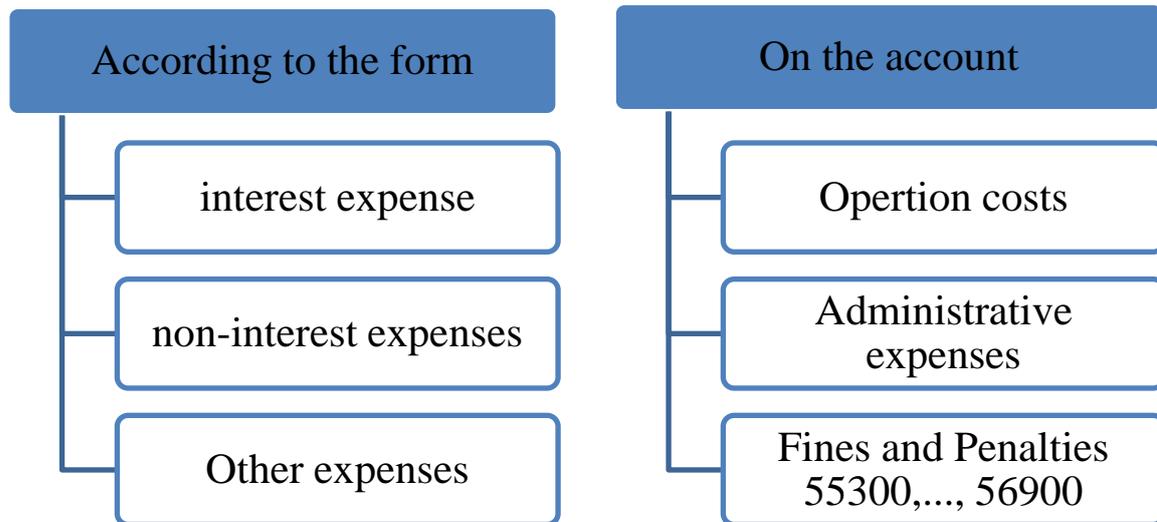


Figure 1. Classification of bank expenses by form¹

Usually, 2/3 of the bank's income is spent on interest expenses, covering losses on loans, expected profits and capital growth. Costs are affected by any changes in interest rates, the composition of liabilities and the amount of private capital, as well as liquidity. In turn, changes in the composition of bank expenses require changes in the return on assets. Accurate costing allows banks to allocate alternative conservative resource prices and accurately assess bank assets, cover costs, and distribute profits to shareholders. Cost estimation should be considered as the main factor in setting loan interest rates.

Interest expense is the sum of accumulated interest on all liabilities. As we know, commercial banks accept demand deposits and term deposits in the organization of credit resources. Banks pay money to these deposits at certain specified interest rates. Commercial banks pay interest on bank debt obligations, including when there is a negative difference between the selling price and the nominal value of securities, interest costs arise in banks when paying some accrued but unpaid interest.

Another part of banks' interest expenses is credit and related transactions. Banks can receive loans, first of all, from the Central Bank, other commercial banks, and extrabudgetary funds. Debt paid for loans is included in interest expenses. The bank makes interest expenses by returning the interest and brokerage fees paid to the account of previous years (compared to the reporting year), as well as the interest and brokerage fees collected in excess from bank customers in previous years. Non-interest-bearing expenses include wages and additional payments, rental and purchase of equipment or buildings, as well as other non-interest-bearing expenses.

The amount of income received by the bank from the sale of bank products and services represents the bank's income. The bank's profits are mainly generated as a result of active operations (Figure 2).

¹Compiled by the author



Figure 2. Classification of income of commercial banks²

Interest income is calculated according to the interest rate determined in advance on the basis of the contract. Earnings can vary from activity to activity. Income from active operations constitutes the main weight of total income. Income from credit operations is the most important in banking. About 70% of interest income is interest income from credit operations.

Currently, the main income of commercial banks of our Republic is formed through credit operations. Commercial banks have their own credit policy. Through the credit policy, banks show exactly how they conduct their lending operations. The types of interest income indicated above and the interest received on them will be transferred to the "Profit and Loss" report by the end of the year. In contrast to the practice of foreign banks, the share of interest income in the total income is not high in the commercial banks of our country. Usually, more than 70% of the bank's income should be made up of interest income. This is a recommendation indicator. World Bank experts emphasize this indicator.

