Improving the bank's accounting system in conditions of permanent change

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Abstract: *Management of the bank's finance requires reliable sources of information on the bank condition in general and specific information suitable for use in the process of making management and investment decisions. Each country has its own unique characteristics: customer behavior, risk appetite, seasonality, volatility, inflation, bad loans, the impartiality of the judiciary, etc. These characteristics cause permanent changes which urge banks to modify their business behavior and risk assessment. Human resource policies, transfer pricing approaches and stakeholders' strategies may also change. All these changes affect the activities of the bank and the information needed to make adequate management decisions. Such information is formed in the bank's accounting system. Various departments, e.g. the treasury, risk management, corporate business are involved in the process of forming accounting and analytical information. The lack of a well-established accounting and analytical system mechanism, without adequately formulated objectives will not ensure the provision of relevant management information. The system of a commercial bank management should prevent the emergence of uncontrolled situations in the banking business; the process of its implementation should become manageable. This creates objective conditions for a reasonable solution of critical problems and their prediction.*

Keywords: *Accounting System, Bank Treasury, Analytical Support, Changes, Capital*

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1 Introduction

Changes are constant and all-embracing. This leads to the formation of such an accounting system in the bank, which will meet the demands of the management in terms of efficiency, reliability, comprehensiveness. Such a system should prepare not only financial information, but also, taking into account the demands of society, non-financial information about the impact of banking on the environment, compliance with employee rights, etc.

Ukrainian banks have been applying IFRS since 1998. Banks are currently preparing a Management Report, which contains both financial and non-financial information. But there is currently no standard approach, enshrined in law. The issue of improving the bank's accounting system in the context of considering permanent changes is relevant.

Studies of change management and methodological approaches to the formation of accounting and analytical change management relate the activities of economic entities, including banks and financial institutions, and are reflected in the scientific works of the following authors: I. Adizes (1992), I. Ansoff (2007), J. Kotter (2012) and others. The purpose of the study is to deepen the theoretical foundations and substantiation of proposals for improving the accounting system in the bank in the conditions of permanent changes.

2 Methodology and Data

There is a strong tendency to reduction of the banks count in the Ukrainian banking system (Table 1). In 2019, compared to 2013, the number of banks licensed to conduct banking operations decreased from 180 to 75.

Table 1 The main indicators of the banks of Ukraine in 2013-2019

Indicator	2013	2014	2015	2016	2017	2018	2019
Number of banks licensed by the NBU to conduct banking operations	180	163	117	96	82	77	75
Number of banks with local capital	131	112	76	58	44	40	40
Number of banks with foreign capital	49	51	41	38	38	37	35
Number of banks with 100% foreign capital	19	19	17	17	18	23	23
Bank assets, UAH mln	1 127 192	1 278 095	1 316 852	1 254 385	1 212 812	1 359 703	1 494 460
Return on assets,%	0,45	0,12	-4,07	-5,46	0,33	1,69	4,35
Return on capital,%	3,03	0,81	-30,46	-51,91	3,33	14,67	34,18

Source: Developed by the authors based on National Bank of Ukraine (2020). Supervisory Data. Retrieved from: https://bank.gov.ua/en/statistic/supervision-statist

We can see that the decrease in the number of operating banks indicates that many entities were not ready for changes in economic and social environment. Their management did not have a sufficient level of expertise, as well as a sufficient level of support for the shareholders.

3 Results and Discussion

In order to respond to changes, it is necessary to have relevant management tools. Improving the accounting system of the bank involves primarily the development and implementation of accounting policies, taking into account changes in both internal and external environment.

Insufficient regulatory support for the formation of accounting policies and the desire to accurately reflect the financial results of the bank requires outlining the range of issues that must be determined in the accounting policy of the bank, namely: establishment of types of reports; development of the order of their creation and use; methods; determining the order of inventory and making adjustments based on the results; setting a limit on the amount of costs: appropriate to create special reporting type.

