Study on the Application of Internal Control in the Management of Urban Commercial Banks

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Abstract: In February 2021, Baoshang Bank, whose total asset size had exceeded 500 billion, exited the stage of history with more than 200 billion in unpayable debts. Now look back on its life, from the clouds fell to the bottom. However, there are traces of its causes. Weak supervision of funds, the organizational structure of the organization is a sham, excessive concentration of equity internal governance failure eventually became the key to its demise. Therefore, this paper will take the current situation of rising non-performing loan rate of urban commercial banks as the entry point to discuss the importance of internal governance and make suggestions for the establishment of a sound internal control system in urban commercial banks.

Keywords: Urban Commercial Banks; Non-performing Loan Ratio; Internal Control.

1. PREFACE

On February 7, 2021, the once-star bank "Baoshang Bank" was ruled bankrupt with more than 200 billion yuan of unsatisfiable debts, and the reason for this was a total failure of internal governance. So, why did the former star bank fall into the abyss? We have to start from the origin of city commercial banks. City commercial banks are formed by city credit cooperatives, and have been in existence for 27 years since the first city commercial bank, Shenzhen City Cooperative Bank, was built in 1995. Its predecessor, the Urban Credit Cooperative, has been flourishing since the 1980s, reaching 5,000 in just ten years. However, behind the rapid development, the disadvantages of weak internal control also gradually emerged. Since their inception, cooperatives have been accompanied by internal control deficiencies, which are fatal to a bank and a key cause of their systematic demise. [1] And city banks, which are built on credit cooperatives, have inherited internal control deficiencies. As a way to fill the gap of local economy, enliven cooperatives, have inherited local financial deficiency, promote local economic development and promote local financial stability, city merchant banks are facing a double threat, with external business risks arising from domestic and foreign trade frictions and internal negligence of internal control due to massive expansion of city merchant banks. Then, it is of great importance to improve their own internal control system to prevent financial risks and avoid financial cases. [2] In this paper, Bank of Nanjing and Bank of Jiujiang are selected as the research samples to analyze the operating conditions of their city commercial banks.

2. RESEARCH SIGNIFICANCE

As the "third echelon" of the banking system, urban commercial banks play a pivotal role in bridging the gap in the local economy, enlivening the local economic environment, promoting local financial stability and preventing financial risks arising from domestic and foreign trade frictions. However, the current small asset size, short operating radiation, and restricted business scope of urban commercial banks urgently need to strengthen risk control, and the core of risk control is internal control. [3] Therefore, the establishment of a sound internal control system is of great importance. From a local perspective, the establishment of a sound internal control system for urban commercial banks can improve the capital adequacy ratio, reduce thenon-performing loan ratio, steadily expand the capital scale, and thus improve theability to resist risks, which can enable urban commercial banks to pursue their own development in the fierce competition with large commercial banks, joint-stock commercial banks and rural credit cooperatives.

From a general point of view, the establishment of a sound internal control system has an extremely important role in promoting regional economic development, promoting the national financial system, the safety of the banking industry, preventing financial risks and seeking the development of the national economy.

3. PURPOSE OF THE STUDY
The purpose of this paper is to analyze the literature on the current situation and development of internal control in urban commercial banks and to summarize the relevant data to reveal the problems of the internal control system of urban commercial banks, to explain the importance of internal control to the development of urban commercial banks, to investigate the reasons behind the problems and to propose recommendations for the improvement of internal control so that stakeholders can pay attention to and establish or improve the internal control system as soon as possible. This paper will examine the reasons behind the problems and propose recommendations for improving internal control to make it possible for stakeholders to pay attention to and establish or improve internal control systems as soon as possible.

