UNIVERSITY OF RWANDA- COLLEGE OF BUSINESS AND ECONOMICS

THE ROLE OF INTERNAL CONTROL SYSTEM IN THE RISK MANAGEMENT OF A FINANCIAL INSTITUTION:

Case study BPR Kimironko Branch, 2012-2016

A Thesis (Final) submitted

In Partial Fulfillment of the Requirements for

Master's Degree of Accounting

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DECLARATION

"This thesis is my original work and has not been presented or submitted for a degree or any other academic award in any university or institution of learning".

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APPROVAL SHEET

This thesis entitled "The role of Internal Control System in the risk management of a Financial Institution. A case study of Banque Populaire du Rwanda Kimironko branch" prepared and submitted by Vincent NDACYAYISENGA in partial fulfillment of the requirements for the degree of Masters of accounting has been examined and approved by the panel on oral examination with a grade of ……….

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Date of Comprehensive Examination: ________________

Grade: ________________

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Name and Signature of Master's Program Coordinator at UR

DEDICATION

To almighty God, Wife and my child, my relatives, colleagues and friends, I dedicate.

ACKNOWLEDGEMENT

The success of this difficult and solid mission was feasible due to the blend of vast and diligent efforts and tips from different people. It is for this reason that I appreciate earnestly all the support provided to me during my academic endeavor and as such many people deserve my sincere gratitude, but only possible to mention the few;

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May good lord bless you all in your endeavours!

ABSTRACT

The study subject is the role of internal control system in the risk management of a Financial Institution. The case study was the Banque Populaire du Rwanda (BPR). The objective of research were to find out the causes of inadequate financial performance in BPR in year 2012-2016, the second was to examine the gaps of the internal control system established by BPR Management in order to improve its financial performance, the third was to assess the kind of frequent risks and the affected divisions, the forth was to assess the adopted risks management strategies to prevent and detect fraud and money laundering, the fifth was to examine the relationship between internal control and risk Management in BPR performance, the last was to recommend BPR; to operate practicable safeguard assets, to prevent and detect fraud and error to ensure accuracy and completeness of accounting records and the timely preparation of reliable financial information. The purposive sampling was used to select the BPR division to be visited and selected key informants within division. The research tools were developed the open-ended questionnaire and interview guide. Data collection was organized. The questions were constructed basing study objectives. The interview was conducted to the board committee that composed by the Board Risk, Audit and Compliance Committee and executive committee and the open-ended questions were asked to the 35 selected technicians. The data from guide interview were reported in specific format and data collected with open ended questions were entered and analyzed using SPSS.

The summary results showed that BPR have inadequate financial performance due to the weakness of internal control system. The weakness of board committee (Auditors and Executive), failure linked to entire management of the bank and Embezzlement and money laundering risks were rated at above 80%. The risks of Failure of granting loan to the customers and Acceptance of related collateral forgery documents were above 70%. The risks of Weakness of staff management and setting salary of top leaders, Fraudulent linked to dishonest staff, Failure of Loan recovery were rated at 48.6% to 60%. These resulted to inadequate financial performance in BPR. The results in the table above 4.5 revealed that is a significance relationship and significance effects between identified risks and financial performance. All probability values are less than significance value of 5%. These results are supporting the research hypothesis that there is a significance relationship and significance effects between internal control systems toward risk management and financial management of BPR. The research finding proved that the internal control system in BPR failed to control and to avoid the reported risks in table 4.3. The most risks are Fraudulent linked to dishonest staff with (r = 0.92; sign 0.000) followed by Weakness of staff management and setting salary of top leaders with (r = 0.707, sign 0.000), the failure of Loan recovery with (r = 0.63, sign 0.000) and Failure of granting loan to the customers with (r= 0.55 sign 0.000).

KEY WORDS OF THE STUDY

- Banque Populaire du Rwanda;
- Internal control system and Risk Management function in Banks;
- Financial Performance in Banking Sector.

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LIST OF ABBREVIATIONS

- ACCA: Associate of the Charted Association of Certified Accountant
- BAFIA: Banking and Financial Institution Act
- CIPFA: Chartered Institute of Public Finance and Accountancy
- COSO: Committee of Sponsoring Organization
- EFQM: European Foundation for Quality Management
- ERM: Enterprise Risk Management
- ISA: International Standard of Auditing
- IIA: Institute of Internal Auditors
- NBAA: National Board of Accountancy and Auditors
- SPSS: Statistical Package for Social Science
- BPR: Banque Populaire du Rwanda
- VaR: Value at Risk
- RAROC: Risk Adjusted Rate of Return on Capital
- RSAs: Rate sensitive assets
- RSLs: Rate sensitive liabilities
- DGAP: Interest sensitive gap
- DGAP: Duration gap
- DA: is the average duration of the assets
- DL: is the average duration of liabilities
- RAROC: Risk Adjusted Rate of Return on Capital
- NLTA: Net Loans to total asset ratio
- LDR: Loans to deposit Ratio
- ROA: Return on Assets
- ROE: Return on Equity
- C/I: Cost to Income Ratio
- PCAOB: Puplic Company Accounting Oversight Boards

CHAPTER ONE: GENERAL INTRODUCTION

1.1 BACKGROUND OF THE PROBLEM

Due to recent financial scandals and economic crisis, banking sector all across the globe has become vulnerable to the fraudulent actions. Rising uncertainties and development of more instruments have pressurized the banking organizations to look for the appropriate internal measures to transform their business organization as risk and uncertainty proof. Internal control and risk management are identified as two crucial aspects for better financial performance. In contemporary globalized market, banking management is required to have working knowledge of the risk management instruments such as risk monitoring; management of information systems, placement of appropriate internal controls, risk profiling, identifying and measuring specific risk and development of policies for the mitigation of the risk in order to mitigate the level of risk ("Van Greuning, Hennie; Brajovic Bratanovic, Sonja. 2009).