According to analysts, banks, underestimating the value of accounting policies for income and expenses, commit gross violations in the application of fundamental accounting principles to improve the financial performance of the bank, although this negatively affects the reliability of both current financial performance and capital. The leading factor for the integration of financial and management accounting on higher levels (calculation and output level) is the effort to lower the cost burden levied by the duty to prepare two sets of financial statements for external users (Procházka, 2010). As evidenced by the results of research by banking analysts (Sliunina, 2007), banks pay sufficient attention to information about the selected methods and techniques of accounting for all types of assets and liabilities, income and expenses, however, there is an overload of internal accounting standards of banks with excessive or secondary information.

Basically, accounting techniques are tied to the norms of tax accounting, which can lead to a violation of banks' compliance with the requirements of accounting standards. It is obvious that as a result of non-compliance of certain legal norms and due to the backlog of accounting practices, banks do not use certain legal regulations.

This testifies to the imperfection of both the normative provision of accounting and the presence of internal problems in banks, which will lead to violations of established accounting methods. The accounting policy does not fully disclose the rules of formation of the realized and unrealized result of the bank on the local and foreign currency components of the balance sheet, the order of formation of the bank's reserves and other accounting methods of capital, strategic direction, current development plans, adequacy of internal control procedures.

Significant financial losses and bankruptcy of banks convince us that the local banks have not created such an accounting and analytical system, which would be in accordance with modern conditions of functioning. Therefore, having analyzed the issues of accounting and analytical support for the management of banking activities, we have formalized the main relevant modifications of the system (Table 2).

Table 2 Improving the existing accounting and analytical system of the bank

The existing accounting and analytical system of banks	Directions for improving the accounting and analytical system of banks	Accounting and analytical system of the bank, which meets modern requirements
does not meet the requirements of information users; needs improvement and reorientation of functions;	review of approaches to the formation of the bank's accounting policy; raising the level of internal information and analytical system to provide functional services to the bank's management; development of accounting policies for management accounting;	orientation of theoretical and methodological approaches to the organization of accounting and analytical work in banks to meet the needs of not only external but also internal users, which are aimed at completing strategic tasks.

Source: Developed by the authors based on National Bank of Ukraine (2020). Financial Sector Statistics. Retrieved from: https://bank.gov.ua/en/statistic/sector-financial/data-sector-financial#3fa.

Thus, when building an accounting system, one should take into account the specific conditions of the bank's activity, related to its place in the system of market relations (Golchenko, 2008): firstly, in the process of providing banking services and making a profit, the movement of financial capital dominates, mostly in the form of borrowed funds from customers. Accordingly, it is necessary to ensure that all aspects of capital increases and borrowings are reflected in the accounting system; secondly, the bank is a settlement center and an intermediary in financial transactions performed by its clients. This explains the active participation of the bank in the work of many enterprises across various industries and forms of ownership. That is why an important task of the current accounting system is to display the performed transactions on behalf of customers on their current accounts.

It is therefore necessary that all banking operations be traced from their inception and throughout the implementation period until they are reported. In general, there is no scheme in practice that guarantees financial security and stability of the bank.

The accounting system in banks is a complex mechanism that works in three directions. The first one is a documentary one, which envisages the organization of accounting for the facts of economic activity. The second one is control-productive, provides definition of results of economic activity of bank and first of all profit. Accounting data are used to control ownership and settlements with fiscal authorities. The third one is managerial, closely connected with the introduction of management accounting into the accounting practice (Azarenkova, 2006). We emphasize that the main task of accounting and reporting is the formation of the necessary amount and structure of information to control business processes and planning and management decisions that would increase the profitability of all banking operations.

There are two main reasons for the active search for effective methods of management and accounting at this stage of development of the banking system of Ukraine: first, bank management systems are becoming more complicated, new banking products are introduced, and therefore without reliable management information these systems can become unmanageable; secondly, the growth of information requires the ability to quickly find the exact data.