Table 1: Comparison of Revenue Data of Domestic Hotel Groups from 2020 to 2022

<table>
<thead>
<tr>
<th>Hotel Group</th>
<th>2020 Revenue (in billions)</th>
<th>Revenue YoY</th>
<th>2021 Revenue (in billions)</th>
<th>Revenue YoY</th>
<th>2022Q3 Accumulated Revenue (in billions)</th>
<th>Revenue YoY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jinjiang International Hotel Group</td>
<td>98.98</td>
<td>-34.45%</td>
<td>113.39</td>
<td>14.56%</td>
<td>80.94</td>
<td>71.38%</td>
</tr>
<tr>
<td>Shouqi Ruiji Hotel Group</td>
<td>52.82</td>
<td>-36.45%</td>
<td>61.53</td>
<td>16.49%</td>
<td>38.38</td>
<td>62.38%</td>
</tr>
<tr>
<td>Jinling Hotels Group</td>
<td>2.56</td>
<td>-32.91%</td>
<td>2.78</td>
<td>8.39%</td>
<td>2.48</td>
<td>89.21%</td>
</tr>
<tr>
<td>Huatui Hotels Group</td>
<td>5.15</td>
<td>-53.59%</td>
<td>5.94</td>
<td>15.28%</td>
<td>3.87</td>
<td>65.15%</td>
</tr>
<tr>
<td>Jinling Restaurant Group</td>
<td>11.4</td>
<td>-5.82%</td>
<td>13.74</td>
<td>20.50%</td>
<td>10.64</td>
<td>77.44%</td>
</tr>
<tr>
<td>Yaduo Group</td>
<td>15.67</td>
<td>0%</td>
<td>21.48</td>
<td>37.08%</td>
<td>16.37</td>
<td>76.21%</td>
</tr>
<tr>
<td>Huazhu Group</td>
<td>102</td>
<td>-9.01%</td>
<td>127.8</td>
<td>25.29%</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Wanda Hotels and Resorts</td>
<td>5.52</td>
<td>-24.25%</td>
<td>7.14</td>
<td>29.35%</td>
<td>—</td>
<td>—</td>
</tr>
</tbody>
</table>

Table 2: Comparison of Revenue Data of International Hotel Groups from 2020 to 2022

<table>
<thead>
<tr>
<th>Hotel Group</th>
<th>2020 Revenue (in billions of USD)</th>
<th>Revenue YoY</th>
<th>2021 Revenue (in billions of USD)</th>
<th>Revenue YoY</th>
<th>2022Q3 Accumulated Revenue (in billions of USD)</th>
<th>Revenue YoY</th>
<th>2022 Q3 Accumulated Revenue (as a percentage of 2021 Revenue)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wharf International Hotels</td>
<td>105.71</td>
<td>-49.59%</td>
<td>138.6</td>
<td>31.11%</td>
<td>148.5</td>
<td>107.14%</td>
<td></td>
</tr>
<tr>
<td>Hilton Hotels Group</td>
<td>43.07</td>
<td>-54.43%</td>
<td>57.88</td>
<td>34.39%</td>
<td>63.29</td>
<td>109.35%</td>
<td></td>
</tr>
<tr>
<td>Wyndham Hotels Group</td>
<td>6.67</td>
<td>-33.37%</td>
<td>15.65</td>
<td>15.65%</td>
<td>11.64</td>
<td>74.38%</td>
<td></td>
</tr>
<tr>
<td>Accor Hotels Group</td>
<td>16.2</td>
<td>-50%</td>
<td>22.04</td>
<td>36.05%</td>
<td>28.85</td>
<td>130.90%</td>
<td></td>
</tr>
<tr>
<td>Choice International Hotels Group</td>
<td>7.74</td>
<td>-30.57%</td>
<td>10.69</td>
<td>-30.57%</td>
<td>10.4</td>
<td>97.29%</td>
<td></td>
</tr>
<tr>
<td>Hyatt Hotels Group</td>
<td>20.66</td>
<td>-58.84%</td>
<td>30.28</td>
<td>46.56%</td>
<td>43.03</td>
<td>142.11%</td>
<td></td>
</tr>
<tr>
<td>InterContinental Hotels Group</td>
<td>23.94</td>
<td>-48.27%</td>
<td>29.07</td>
<td>21.43%</td>
<td>—</td>
<td>—</td>
<td></td>
</tr>
</tbody>
</table>