Additionally, the rapid advances in information and communications technology, and steady modernization in financial technology are also challenging issues that are pressurizing the need of internal control and risk management generally in banking sector of Rwanda and particularly in Bank Populaire du Rwanda.

Internal controls such as Risk recognition and assessment, Control activities and segregation of duties, Information and communications, Monitoring activities and correcting deficiencies, and evaluation of internal control systems by supervising authorities are put in place to keep BPR on course towards profitability goals and achievement of its mission and to minimize surprise along the way. They enable management to deal with rapidly changing economic and competitive environment, shifting customer demands and priorities and restructuring for future growth. Internal controls promote efficiency, reduce risks of asset loss and help to ensure the reliability of financial statements and compliance with laws and regulations Organization. (COSO, 2011).

Even through some different tools used for managing risk in the banks such as risk monitoring and management of information systems, placement of appropriate internal controls, risk profiling, identifying and measuring specific risk, and development of policies for the mitigation of the risk (Greuning and Bratanovic) are put in place in BPR, the fraudulent actions are still a serious challenge in the said financial institution. Moreover, a system of strong internal control can help to ensure that the goals and objectives of a banking organization will be met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation (Whittington, & Pany, 2001).

The existing literatures revealed that financial performance is one area that is given a lot of prominence all over the world, it has been widely researched. A lot of literature has been written on financial performance, and external auditors normally place an emphasis on internal controls as a measured to ensure sustainable and improve financial performance, however, it is the perception of the researcher that there are still gaps in the research so far done (Doyle et al., 2007a)

Therefore, this study establishes the role of internal control system in the financial performance of the bank using its part of risk management functions in measuring, the role of risk management team in solving the financial problems and in detecting money laundering and fraudulent in Bank. The financial performance is measured by looking profitability ratios such as credit ratio, return on assets ratio, Return on equity ratio. In additional this study consults the financial statements of the bank (2012-2016) and other source of secondary data. These aimed to recommend BPR to ensuring as far as practicable the orderly and efficient conduct of its business so as to safeguard assets, to prevent and detect fraud and error to ensure accuracy and completeness of accounting records and the timely preparation of reliable financial information.

1.2 PROBLEM STATEMENT

Internal control at the firm- level refer to assessing the corporate financial reporting reliability and the process of evaluating achievement of company's strategic and operational goals, and assessing also the ability to act according to law and regulation. As PCAOB (2004) define internal control weakness is a material deficiency, or combination of material deficiencies that result in more than remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The perception of risk management is fundamentally changing within today's institutions. It is no longer purely used as a control mechanism but it helps the bank to grow while keeping an eye on the potential consequences if something goes wrong. The weakness of the institutional management should lead the inefficiency of financial performance and fraudulency. Risk management functions have been put in place in Banque Popularize du Rwanda (BPR) to ensure safe custody of all bank assets; to avoid misuse or misappropriation of BPR assets and to detect and safeguard against fraudulent actions. In the year 2012 to 2016, there is an evolution in financial performance in terms of loans that PBR offered to its potential customers and in terms of total assets (BPR financial report 2012-2016).

Even though, there is an improved performance in terms of loans granted to the clients and assets of BPR, especially for 2016 and supervision activities of National bank of Rwanda(BNR) to the banking sector through the risk based supervision framework, there are also the continuous fraudulent actions which includes money stolen, fictitious deposit transactions, unrecorded deposit, embezzlement, withdrawals on client's account, mobile banking, an unauthorized withdraws as indicated by BPR audit report of fraud cases reported to BPR management by July 2012 and December 2015. In additional to that, there is a poor performance of BPR in terms of profitability within 5 years from 2012-2016. However, continuous fraudulent actions and poor performance is a serious problem in BPR branches as indicated by BPR's financial statement that characterized by the losses. Therefore, this study attempt to analyze the role of risk management functions within BPR in order to assess its effectiveness for better BPR financial Performance.

1.3. PURPOSE OF THE STUDY

The purpose of this study is to assess the role of Risk Management functions as a part of internal control system in assuring the adequate financial performance of BPR.

1.4. RESEARCH OBJECTIVES

This study was geared towards achieving the following objectives:

- To find out the causes of inadequate financial performance in BPR in year 2012-2016,
- To examine the gaps of risk management functions as a part the internal control system in BPR.
- To assess the type of financial risks and affected department in BPR,
- To assess the taken strategies by risk management team to prevent and detect fraud and money laundering in BPR

- To examine the significance and causal effects between risk management and financial performance in BPR
- To recommend BPR to operate practicable safeguard assets, to prevent and detect fraud and error to ensure accuracy and completeness of accounting records and the timely preparation of reliable financial information.

1.5. RESEARCH QUESTIONS

- What are the main causes of inadequate financial performance in BPR during period of 2012 to 2016?
- What are the gaps/Weakness of risk management functions in BPR?
- What are the sort of financial risks and affected department in BPR?
- What are the taken strategies by risk management team to prevent and detect fraud and money laundering in BPR?
- What is the level significance effect between risks Management functions BPR performance?
- What are the recommendations to BPR; to operate practicable safeguard assets, to prevent and detect fraud and error to ensure accuracy and completeness of accounting records and the timely preparation of reliable financial information?

1.6. RESEARCH HYPOTHESIS

Research hypothesis are the following:

H0: The weaknesses of risk management team in Banque Populaire du Rwanda affect the adequacy of financial performance

1.7 SCOPE OF THE STUDY

The content of this research should not be seen as being totally exhaustive of all possibly situations available in the Rwandan banking sector on the theme of this study. This is due to the vast size of the banking sector and the boundless nature of the study under review. Therefore, the scope of this research is limited to the study carried out on the "Bank Populaire du Rwanda (BPR)'' Kimironko.