Non-interest income - the total income received not in the form of interest, but in a fixed amount for all types of services or products of the bank, is considered as the non-interest income of the bank. World Bank experts do not justify that the share of non-interest income of the bank is equal to or greater than the share of interest income. Interest-free income is reflected and recorded in accounts 45200-45994 of the chart of accounts. Recently, commercial banks of our country have been increasing the amount of income from mediation operations related to public utility payments. The bank's profitability depends, first of all, on cost reduction. Advances in banking technology allow for lower operating costs. Usually, banks take allowances to cover operating expenses, funds spent on interest, as well as losses related to credit risk. In the structure of bank expenses, the main weight is made up of wages and similar expenses. Taxes and fees also have a significant share.

The costs of banking activities are related to many factors affecting them. As a result, problems related to them arise. Analysis problems are primarily related to the planning of the bank's expenses (Table 1).

²Surkova M.A, Leshina E.A, Bagdanova N.A, Ryabova M.A "Audit bankov" uchebnik. Ulyanovsk - 2009

Table 1

Bank budget planning methodology³

Terms, procedures and other peculiarities of preparatory work	Methodological guidelines for conducting a documentary audit	Standards of auditor activity	Proposals for internal audit planning methodology
The period covered by the plan	Calendar year	Inspection period according to the contract	Calendar year
Randomness	It is intended	Not intended	It is intended
Ability to conduct unscheduled inspections	Considered	In sight is not caught	Considered
Previous inspection period	It will be reflected	Not reflected	It will be reflected
Selection procedure	Used	Used	Used
Significance determination	Not used	Used	Partially used
Audit risk assessment procedures	Not used	Used	Partially used

Banklar faoliyati samaradorligi ikki yirik guruhga, ya'ni daromadlar va xarajatlar bo'yicha samaradorlikka bo'linadi. Maqolada banklarning mulkchilik shakliga ko'ra xarajatlar bo'yicha samaradorligi o'zgaras va o'zgaruvchan ko'lam qaytimi asosida ekonometrik baholandi. Xarajatlar bo'yicha samarali bank boshqa banklarga qaraganda omillarga kam xarajat qilib ko'p miqdorda «mahsulot» ishlab chiqara oladi.

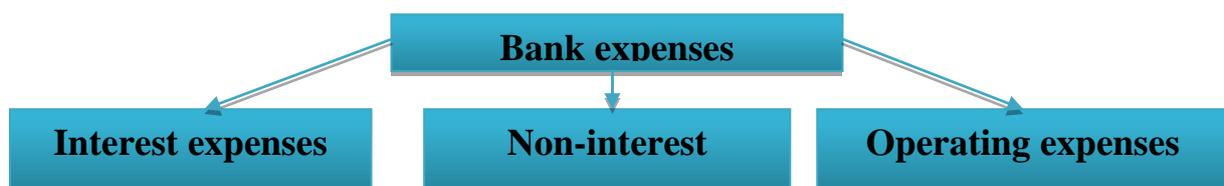


Figure 3. The structure of bank expenses⁴

Interest expense is the amount of interest collected on all liabilities. As we know, commercial banks accept demand deposits and term deposits in the organization of credit resources. Banks pay money to these deposits at certain specified interest rates. Commercial banks pay interest on bank debt obligations, including when there is a negative difference between the selling price and the nominal value of securities, interest costs arise in banks when paying some quoted but unpaid interest. will come.

³N. Karimov "Internal audit of commercial banks":- Tashkent 2006 year 120 p

⁴Surkova M.A, Leshina E.A, Bagdanova N.A, Ryabova M.A "Audit banking". uchebnik Ulyanovsk - 2009



Another of the banks' interest expenses is credit and related transactions. Banks can receive loans, first of all, from the Central Bank, other commercial banks, extra-budgetary funds, and non-bank financial institutions. Debts paid for loans are included in interest expenses. The bank makes interest expenses by returning the interest and brokerage fees paid to the account of previous years (compared to the reporting year), as well as the interest and brokerage fees that the bank collected in excess from clients in previous years. Interest expenses are accounted for in accounts 50100-54904 of the chart of accounts. This type of cost is mainly divided into 5 large parts. They are paid in the form of interest. The main part of these costs is the cost of deposit operations.

The structure of operational costs of banks may differ depending on the organizational form of the bank. Usually, the weight of operating expenses is high in private banks, because private banks focus on increasing the salary fund. Deposit operations are the main part of the operations of banks related to resource collection. In the composition of interest expenses, interest expenses paid on deposits have a high weight. Since audits are related to financial statements, it is necessary to focus on the financial statements of banks.