From Tables 1 and 2, it can be observed that the development of the hotel industry, both domestically and internationally, is not optimistic. Currently, China's economy is facing increasing pressure. Based on recent statistical analysis and important holidays like National Day and "Double Eleven," consumer downgrading has become a trend. The ongoing Russia-Ukraine conflict is also reshaping the world order, and the global economy has entered a recession.
Under multiple influences, the hotel industry as a whole is under significant pressure. In 2022, in the domestic market, the operating conditions of the company's domestic limited-service chain hotels are closely related to the fluctuating trends of the epidemic. The overall average revenue per available room (RevPAR) for the first to fourth quarters of the year was 72.62%, 69.78%, 80.40%, and 66.30% compared to the same period in 2019, with an overall RevPAR of 72.37% for the entire year, a decrease of 17.25% from 2021. In December, as the optimization of COVID-19 prevention and control measures continued, leisure travel and business trips showed a significant increase in demand since January 2023. The domestic hotel market gradually regained confidence, and the hotel operations in the local market significantly recovered. The overall average revenue per available room in January and February has already returned to 88% and 115% respectively, compared to the same period before the pandemic. In 2022, the company achieved operating revenue of 7.2966 billion yuan from its limited-service chain hotel business in mainland China, a decrease of 17.65% compared to the same period last year. The net profit attributable to the company's owners was -13.72 million yuan, a decrease of 103.15% compared to the same period last year. The net profit attributable to the company's owners, after deducting non-recurring gains and losses, was -104.43 million yuan, an increase of 46.243 million yuan in losses compared to the same period last year. The previous period's franchise service income was 435.99 million yuan, a decrease of 45.54% compared to the same period last year, while the continuous franchise and labor dispatch service income was 2,902.37 million yuan, a decrease of 5.24% compared to the same period last year[4].

In the international market, the European hotel market was greatly impacted by the Omicron variant in the first quarter of 2022. However, the hotel market rapidly recovered and overall RevPAR returned to levels exceeding those in the same period of 2019 from the second quarter onwards. The overall average RevPAR of the company's overseas limited-service chain hotels in the first to fourth quarters of 2022 recovered to 79.77%, 97.75%, 108.85%, and 108.96% of the same period in 2019[4]. The RevPAR for the entire year was 99.59% of the 2019 level, with a growth of 48.73% compared to 2021[5].

In summary, the company faces significant challenges at the operational level. Although revenge tourism has emerged during the May 1st holiday in 2023, the sustainability of this development and its substantial impact on the industry as a whole remains to be seen.

4. SCOPE OF THE REVIEW AND FOCUS OF THE DEBATE

Based on the integration of a large amount of literature from domestic scholars, this paper takes the current situation of increasing non-performing loans in urban commercial banks as the starting point, focuses on the internal control issues behind the current situation and collates and analyzes representative academic results, latest research results and relevant statistical data. The paper is based on the broad concept of internal control, the standard concept of internal control in the commercial banking industry and the development of the internal control system of commercial banks, which will be discussed in the concept definition section.

With the advent of the era of big data, the Internet and e-commerce have been developed, and the traditional commercial banking model has been impacted. Under such circumstances, the reform of commercial banks in the field of Internet finance is imminent. The internal control, which is a key part of the reform, has received extensive attention from domestic scholars, who use a comprehensive analysis combining qualitative and quantitative aspects, aiming to expose the problems exposed in the internal control of the commercial banking system and to suggest suggestions for the establishment of a sound internal control system.

4.1 Concept Definition and the Development of Internal Control in China's Banking Industry

(1) In 1992, the COSO Committee published Internal Control - An Integrated Framework, which provides a definition of internal control that is widely accepted by the public: "Internal control is a process, implemented by an organization's board of directors, management, and all employees, designed to provide reasonable assurance regarding the efficiency effectiveness of operations, the reliability of financial reporting, and compliance with laws and regulations. " This brought internal control into the era of the "Five Elements Theory". It also triggered a global surge in internal control and the demand for building internal control in commercial banks in China. [4]

(2) However, prior to the publication of the new COSO report, China focused its internal control on the accounting and auditing areas. For example, Independent Auditing Standard Specific No. 9: Internal Control and Audit Risk, issued in 1996, focuses on internal control in auditing.
(3) It was not until the promulgation of the "Guidelines on Internal Control in Commercial Banks" in April 2002 that the banking industry began to pay real attention to the field of internal control, which defines internal control as "the dynamic process and mechanism through which a commercial bank, as a means of achieving its business objectives, develops and implements a series of systems, procedures and methods to prevent risks beforehand, control them during the process, and monitor and correct them afterwards." [5]

(4) After 2004, urban commercial banks have gradually stepped into the fast lane of development by insisting on "serving local economy, small and medium-sized enterprises and urban residents" as their market positioning. [6]

(5) In 2007, Bank of Nanjing, Bank of Ningbo and Bank of Beijing went public through shareholding reform, making urban commercial banks an important force in China's financial system.

(6) On April 1, 2011, Yan Qingmin, assistant chairman of the CBRC, said at a joint meeting of national urban merchant banks that "applications for new branches of urban merchant banks with unsound internal controls will be suspended, aiming to solve the problems of imbalance, non-sustainability and mismatch." This decision has greatly facilitated the construction of internal control system of urban commercial banks.