1.7.1 THE SUBJECT SCOPE

The study focuses on the role of internal control system through risk management functions towards the performance of banks in Rwanda. This topic is very crucial to the researcher who deals with a day-to-day financial matter and it will provide more knowledge to the strategies of putting internal controls in place for ensuring corporate financial performance.

1.7.2 THE GEOGRAPHICAL SCOPE

This study was carried out in BPR Kimironko Branch because all branches of BPR created One Union that is coordinated by its main Branch (Head office) and all branches at districts level have supposed to submit their daily financial report at Head office. It is understandable that, some information is collected to head Office.

1.7.3 TIME SCOPE OF THE STUDY

Basing the nature of needed information; the study emphasizes the information of five years as referenced period in order to ensure its accuracy and consistency of collected information.

1.8 SIGNIFICANCE OF THE STUDY

The findings of the study would help:

- **Risk management team of BPR:** Findings of the study will help to know the affected area and to take relevant strategies in reducing financial risks and to unsure the improvement of financial performance of BPR.
- **Student:** This report of this study will help the student/Researcher to acquire the academic awards of Master's Degree.
- **Other Researchers:** The Study will be a reference documents to their further studies.

1.9 ORGANIZATION OF THE STUDY

This study is concerned about the role of internal control system in the risk management towards the performance of banks in Rwanda and is organized in the following five chapters:

- Chapter 1 tackles the introductory part showing the background of the study, the statement of the problem, the objectives of the study, the hypotheses of the study, the methodology, and the scope of the study, the significance of the study and organization of the study.
- Chapter 2 deals with the literature review in showing the operational concepts, theoretical review and empirical review basing research subject that has been

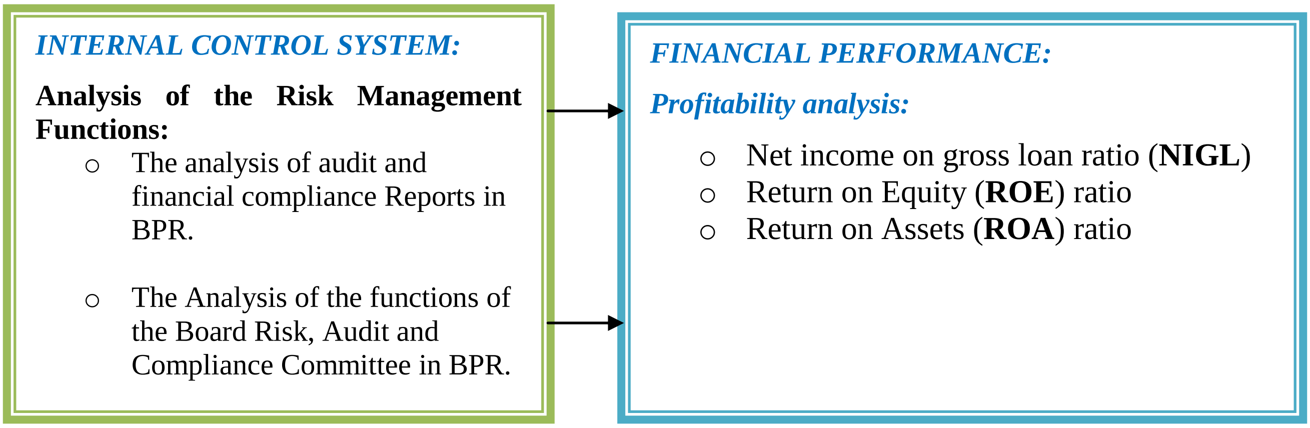
extracted from various texts, publications, journals, electronic resources, reports, authorities' interviews.

- Chapter 3 undertakes methodology; it provides methods and techniques used in data collection and data analysis.
- Chapter 4 presents data analysis with the focus on the presentation and interpretation of the results of research.
- Chapter 5 is concerned with the summary of the study, conclusions, recommendations and further areas of research.

1.10 CONCEPTUALIZATION OF THE STUDY

A usual proverb says prevention is better than cure; so also, people say that one should look before one leaps. These statements are more or less the equivalents of an internal control system through risk management team. It is very important to state that the success of the operations of banks world-wide is strictly guided and dependent among other things, on the existing quality of their internal control system (SIDDIQUI AND PODDER, 2002). PALFI AND MURESAN (2009) in their study, on the "weaknesses of banks internal control systems" posit that internal control system act as a catalyst of quality audit work. Base on this study, they agree with the objectives of internal control system given by ADENIJI (2004) as to prevent and detect errors and fraud. However, ABU-MUSA (2010) describes Fraud as a predetermined and well planned tricky process or device usually undertaken by a person or group of persons, with the sole aim of checking another person or organization, to gain ill-gotten advantages, be it monetary or otherwise, which would not have accrued in the absence of such deceitful procedure. In the same vein, SAVCUK (2007) opined that management fraud is a deliberate fraud, committed by management that injures investors and creditors, through materially misleading financial statements. Management fraud is sometimes called fraudulent financial reporting. Management fraud is usually perpetrated by the management staff of an organization, which includes directors, managers, audit staff, and others. A recall of the objectives of this study is to investigate, what causes of fraud and money laundering, and how these frauds can be prevented by using risk management strategies in achieving adequate financial performance. In this regard, research into similar studies reveals that internal control system has a great influence on fraud and financial performance of the bank. On the other hands, "Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that bank business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns” (Amudo, 2008). In reference with most review the researcher develops conceptual framework which states a clear that internal controls as an independent variable is measured by internal audit and risk management and the financial performance as dependent variable is also measured by financial reporting through balance sheet, income statement and cash follow statement. The figure below indicates how the variables interact between them.

