

# Practice and Reflections on Credit Audit System of Regional Rural Commercial Banks

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## Abstract

**Credit audit of commercial banks can effectively serve the bank's business objectives and control bank credit risks. In the process of credit audit of commercial banks, effective implementation of credit audit system becomes especially important. This paper introduces the practice and reflections in the process of credit audit of commercial banks from the aspects of the importance of credit audit system implementation, system extension and appropriateness control, the disadvantages to be noted in the process of implementation and human factors, etc. to strengthen the internal communication between the industry, promote experience sharing and achieve common improvement.**

## Keywords

**Commercial Banks; Credit Auditing; Implementation Strategies.**

## 1. Introduction

Credit business is the key business of commercial banks, and credit audit is the core audit of the audit department of commercial banks. The quality status and riskiness feedback of credit audit directly affects the smooth operation and comprehensive efficiency of commercial banks, and to a certain extent promotes or restricts the smooth realization of commercial banks' business objectives. The ultimate goal of credit auditing is to ensure the safety of credit funds in compliance with relevant laws and regulations, credit policies and credit management rules and regulations. Based on the changes in the market environment and the bank's own characteristics, promoting the flow of credit funds to maximize profitability is a realistic need for credit auditing. It requires the credit audit system to pay attention to the unity of safety and liquidity in the implementation of practice.

## 2. The Importance of the Implementation of the Credit Audit System

All the audit implementation are based on the system, the audit is reasonable and justifiable. The problems found in the audit need to be matched with the appropriate system regulations. Credit audit is not only to conduct specific verification and analysis of single business, but also to focus on the credit management system and credit development strategy of the whole bank. Otherwise, it will be limited to compliance audit with missing chapters and seals, which will not reveal deep problems and risks, and the recommendations made will become less constructive and targeted. After the credit policy is introduced, commercial banks generally formulate relevant supporting policies, and auditing the supporting policies is an indispensable part of the follow-up audit on the implementation of credit policies of commercial banks. In the audit practice, the audit department often pays more attention to the credit fund aspect and pays insufficient attention to the relevant supporting policies. The relevant supporting policies are directly used as the basis for audit in daily operation, ignoring the compliance audit of the supporting policies themselves. Insufficient audit of the compliance of supporting policies has a direct impact on the implementation of the credit system. Therefore, credit business auditors should carefully study and research credit management policies and development strategies,

including organizational structure, phased credit marketing background and requirements, in order to broaden their horizons, gain insights and make quality audit recommendations in practice.

### **3. Complementarity of Credit Audit System Extension and Moderate Control**

In the increasingly fierce competition today, commercial banks are constantly introducing new products and policies to rapidly occupy the credit market and expand their original positions, which inevitably requires targeted and flexible system development. The flexibility here does not refer to the imperfections or defects of the system, but the appropriate control of the system in the implementation. There are a variety of individual differences and peculiarities for the system developers to strive for perfection and rigor, and for the implementation of the system for different customers. A generalized approach will inevitably lead to the difficulty of developing business, which brings up the issue of measuring the feasibility of the system and proper implementation to the auditors. The decision on whether we need to be flexible and leave a safe space depends on our ability to consider the situation and judgment, such as the understanding and analysis of enterprise industry prospect and saturation, the sensitivity of the matching of cash flow and authenticity of counterparty, the analysis of enterprise guarantee sincerity and guarantee ability, the true understanding of post-loan management or perfunctory follow-up, etc. If an enterprise is in an emerging industry, it will be considered to be well developed. If the financial data of the enterprise is complete and the production is normal, the hidden problems will be ignored. If the collateral of the enterprise is sufficient and effective, the risk will be considered to be low. If the enterprise has undergone several normal post-loan inspections, the vigilance will be relaxed. Similar audit modes are just going through the motions to deceive the public, and they do not have the professional sensitivity and suspicion of auditors at all. On the contrary, if there is an abnormality in individual financial data, the enterprise will be judged as suspicious, the occasional situation in the capital chain or guarantee chain of the enterprise will be characterized as risky, and the enterprise will be judged as bad due to suspected lawsuits or accidents. Such a rigid conclusion is not the correct mode of thinking for a qualified auditor and deviates from the objectivity of the credit audit system. Although each customer of a commercial bank is granted a credit relationship after a preliminary access investigation, the enterprise is not a static thing, and the business management of the enterprise is in a dynamic and complex development environment, which is a constantly changing complex. After admission, it will change with the numerous uncertainties affecting its business development, and certain aspects of the changes often appear in the margins or blind spots of the relevant credit system, and the ensuing risky identification also tests the auditor's perception and judgment. Auditors should hold a realistic and pragmatic attitude to find risks to prevent risks, and should have a global view of the relative theory of risk generation, through the phenomenon to see the essence, to explore the hidden hazard factors at a deeper level, to check erroneous ideas at the outset, and to establish a long-term compliance of the enterprise mechanism. In national relations, the pursuit of unilateral absolute security is a kind of hegemonic thinking. In the economic field, the pursuit of absolute security in the operation of commercial banks is a kind of work error. Certain market risks often mean optimal resource allocation and good market prospects, and the benefits and risks of commercial banking business structure always go together. In the implementation of the credit audit system, the inappropriate acts, excessive focus on risk prevention and control will weaken the competitiveness of banking business, and miss market opportunities in the development of the enterprise.