(7) From 2011-2018, the number of city commercial banks has been declining and stabilizing year by year, leaving just over 130 city commercial banks at the end of 2018.

(8) In 2021, the City Commercial Bank Working Committee of the China Banking Association released the "City Commercial Bank Development Report (2021)" indicating that in 2020, city commercial banks and agricultural commercial banks achieved decisive victories in financial resistance, non-performing assets were vigorously disposed of, and their operating characteristics became more distinct.

(9) In March 2022, Premier Li Keqiang emphasized in the government work report that we should accelerate the reform of small and medium-sized banks, deepen the reform of their shareholding structure and corporate governance, and accelerate the disposal of non-performing assets. The formation of non-performing assets is closely related to the internal control system, so it is urgent to seize the opportunity to establish sound internal control!

5. THE CURRENT SITUATION OF CITY MERCHANT BANKS: NON-PERFORMING LOANS RATE INCREASED

According to the statistical data of WIEGO, as Fig 1 shown in the five-year period from 2017 to 2021, the overall NPL ratio of urban commercial banks is on an upward trend, while the overall trend of NPL ratio of large commercial banks and joint-stock commercial banks is diametrically opposite. Looking at the year after the epidemic subsides from 2020 to 2021 alone, the NPL ratio of urban commercial banks rose by 9%, while year-over-year, the other two types of commercial banks fell by 1% and 27%, respectively. At the same time, it is easy to see that the NPL ratio of urban commercial banks is even much higher than that of large commercial banks and joint-stock commercial banks, which is extremely unfavorable in terms of the current state of small size and low business volume of urban commercial banks.

According to Table 3, the company's monetary funds increased by 2.63% YoY, accounting for 14.58% of the total assets. As the hotel industry is a service-oriented industry, the company has significant investments in its upstream operations, but its cash turnover is relatively fast due to its downstream operations. The company had a gross profit margin of over 80% before the pandemic, indicating a quick turnover. Looking at the composition of monetary funds, there is a relatively small amount of restricted funds at the end of the period, mainly due to security deposits, which account for a small proportion. Receivables and accounts receivables have grown rapidly by 22.94%, accounting for 3.91%. However, after the pandemic, there was a rapid decline in average hotel customers, leading to adjustments in sales strategies and targeting the government market, such as transforming from individual and group bookings to isolation hotels. The non-current assets due within one year increased by 63.94% from 33.53 million at the beginning of the period to 54.97 million yuan at the end of the period, but it accounts for a minimal proportion, almost negligible. This increase is mainly due to the three-year entrusted loans provided to affiliated enterprises, which will mature within one year. The balance of other non-current financial assets at the end of the period was approximately 698 million yuan, a YoY increase of 54.32%. In addition to hotels, the company also has
a portion of catering business, and it is also a shareholder of KFC China. Hence, during this period, KFC China extended the franchise rights, resulting in an increase in the fair value at the end of the period.

![Figure 1: Non-performing loan ratios of three types of commercial banks](image)

6. REASONS FOR THE INCREASE IN NPL RATIO

Based on the research findings, the following recommendations are provided for Jinjiang Hotel as it moves forward after the pandemic: (1) The company's overall fundamentals are good, and it is expected to recover with the advantage of its background. However, the current asset-liability ratio is approaching 70%, which is heavy for the service industry. Therefore, it is recommended that the management prioritize reducing leverage and mitigating risks after returning to normal operations. (2) The company has expanded overseas, mainly through acquiring equity stakes in businesses like KFC. From a pre-pandemic perspective, this approach has been relatively successful. However, the current situation in foreign markets is uncertain. Although the company has benefited from the appreciation of the US dollar, part of the asset growth is merely accounting treatment and needs to be recognized by management. It is advisable to intensify market development efforts while also implementing appropriate hedging measures. (3) The hotel industry experiences alternating periods of prosperity and decline. Currently, the industry is experiencing a phase of prosperity[7]. Leading hotel groups are expanding, driving an increase in market share. Jinjiang Hotel, with a focus on limited-service hotels, is actively promoting business expansion and brand chains. It is gradually shifting its business to mid-to-high-end brands, as exemplified by the Vienna brand, to improve its market share despite the impact of consumption upgrades and disruptions caused by the pandemic. Risks to be mindful of include slower-than-expected demand recovery, intensified industry competition, and slower-than-expected store growth. While continuing to expand, caution should be exercised to avoid potential risks. Additionally, risk control management should be enhanced throughout the entire management process.