Figure 2.1 Conceptual framework



Source: Secondary data, 2017

CHAPTER TWO: LITERATURE REVIEW

2.0 INTRODUCTION

The chapter of literature provides the basis on which we justify our research question and build our research design. This chapter summaries relevant documentation and theories on which this study is built on. The researcher defines key concepts, theoretical review and empirical review.

2.1 THE KEY CONCEPTS

2.1.1 Bank Populaire du Rwanda

Banque Populaire du Rwanda Ltd (BPR) is a commercial bank in Rwanda and licensed by the National Bank of Rwanda, the national banking regulator. The origins of the bank can be traced back to 1975, when the first Banque Populaire du Rwanda was formed in the settlement of Nkamba, in the city of Kibungo, Eastern Province. Over the next ten years many other similar banks were founded around the country. In 1986, the various autonomous Banques Populaires formed an umbrella called the Union des Banques Populaires du Rwanda (UBPR). UBPR was operated as a cooperative bank.

In January 2008, following 33 years of experience in the Rwandan financial sector, UBPR was transformed from a cooperative bank into a commercial bank: Banque Populaire du Rwanda S.A. In June 2008, Rabobank, the Dutch cooperative banking conglomerate, acquired 35 percent of the shares in BPR. In July 2012, Visa Inc. certified the bank to issue visa-branded debit and credit cards. As of October 2015, BPR was a medium-sized financial services provider in Rwanda. Its total asset valuation was approximately US$325 million. At that time, shareholding in the bank was valued at about US$50 million. The bank focused its lending to businesses in the agricultural sector. It employed 1,477 staff at that time. In January 2016, Atlas Mara completed its acquisition of a controlling stake of BPR after acquiring shares from existing shareholders and merging the bank with the commercial banking business that was spun off BRD

As of August 2009, Bank Populaire du Rwanda maintained a network of 25 full-service branches, including at 19 locations in a whole country. Regarding governance, the activities of Banque Populaire du Rwanda are supervised by a nine-member board of directors.

The current chairman of the board is John Vitalo. The day-to-day affairs of the bank are managed by a six-member executive management team, led by Sanjeev Anand, the Managing Director.

2.1.2 Internal control system and risk management functions in Bank

- ***The Internal control system***

The internal control system is a wide range of the processes for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization's resources, both physical and intangible. At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations (Rezaee, Zabihollah; *Financial Statement Fraud: Prevention and Detection.* New York: Wiley; 2002). As mentioned at the beginning paragraph that the internal control system is a wide range of processes, the study is limited to its part of risk management functions to the financial performance.

- ***The Risk management and control functions***

In banking sector, the risk management team has ultimate responsibility for handling and braking risks in the organization for ensuring satisfactory internal control and having the adequate financial performance.

Risk assessment underlies the entire audit process described by the set of standards, including the determination of significant accounts and disclosures and relevant assertions, the selection of controls to test, and the determination of the evidence necessary for a given control. A direct relationship exists between the degree of risk that a material weakness could exist in a particular area of the company's internal control over financial reporting and the amount of audit attention that should be devoted to that area. Sometime the risk that a company's internal control over financial reporting will fail to prevent or detect misstatement caused by fraud usually is higher than the risk of failure to prevent or detect error (John J. Morris (2011)

- ***The responsible team of control risks in Bank***

In each financial institution there are different group of risk control, the main of them are group credits, group compliance and group internal audit; their functions are described below:

Group Credits

Group Credits is responsible for managing the credit approval process, for certain individual credit decisions and for monitoring compliance with policies set by the bank. Its activities are regulated by the Group's Credit Instruction, adopted by the Board (M. Pandey (2010)

Group Compliance

The Group Compliance function is independent from the business activities while serving as a business support function. The Compliance function shall act proactively to assure the quality of compliance in the Group through information, advice, control and follow-up within the compliance areas, thereby supporting the business activities and management. The special areas of responsibility include customer protection, market conduct, prevention of money laundering and financing of terrorism, regulatory compliance and control (M. Pandey (2010).

Group Internal Audit

Group Internal Audit is an independent Group-wide function that is directly reporting to the Board. The main responsibility of Internal Audit is to provide reliable and objective assurance to the Board and the President regarding the effectiveness of controls, risk management and governance processes, with the aim of mitigating current and evolving high risks and in so doing improve the control culture within the Group (M. Pandey (2010).

2.1.3 Financial performance in banking sector

Financial performance is a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. The financial performance in banking sector is measured by different aspects but this study is limited to profitability concept and its ratios.

- ***Profitability***

Profitability is ability of a company to use its resources to generate revenues in excess of its expenses. Profitability is one of four building blocks for analyzing financial statements and company performance as a whole. The profitability is measured by the key important ratios such as Net Loans to total asset ratio, Return on Equity (**ROE**) ratio, and Return on Assets (**ROA**) ratio (John J. Morris (2011).

2.2 THEORETHICAL REVIEW

2.2.1 The Risks in banking sector

Risk is defined as anything that can create hindrances in the way of achievement of certain objectives. It can be because of either internal factors or external factors, depending upon the type of risk that exists within a particular situation. Exposure to that risk can make a situation more critical. In view of growing complexity of banks,, business and the dynamic operating environment, risk management has become very significant, especially in the financial sector. Risk at the apex level may be visualized as the probability of a banks,, financial health being impaired due to one or more contingent factors. While the parameters indicating the banks,, health may vary from net interest margin to market value of equity, the factor which can cause the important are also numerous. For instance, these could be default in repayment of loans by borrowers, change in value of assets or disruption of operation due to reason like technological failure. While the first two factors may be classified as credit risk and market risk, generally banks have all risks excluding the credit risk and market risk as operational risk (John J. Morris (2011).