In each commercial bank, a separate bank internal audit service subordinated only to the Bank Council is introduced. Depending on the breadth of the bank's service scope, this structure can be introduced in the form of an internal audit committee or in the form of a special service. Depending on the results of the audit, clients or future investors can choose a bank. Bank shareholders are primarily interested in external auditing of banks, checking of financial statements of banks. There are several differences between external audits conducted in banks and internal audits.

Table 2

No	Inspection steps	Does it meet the demand? (+:-)
1	Check the balance of personal accounts	
2	Checking the balance of personal accounts with the profit and loss report	
3	Reflecting the costs in the relevant accounts Check	
4	Checking the balance of personal accounts and tax reports	
5	Checking the correctness of reserves for expected losses	

Special cost audit program⁵

Therefore, it is practically impossible to analyze financial results based on financial statements. The statement of income and expenses should ideally correspond to the structure of the balance sheet, because it should be possible to analyze the income and expenses

⁵Surkova M.A, Leshina E.A, Bagdanova N.A, Ryabova M.A "Audit bankov" uchebnik . Ulyanovsk - 2009



according to their correspondence to the main items of the balance sheet.

Inaccuracy of financial reporting in banks can occur due to the following main reasons:

1. Low level of preparation of accounting staff and insufficient development of audit activities;
2. Shortcomings and disagreements of the current regulatory framework in the matter of accounting and report preparation;
3. In the period of inflation, there is no mechanism for preparing a special report and reflecting the change in the accounting policy in the report.

All this can be misinterpreted by the users of the information published in the period of growth of the balance sheet and profit and loss statement in the traditional way. In the analysis of bank expenses, the problem of calculating the internal value of bank operations arises. The main problem in calculating the value of individual bank transactions is to determine the real value of the funds involved in this transaction. It is difficult to allocate the total cost of raising funds according to specific types of assets, because it is not possible to link the funds raised to the bank to specific asset operations.

CONCLUSION

Audits are important for real assessment of the activity of commercial banks, for shareholders and depositors, creditors and investors to have accurate and reliable information about banking activities. The procedure for conducting an audit is regulated by laws, government decisions and departmental guidelines. It helps to improve the client's financial situation, attract investors, creditors, provides advice in finance, tax and other areas. The audit report is a legal document for all individuals and legal entities, authorities and judicial authorities. Audit conclusions of commercial banks should be published in the press. During the formation of the banking system in Uzbekistan, special attention was paid to the organization of the bank audit meeting international requirements. Currently, commercial banks are considered to be the object of close control by the Central Bank, which is reflected in the Law of the Republic of Uzbekistan "On the Central Bank of the Republic of Uzbekistan". Article 50 of the law states that the Central Bank controls and regulates the activities of banks in order to maintain the stability of the banking system and ensure the protection of the interests of depositors and creditors.

In our opinion, it is appropriate to implement the following in order to further improve the audit of bank expenses:

First, the cost audit of commercial banks is one of the most important and complex audit areas. In this regard, the first attention of the auditors should be paid to the rationality and fairness of the bank's expenses. In this case, it is advisable for the auditors to collect analytical account data and thereby conduct an analysis of the bank's expenses;

Secondly, in the audit of the expenses of commercial banks, one of the most important expenses for the auditors of the commercial bank is the interest expenses, and the audit of this is very complicated and requires carefulness. In this case, it is advisable to carefully check that the interest rates offered to customers' deposits are formed based on market methods and that the documents on their reflection in the accounts are drawn up;



Thirdly, to study the practice of depositing deposits into the accounts of individuals;
Fourthly, check the receipt of funds to the customer's account until the main demand, including the receipt of cash funds through collection;

Fifth, to check the correct registration of the balance sheet value of fixed assets and the amount of depreciation calculated on it to the expense account;

Sixth, in the audit of assets and liabilities of commercial banks, it is necessary to carefully audit the account of non-cumulative and cumulative shares, as well as the account of the shares of joint minority shareholders in merged enterprises;

Seventh, it will be more beneficial for the interests of the shareholders of the commercial bank if the account of the reserves to be established for the loans is carried out according to the cost of the commercial bank.

In conclusion, we believe that it is appropriate to use international standards in organizing and improving the performance of cost audits in the banking system of Uzbekistan.

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