6.1 Fragmented Shareholding Structure

From the data published by Oriental Fortune, as Table 3, It can be seen that Bank of Nanjing is held by foreign investors with 14.87% shareholding, the top five shareholders are Chinese state-owned with 17.07% and non-state-owned with 16.61%, with concentrated equity; while Jiujian state-owned with 32.07% and non-state-owned with 23.69%, with dispersed equity and equity controlled by the local government. Meanwhile, in 2021, the NPL ratio of Bank of Nanjing is 0.91%, while that of Jiujian Bank is 1.46%. This shows that the fragmentation of equity has an impact on the level of NPL ratio. Based on the analysis above, it is concerning that Jinjiang Company's financial indicators, particularly its profitability, have been affected in the past three years due to the direct impact of the pandemic. Despite the significant decline in various aspects of Jinjiang Hotel's financial performance in 2020, primarily driven by macroeconomic factors, the company has been able to survive with the assistance of government policies. A comparison with other companies in the industry in 2021 indicates that
Jinjiang Hotel has performed relatively well. The policy relaxation and tourism recovery in 2023 have provided a boost to the company's performance. However, considering the current low consumer confidence and slower-than-expected recovery expectations, it is necessary to wait for the quarterly and semi-annual reports for further verification.

<p>| Table 3: Comparison of the shareholding structure of Bank of Nanjing and Jiujiang Bank |
|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|</p>
<table>
<thead>
<tr>
<th>Shareholder Name</th>
<th>Percentage of outstanding shares</th>
<th>Shareholder Name</th>
<th>Percentage of outstanding shares</th>
<th>Shareholder Name</th>
<th>Percentage of outstanding shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNP Paribas (offshore legal entity)</td>
<td>14.87%</td>
<td>Jiujiang Municipal Finance Bureau (state-owned legal person)</td>
<td>16.87%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nanjing Capital Group (state-owned corporation)</td>
<td>14.07%</td>
<td>Beijing Automotive Group (state-owned corporation)</td>
<td>15.20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nanjing Hi-Tech (non-state corporation)</td>
<td>11.81%</td>
<td>Societe Generale (domestic corporation)</td>
<td>12.23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Happiness Life Insurance Company (domestic legal person shares)</td>
<td>4.80%</td>
<td>Fangda Carbon New Materials (Domestic legal entity)</td>
<td>7.11%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China Securities Finance (State-owned legal person)</td>
<td>3.00%</td>
<td>Qianhai Life (domestic corporation)</td>
<td>4.35%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

According to the principal-agent theory, the separation of ownership and management will lead to information asymmetry, which will result in adverse selection risk and moral hazard. JCB's shareholding is more fragmented than that of Nanjing Bank, and the interests of its shareholders are also fragmented. The ability and willingness of a single shareholder to supervise the management is very limited, and the decision is easily in the hands of the management, showing a situation of "strong operator and weak owner". [7] On the other hand, fraudulent behavior of bank executives is difficult to be detected. In this case, it is easy to take advantage of the loopholes in internal control for personal gain and thus generate non-performing loans; at the same time, Jiujiang Bank is controlled by the local government, which makes it easier to generate insider control problems, and even due to the government's control, social supervision will be appropriately relaxed, which facilitates insider control. To sum up, the deeper reason why equity fragmentation affects the NPL rate is the weakens of internal control.

6.2 Risks in Granting Credit

This risk is commonly found in grassroots urban commercial banks. On the one hand, grassroots city merchant banks do not pay attention to the professional quality training of credit business staff, which leads to a shallow awareness of legal compliance among relevant personnel, thus deliberately or wrongly relaxing lending standards, resulting in certain bad debt losses; on the other hand, grassroots city merchant banks directly recruit college graduates and make them engage in credit business. [8] Since graduates do not have working experience, they cannot correctly grasp the business cycle of enterprises and judge the creditworthiness of enterprises in all aspects, which leads to higher credit limits than actual, resulting in bad debt losses. This shows that credit risk is reflected in weak internal control.