- ***Credit Risk***

Credit Risk is the potential that a bank borrower/counter party fails to meet the obligations on agreed terms. There is always scope for the borrower to default from his commitments for one or the other reason resulting in crystallization of credit risk to the bank. These losses could take the form outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default. Credit risk is inherent to the business of lending funds to the operations linked closely to market risk variables. The objective of credit risk management is to minimize the risk and maximize bank’s risk adjusted rate of return by assuming and maintaining credit exposure within the acceptable parameters.

- **Operational risk**

Always banks live with the risks arising out of human error, financial fraud and natural disasters. The recent happenings such as WTC tragedy, Barings debacle etc. has highlighted the potential losses on account of operational risk. Operational risk events are associated with weak links in internal control procedures. Operational risk involves breakdown in internal controls and corporate governance leading to error, fraud, performance failure, compromise on the interest of the bank resulting in financial loss (M. Pandey (2010)

2.2.1.1 Risk Assessment and management in the Bank

A better way to deal with the situation of banking risk; is to take certain proactive measures to identify any kind of risk that can result in undesirable outcomes. In simple terms, it can be said that managing a risk in advance is far better than waiting for its occurrence. Risk Management is a measure that is used for identifying, analyzing and then responding to a particular risk. It is a process that is continuous in nature and a helpful tool in decision making process. According to the Higher Education Funding Council for England (HEFCE), Risk Management is not just used for ensuring the reduction of the probability of bad happenings but it also covers the increase in likeliness of occurring good things. A model called “Prospect Theory” states that a person is more likely to take on the risk than to suffer a sure loss (M. Pandey (2010).

- ***Prospect Theory***

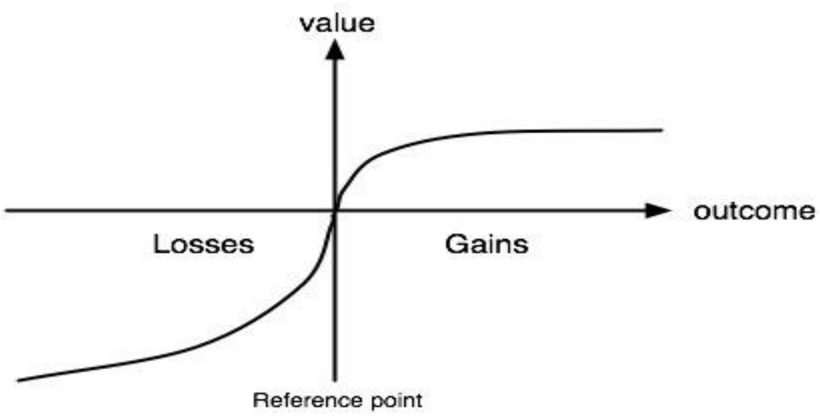
Prospect theory is a behavioral economic theory that describes the way people choose between probabilistic alternatives that involve risk, where the probabilities of outcomes are known. The theory states that people make decisions based on the potential value of losses and gains rather than the final outcome, and that people evaluate these losses and gains using certain heuristics. The model is descriptive: it tries to model real-life choices, rather than optimal decisions, as normative models do. The theory was created in 1979 and developed in 1992 by Daniel Kahneman and Amos Tversky as a psychologically more accurate description of decision making, compared to the expected utility theory. In the original formulation, the term *prospect* referred to a lottery. The paper "Prospect Theory: An Analysis of Decision under Risk" (1979) has been called a "seminal paper in behavioral economics".

The formula that Kahneman and Tversky assume for the evaluation phase is (in its simplest form) given by:

$$V = \sum_{i=1}^{n} \pi(p_i)v(x_i)$$

Where "V" is the overall or expected utility of the outcomes to the individual making the decision, x_1, x_2…xn are the potential outcomes and p_1, p_2, p_3,….p_n their respective probabilities and " v" is a function that assigns a value to an outcome. The value function that passes through the reference point is s-shaped and asymmetrical. Losses hurt more than gains feel good (loss aversion). This differs from expected utility theory, in which a rational agent is indifferent to the reference point. In expected utility theory, the individual does not care how the outcome of losses and gains are framed. The function π is a probability weighting function and captures the idea that people tend to overreact to small probability events, but under react to large probabilities (Daniel Kahneman (1992)

- **The Graph of Model Prospect Theory**



- **The theory of managing risk in Bank**

Risk Identification: Identify Risks, Understand and Analyze Risks.
Risk Assessment and Measurement: Assess the Risk Impact, Measure the Risk Impact.
Risk Control: Recommendations for Risk Control; Risk Mitigation through Control Techniques, Deputation of Competent Officers to Deal with the Risks.

Risk Monitoring: Supervise the Risks, Reporting on Progress, Compliance with Regulations Follow-up.

Risk-Return Trade-Off: Balancing of Risk against Return. These processes are accompanied with the techniques such as:

Duration-GAP Analysis: Duration gap (DGAP) reflects the differences in the timing of asset and liability cash flows and given by, DGAP = DA - u DL. Where DA is the average duration of the assets, DL is the average duration of liabilities, and u is the liabilities/assets ratio (Cumming and Beverly, 2001).

Value at Risk (VaR) It is one of the newer risk management tools. The Value at Risk (VaR) indicates how much a firm can lose or make with a certain probability in a given time horizon. VaR summarizes financial risk inherent in portfolios into a simple number. Though VaR is used to measure market risk in general, it incorporates many other risks like foreign currency, commodities, and equities (Jorion, 2001).