#### **4. Shortcomings in the Implementation of Credit System Audits**

The quality and depth of the audit work is determined by whether the credit audit work can be integrated with the credit system and supported in the implementation. Starting from the credit policy development, effectiveness and the goals achieved, the focus of the credit business audit is clarified, the audit quality control is improved, and the audit depth is extended by digging into the problems from multiple levels with the attitude of keeping suspicious and solving the problems. The credit system of commercial banks has a certain delay from landing to risk management, thus forming a model of risk-oriented audit activities, of which credit continuous audit is crucial. In the process of continuous audit, credit risks are comprehensively analyzed and evaluated, and risk points are precisely extracted to stifle them in the cradle. The first drawback in audit is that auditors are often plagued by shortcomings in the business side and are unable to effectively use their complex business skills. Those familiar with credit business are not clear about the structure of backend data and cannot effectively use off-site means to capture audit clues, and the frequency and efficiency of finding suspicious data lags behind. Technology professionals do not understand the core credit business data or docking points, and are unable to recognize the value of the full data, resulting in rigid off-site audit techniques, prolonged and tedious model threshold settings. The effectiveness of the model to reflect the problem is deficient, lacking in pertinence and effectiveness, which is of little significance in the practical work. In addition, the skillful use of accounting operations in credit audit is significantly insufficient, and many aspects of accounting operations are mapped in the credit business process, such as settlements, transfers, exchanges and payments, etc. According to incomplete statistics, one-sixth of the clues of credit business problems found in LH Bank from 2015 to 2020 came from the analysis of accounting operations. Only one tenth of the credit auditors are specialized in accounting. In addition, in the various aspects of credit operations, in order to reduce the risk that they should bear, the responsible person misinterprets the credit system on the grounds of risk prevention and shifts the responsibility forward or backward to minimize the risk they should bear as far as possible. That is not rational risk prevention, but rather irresponsibility to credit operations, which should be focused on or reflected in the audit.

#### **5. Credit Audit System Implementation Pays More Attention to the Personnel**

Credit business audit requires auditors to be familiar with credit business, understand the credit system, and be skilled in off-site information, network technology and audit tools and methods. The quality of audit team personnel varies, without enough technology and technical personnel, and the daily audit mainly relies on on-site audit and off-site data support for empirical judgments. The rapid development of audit information technology requires frequent and continuous learning and training of auditors, and the investment of corresponding resources is also essential. A rigorous and efficient credit audit requires an inter-disciplinary audit team, and commercial banks should focus on strengthening the training of inter-disciplinary audit talents and take the opportunity of professionalizing internal audit to train audit talents. Firstly, the combination of rewards and punishments and remuneration encourages employees to consciously participate in the assessment of various audit-type certificates or qualifications, forming a good learning atmosphere where they can go hand in hand. Secondly, they should actively participate in the training and learning of various new businesses within the bank, and organize classes or go to the branch for practical learning. Thirdly, a special audit team should be formed to help each other, to carry out audit knowledge learning and discussion to improve the comprehensive audit capabilities. Fourthly, an audit system with horizontal and vertical liaison and exchange should be developed to organize

personnel in batches to participate in the special audit team of other companies to learn from each other. Fifthly, a regular rotation mechanism for credit audit positions should be established to break through departmental barriers, promote the orderly flow of professional talent, and arrange for professionals from other departments to work in credit audit positions in a planned manner, for a long or short period of time, in a flexible manner, either for promotion or for exchange, to continuously inject new vitality into the credit audit team.

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