6.3 Late Timing of Post-Event Monitoring

The ex-post supervision of urban commercial banks is mainly reflected in accounting. At present, some urban commercial banks are mainly supervised by traditional accounting ex-post, which cannot use certain evaluation indicators to measure the correctness, legality and compliance of accounting, which provides a convenient opportunity for financial fraud, such as fictitious non-performing loans. [9]

6.4 Difficult Role of Internal Audit

At present, the grassroots banks of urban commercial banks adopt the responsibility system of the president under the first-level legal person, and the internal audit department serves the president, and the exercise of its power is restricted by the president's power, which makes the internal audit department lose its independence. [10] When a fraudulent act occurs in the bank president, it cannot play a supervisory role and can only obey the president's arrangement. In addition, the internal auditors do not analyze the assets to a sufficient extent during the exit audit of the bank, and often ignore the substance of the assets when auditing the loans issued based only on the form of
the assets, and it is likely that the form of the assets is not abnormal, but the substance has become non-performing loans.

In summary, the level of non-performing loans is inextricably linked to the establishment of a sound internal control system.

7. RECOMMENDATION

7.1 Reduce the Proportion of State-owned Shares and Appropriately Concentrate Equity

There is a significant positive correlation between the proportion of state-owned shares and the non-performing loan ratio of listed commercial banks, while an increase in the proportion of state-owned shares also leads to a further increase in the risk borne by commercial banks. (Cao Yanhua (2011)) [11]; a relatively concentrated and balanced shareholding structure helps to improve the bank's business performance; too high a proportion of state-owned shares and one share is not conducive to the development of the bank, while the investment of the public will, to a certain extent, contribute to the promotion of bank performance. (Shengyao Lin et al. (2019))[12]

The fragmentation of shareholding can lead to the loss of decision making power of a single shareholder, so it is recommended that City Bank further optimize its shareholding structure. There are two specific methods: First, negotiate with some minority shareholders to buy back their shares and increase the shareholding ratio of a single shareholder as a way to increase the concentration of shareholding. Second, conduct equity transfer to increase the equity of shareholders and increase the percentage of shareholding of individual shareholders. [13]

At present, the government's excessive shareholding has produced undesirable benefits for the development of urban commercial banks, so it needs to reduce or dilute certain shares, and this process is quite long. On the one hand, the government can be separated from the city commercial banks to avoid government intervention in the operation and decision making of the city commercial banks, but at the same time allow the government to supervise the city commercial banks. On the other hand, foreign capital or private capital can be introduced to dilute or reduce the government's shareholding, so as to improve the internal governance structure and achieve the purpose of reducing non-performing assets.

7.2 Construct Accountability Mechanism to Restrain Credit Granting Behavior

City commercial banks should conduct regular training for their employees to strengthen their awareness of the operational standards and legal compliance of credit business, so that they can examine all aspects of the enterprise's creditworthiness, use of funds, ability to repay debts and existing assets in the process of lending. At the same time, we arrange for employees who are not involved in lending to monitor the flow of loans and keep an eye on the dynamics of enterprises to reduce bad debt losses and financial risks. In addition, a serious accountability mechanism should be built so that employees cannot and dare not violate the rules.

7.3 Recruiting Highly Qualified Risk Identification Management Personnel

The internal control system of grassroots city commercial banks is weak, and the awareness of internal control of their directors is also weak. The fresh graduates and other social workers recruited by them are mostly used to engage in basic counter operations, and they fail to find suitable talents for internal control and risk management of city commercial banks, resulting in a weak internal control system. Therefore, urban commercial banks should introduce excellent risk management talents through school recruitment or open recruitment, and set up risk management departments dedicated to risk early warning, internal supervision and checks and balances, and risk assessment and response, so as to establish a sound and solid internal control system and promote the reform and development of urban commercial banks.

7.4 Establishing a Sound Mechanism for Pre-Event and Post-Event Supervision

The internal oversight of the City Bank is prone to imbalance, and when the risk is transformed into loss carrying to make up for it will miss the best time to recover the loss. Therefore, it is suggested that city banks can request for public opinion supervision to detect risks through the feedback of social citizens' supervision, so that they can take timely measures to reduce or avoid losses.
7.5 Optimize and Improve Internal Auditing Procedures

Optimizing and improving internal auditing would require changing the system of the president's responsibility so that the internal audit department serves the superiors of the grassroots city business bank and ensures its independence from the president's power. In addition, it is possible to strengthen the internal audit team; improve the degree, methods and means of internal audit to improve audit efficiency and effectiveness; focus on risk analysis of assets, implement a rotation system in important positions as well as establish an effective integrity reporting mechanism. [14]

REFERENCES