Risk Adjusted Rate of Return on Capital (RAROC)It gives an economic basis to measure all the relevant risks consistently and gives managers tools to make the efficient decisions regarding risk/return tradeoff in different assets. As economic capital protects financial institutions against unexpected losses, it is vital to allocate capital for various risks that these institutions face. Risk Adjusted Rate of Return on Capital (RAROC) analysis shows how much economic capital different products and businesses need and determines the total return on capital of a firm. Though Risk Adjusted Rate of Return can be used to estimate the capital requirements for market, credit and operational risks, it is used as an integrated risk management tool (Crouhy and Robert, 2001).

Securitization It is a procedure studied under the systems of structured finance or credit linked notes. Securitization of a bank's assets and loans is a device for raising new funds and reducing bank's risk exposures. The bank pools a group of income-earning assets (like mortgages) and sells securities against these in the open market, thereby transforming illiquid assets into tradable asset backed securities. As the returns from these securities depend on the cash flows of the underlying assets, the burden of repayment is transferred from the originator to these pooled assets.

Internal Rating System: An internal rating system helps financial institutions manage and control credit risks they face through lending and other operations by grouping and managing the credit-worthiness of borrowers and the quality of credit transactions.

2.2.2 The theory of financial performance

In general, internal determinants of financial performance are the factors that are mainly influenced by a bank's management decisions and policy objectives. Such as the level of liquidity, variation in loans loss provisions, capital adequacy, expense management, change in capital and asset risk, operational efficiency. Internal determinants include financial statement variables and profit and loss account. The balance sheet management is directly related to asset and liabilities management. Furthermore, profit and loss statement management is directly related to income and expense management or returns and cost management. Our study is limited to internal determinants of profitability analysis by examining financial statements variables, profit and loss accounts through ratios, In additional of consulting financial reports/statements and loan theory. The following theories are considered in looking the status of financial performance in Bank (Spira. L.F & Page. M. (2003)

Net Loans to total asset ratio (NLTA) = Net loans/total assets NLTA measures the percentage of assets that is tied up in loans. Net loan to total assets ratio (NLTA) is also another important ratio that measures the liquidity condition of the bank. Whereas Loan to Deposits is a ratio in which liquidity of the bank is measured in terms of its deposits, NLTA measures liquidity of the bank in terms of its total assets. That is, it gauges the percentage of total assets the bank has invested in loans (or financings). The higher is the ratio the less the liquidity is of the bank. Similar to LDR, the bank with low NLTA is also considered to be more liquid as compared to the bank with higher NLTA. However, high NLTA is an indication of potentially higher profitability and hence more risk. The higher the ratio, the less liquid the bank is (Spira. L.F & Page. M. (2003)

Loans to deposit Ratio (LDR) = Loans/total deposits**:** Loan to deposit is the most important ratio to measure the liquidity condition of the bank. Here, loan means the *advances* for the conventional banks. Bank with Low LDR is considered to have excessive liquidity, potentially lower profits, and hence less risk as compared to the bank with high LDR. However, high LDR indicates that a bank has taken more financial stress by making excessive loans and shows risk that to meet depositors' claims bank may have to sell some loans at loss. A high figure denotes lower liquidity (Spira. L.F & Page. M. (2003)

According to Rwanda banking industry report (2014); The Rwandan banking industry (excluding microfinance banks, development banks and cooperatives) recorded total assets of Rwf1.51 trillion (or equivalent \$2.20 billion) as at 31 December 2013. The top five banks accounted for 58.9% of the Industry's assets. Liquidity position of the banking sector was considered unsatisfactory (Rwanda Banking Industry report (2014)

2.2.2.2 Profitability in bank

The most common measure of bank performance is profitability. Generally, accounting profits are the difference between revenues and costs. Profitability is considered to be the most difficult attributes of a firm to conceptualize and to measure (Ross, Westerfield, and Jaffe 2005). Profitability ratios are generally considered to be the basic bank financial ratio in order to evaluate how well bank is performing in terms of profit. For the most part, if a profitability ratio is relatively higher as compared to the competitor(s), industry averages, guidelines, or previous years' same ratios, then it is taken as indicator of better performance of the bank.

Return on Assets (ROA) = net profit/total assets show the ability of management to acquire deposits at a reasonable cost and invest them in profitable investments (Ahmed, 2009). This ratio indicates how much net income is generated. Return on assets indicates the profitability on the assets of the Bank after all expenses and taxes (Van Horne 2005). Generally, a higher ratio means better managerial performance and efficient utilization of the assets of the firm and lower ratio is the indicator of inefficient use of assets.

Return on Equity (ROE) = net profit/ total equity**:** ROE is the most important indicator of a bank's profitability and growth potential. It is the rate of return to shareholders or the percentage. It measures how much the firm is earning after tax. Higher ROE means better managerial performance; however, a higher return on equity may be due to debt (financial leverage) or higher return on assets. Financial leverage creates an important difference between ROA and ROE in that financial leverage always magnifies ROE.

Cost to Income Ratio (C/I) = total cost /total income measures the income generated. That is how expensive it is for the bank to produce a unit of output. In managerial aspects its show

how much a manager can efficiently operate the bank activity as much as lower cost against income generate from operation.

Reporting: Whittington and Pany (2001), emphasize on internal controls in addressing the achievement of objectives in the areas of financial reporting, operations and compliance with laws, and regulations. They further note that "Internal control also includes the program for preparing, verifying and distributing to the various levels of management those current reports and analysis that enable the executive to maintain control over the variety of activities and functions that are performed in a large organization". The mention internal control devices to include use of budgetary techniques, production standards. John J. Morris (20011) believes that the enterprise Resource Planning System provide a mechanism to deliver fast, accurate financial with built- in controls that are designed to ensure the accuracy and reliability of the financial information being reported to shareholders.