In this way, the concept of creating a general information image of the financial condition of the bank through information about the results obtained in all areas of activity in terms of structural units is gradually emerging. In view of this, the means, procedures and methods of management accounting cannot be administratively determined by the National Bank of Ukraine, as each bank must take into account specific features of its own business, staff and, of course, internal prices for banking products and services.

The banking specifics are influenced by the fact that many economic situations and processes depend on the the interbank market conditions. It also requires a balanced operational intervention in the process of activity, the effectiveness of which depends on the information. The information obtained is an important means of influencing the nature of management decisions.

Management accounting as an independent direction of accounting forms the information necessary for internal bank reporting, which is a necessary condition for making management decisions in non-standard economic situations. The organization of an effective mechanism of management accounting is based on two main principles: the principle of data efficiency required for management decisions, and the principle of consequences responsibility of managers. A characteristic feature of management accounting should recognize the integration of its constituent elements: planning, accounting, analysis, control and regulation (Zorya, 2016).

The accounting component is only one aspect of this integration. Management accounting is the information basis for managing the internal activities of the bank, its strategy and tactics. Tactical aspects of management accounting determine: accounting, control, analysis, regulation of previously made decisions and responsibility for their implementation.

It is important to understand that generally accepted performance indicators of banks may not always characterize the objective state of the system. For example, as of December 31, 2019, the banking system of Ukraine received ROE (Return on Equity) at 29.7% and ROA (Return on Assets) at 4.7% (National Bank of Ukraine, 2020). For comparison, on average in the EU these figures do not exceed 6.0% and 2.5%. However, the Ukrainian banking system, in contrast to the EU banking system, has a greater appetite for risk. Moreover, capitalization requirements are stricter in the EU, while the requirements for increasing the authorized capital in Ukraine are still softer. Other indicators should be considered when assessing the possibility of increasing economic capital. With this in mind, we suggest Income Return on Loan Provisions (1).

IROLP=(Net interest income+Net fee and commission income)/(Loan provisions) (1)

IROLP helps to assess the bank's ability to generate income from various products (corporate: lending, foreign exchange transactions, trade finance, cash management, etc.; and retail: consumer, automotive, mortgage lending, foreign exchange transactions, etc.) taking into account impairment provisions loans and debts of legal entities and individuals. This indicator allows us to assess the effectiveness of the interaction of the bank's departments, because often corporate business increases the financial result by increasing income from trading and commission transactions, pre-agreeing to provide financing. In the case of a low-quality loan portfolio, working capital and the bank's ability to finance its current activities suffer. So there are structural liquidity gaps, which must overcome the bank's treasury.

Based on the research and our calculations, there are three groups of banks according to the IROLP indicator. The first – with IROLP <100%: mainly state-owned banks and commercial banks with large reserves (for lending to economic activities of related parties and state-owned enterprises, respectively, the rate of Credit Risk in the group is 28.3% against 19.7% in the system in general), which do not provide quality services to customers and, accordingly, do not receive commission income. The second – with IROLP from 100% to 1000%: the vast majority of banks with foreign and private capital. These banks have a balanced approach to the development of retail and corporate products and the formation of a high-quality loan portfolio. The third – with IROLP> 1000%: these are either Western "boutique" banks that have ultra-conservative credit policies, or small banks with private capital, which mainly provide brokerage and intermediary services and are not aimed at lending. The data used in the calculation of the above coefficients are easy to track in the weekly reports and to adjust the deviations accordingly. Thus, the risk management unit may recommend setting a higher rate of return on credit operations, corporate businesses - to increase commission rates for a particular customer, and the treasury unit – to increase the minimum rate of return on operations in the foreign exchange and money markets.

Conclusions

The successful modification of accounting support of the bank management system will allow to make timely and comprehensive decisions. This will let management to make changes in various areas of the bank – from market risk management and brand quality to increase the profitability of business and better balance sheet management – in order to maximize internal capacity and minimize the negative impact of internal and external environment. The set of changes that can be tracked is significant and depends only on the capability of the management to analyze the environment.

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