2.3 EMPIRICAL REVIEW

There are many researches which emphasize the necessity and importance of internal control system in the banking system. The weaknesses of internal control system through risk management functions are often causes an inability to detect fraudulent activities and a decrease in the performance of the bank (Adeyemi et al. 2011)

Related banking literature and international standards, the banks examined in different studies demonstrate differences from internal control practices in the world. In Turkey, internal control activities feature a process-oriented structure whereas multi-national bank had focused on financial reporting. The Bank of America Corporation (BoA) is an American multinational banking and financial services corporation headquartered in USA. BoA holds audit committee responsible for internal systems, too. Audit Committee is a Board committee. On the other hand, Compliance and Operational Risk Committee, Ethics Oversight, Financial Crimes Governance, Global Compliance Committee, Internal Governance and Control Committee and Operational Risk Leadership Committee function under the Board of Directors.

In taking the synthesis of these different systems, the empirical review states that, the board of directors and senior management are responsible for promoting high ethical and integrity standards, and for establishing a culture within the organization that emphasizes and demonstrates to all levels of personnel the importance of internal controls. All personnel at a banking organization need to understand their role in the internal controls process and be fully engaged in the process. In varying degrees, internal control is the responsibility of everyone in a bank. Almost all employees produce information used in the internal control system or take other actions needed to effect control. An essential element of a strong internal control system is the recognition by all employees of the need to carry out their responsibilities effectively and to communicate to the appropriate level of management any problems in operations, instances of non-compliance with any code of conduct, or other policy violations or illegal actions that are noticed. This can best be achieved when operational procedures are contained in clearly written documentation that is made available to all relevant personnel.

It is essential that all personnel within the bank understand the importance of internal control and are actively engaged in the process. An effective internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization (that is, credit risk, country and transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks. In the past studies, the key reason behind adopting the internal control systems within the banking sector can be identified as the need to assess continually that bank objectives are being recognized. In a research conducted to analyze the importance of internal control for the Nigerian banks, Hayali, Dinç and Sarılı reported that internal controls help the financial sector in presenting its strong and stable outlook in front of the international spectators. It helps in monitoring the assets and maintaining the reliability of the company's accounts and keeping a strict eye on fraudulent activities. Similarly, Socol has further added that the main objective behind banking internal control includes continuous tracking of activities with international auditing standards. This can help in solving any problem that may arise. An effective system is capable of detecting errors, fraudulent transactions as well as any irregularities and ultimately reduces the percentage of such occurrences (Rick Hayes et al. (2005)

2.3.1 Internal Control System through Risk Management functions in Banque Populaire du Rwanda (BPR)

The study aims to highlight the functions of internal control team in harnessing internal control system through risk management to ensure the financial performance of the bank and to abolish the cases of money laundering and fraudulent in the bank operations.

The Bank Populaire du Rwanda has six members of board of directors, one executive staff and shareholders (Atlas Mara Mauritius Limited: 62.1%, Local Shareholders: 23.3% and Rabobank: 14.6%**).** The board of directors should have responsibility for approving and periodically reviewing the overall business strategies and significant policies of the bank; understanding the major risks run by the bank, setting acceptable levels for these risks and ensuring that senior management takes the steps necessary to identify, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system. The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained (BPR, (2014). "BPR Board of Directors". Banque Populaire du Rwanda (BPR). Retrieved 30 April 2015.

The internal control system within the BPR is composed by the committee which is divided into two organs; **Board Committees** (1)**;** As stipulated by the Central Bank Regulation n°06/2008 on Corporate Governance and in order to ensure independent oversight, the Board has delegated authority to five Board Committees which have clear terms of reference to enable them to discharge their functions properly. These terms of reference require such Committees to report back to the Board on their decisions or recommendations. The Board also creates “ad hoc” committees or working groups from time to time to work on specific projects when the need arises. Any “ad hoc” committee or working group reports back to the full Board. The work of the Board is divided between the Board and its principal committees: The Board Executive Committee; The duties of this committee include the exercise of the powers of the Board in managing the business and affairs of the Bank between regular meetings of the Board, when the Committee deems action by the Board is necessary, appropriate or desirable, but waiting for full Board meeting or convening special Board meeting is not warranted or practical. The Committee members meet or participate in discussions through any technological means (teleconference or e-mail exchange). **The Board Risk, Audit and Compliance Committee (2);** The Committee acts as an interface between management, the Internal and External Auditors and the Board. The Committee monitors and provides an objective non-executive review, and advises the Board as to the effectiveness of the financial reporting, risk management, control and general reporting framework of the Bank. More specifically, the purpose of the Committee is to assist the Board: i) In fulfilling its fiduciary responsibilities relating to the corporate accounting and reporting practices of the Bank; ii) In ensuring the ongoing appropriateness of the risk management, internal control systems and management reporting framework (collectively "the Control Environment"), as a result of which the Board makes decisions affecting the activities of the Bank; iii) In overseeing and evaluating the quality of the performance of the Risk Management, Internal Audit and Compliance functions, as well as that of the External Auditors; iv) In ensuring that systems are in place to ensure that the affairs of the Bank are being conducted by management in conformity with policy, regulatory and legal requirements and that the reputation of the Bank is protected at all times from adverse risk management events. In the other words, the board audit committee is responsible to ensure an effective internal control system that requires that the material risks that could adversely affect the achievement of the bank's goals are being recognized and continually assessed. This assessment should cover all risks facing the bank and the consolidated banking organization that is, (credit risk, liquidity risk, operational risk, legal risk, market risk, and reputational risk). Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks (Rick Hayes et al. (2005)

In the conclusion of above existing studies review, the researcher found that a well-functioning of internal control systems and risk management in banking sector lead financial performance. This Study aims to reveals that how the internal control system in Banque Populaire du Rwanda play a major role on financial performance.

2.4 THE GAPS IDENTIFIED FROM PREVIOUS STUDIES

Most researchers try to express the role of internal control system at different positive angles. The previous researchers failed to show negative side of unperformed and weakness of internal control system through risk management functions to ensure adequate the financial performance and do not emphasize on the impacts of money laundering and fraudulent and their causes in bank. The contribution of this study is to show and identify the causes of money laundering and fraudulent in bank as the main causes of inadequate financial performance due to inefficacity of internal control system and risk management team in Banking sector. It is more emphasize on the effects money laundering and fraudulent in the banking sector; and to provide recommendations on how the bank can manage the risks and ensuring adequate financial performance through strengthening risks management functions and to build strong internal control system.

Conclusion

This chapter of literature review highlighted the key concepts of the study, Theoretical review of internal control system, risk management and financial performance through profitability ratios. In this part the researcher revealed the strength, weakness of previous studies and drawn the gap that is helpful to him in developing critical issues that will be the reference basis of conducting current situation of the role of internal control system though risk management functions to the financial performance in Rwanda, The study also aims to highlight the main causes of inadequate financial performance in bank Populaire du Rwanda in examining the hypothesis that stated that there is a money laundering and fraudulent cases in Bank Populaire du Rwanda**.**

CHAPTER THREEE: RESEARCH METHODOLOGY

3.1 Study Design

The study design employed quantitative and qualitative approaches. The quantitative approach helped in describing variables using numerical statistics by assessing the extents to which the variable has a certain share in satisfying or responding the study objectives, the open ended questions were used and filled by the respondents. The guide interview was used in gathering the qualitative information from key informants Interviewees (KIIs). The qualitative data were more important in showing the view of Key Informants Interviewees about internal control system, risk management functions and the causes of money laundering and fraudulent in bank. The significance effects were tested using statistical tests (Chi-Square test) in order to assess how independent variables have significantly affect the dependent variable.

3.2 Target Population and sampling procedures

The study was carried out in Bank Populaire du Rwanda (BPRs); Kimironko Branch. After reviewing the desk review of financial report of BPR specifically the financial statement (2012-2016), the research found that Kimironko branch is the one among BPR branches that experienced with the continuous losses; the researcher decided to conduct his study in BPR Kimironko. BPR Kimironko branch locate in Gasabo District, Kigali City.

Researcher also decided to choose the divisions that deal with financial issues, in order to have relevant and accurate information about financial performance. Three divisions were selected such as: Asset and Liability management (1), Capital market department (2), and Consolidated Management of Investments (3). The total staff of these selected divisions are 39 staffs.

For Key Informants Interviewees (KIIs); the team of risk management in BPR was also considered, this team is composed by: board committee (1th) and the Board Risk, Audit and Compliance Committee (2nd) and Executive committee (3rd).

3.3 Sample size

Bank Populaire du Rwanda maintains a network of 25 full-service branches at the 19 locations in the whole country. In determining the one branch that was credible to provide accurate and relevant information, the researcher did desk review, He found that Kimironko branch met the criteria to be selected as being a part of this research because is the one among BPR branches that experienced with the continuous losses in its financial statements, the researcher need to know why? These losses, is there internal control system and risk management team? what are the causes of these losses?

Using non-probability sampling of Judgment, the researcher also selected the divisions that deal with financial matters such as: Asset and Liability management (1), Capital market department (2), and Consolidated Management of Investments (3). 35 Staff from selected divisions were selected by judging their contribution in providing relevant information in this study as respondents, the 4 members from internal control committees were also selected as Key Informants Interviewees. The table 3.1 summarize the sample size.

Table 3.1 Sample Size

Category	**Units**	**Staff: For Structured Questionnaire (35)**
1. BANK POPULAIRE KIMIRONKO BRANCH	**1**	Manager (1)
2. SELECTED DIVISIONS	**3**	Directors (3)
Asset/Liability Management,	**1**	Accountant (6), Finance (6)
Capital Markets Department,	**1**	Loan officer (2),Marketing (4)
Consolidated Management of Investments	**1**	Auditors (4), Investment (3) Financial Analyst (1) IT-Officers (4), corporate (1)
Total	**3 Divisions and Manager Office**	**35 Staff**
3.INTERNAL CONTROL COMMITTEE	**2**	**Staff: For guide interview(4)**
The Board Risk, Audit and Compliance Committee	**1**	3
Executive committee	**1**	1
	2 Committees	**4 Key Informant Interviewees (KIIs)**

3.4 Data Collection and Instruments

The researcher used Structured Questionnaire and Guide interview. Data was collected through personal interview during which trained enumerator posed questions and ensured the respondent understood what was expected of him/her before he filled in the appropriate space. Furthermore, we had discussion through the guide interview with the members Board Risk, Audit and Compliance Committee and Executive committee who shared with us their views about the current general situation of bank Populaire, functioning of internal control system and shared report on financial situation. The secondary data were collected through BPR financial reports and other relevant documents.

3.5 Reliability and Validity of the Data Collected

The primary goal of validity and reliability is to minimize the risk of having error and avoid biasness in the study. To ensure the reliability and validity of this study, the researcher cautiously in his capacity interpreted all gathered information throughout the entire research. Data were collected from respective catering institution and were carefully compared and evaluated to obtain the highest possible level of reliability and validity. To ensure that the data were reliable and bares validity researcher conducted though investigation and comprehension of the appropriate literature, articles and website that gave insight to that aspect of the study.

The validity of instruments was measured using Content Validity Index **(CVI**). Two raters/experts in the field of study were used to rate the content in the questionnaire. These experts also assisted in assessing the phrasing of the questions to avoid ambiguity. The researcher viewed each statement with the help of experts and assessed the extent to which the questions were related to the topic of the study. The researcher compiled the responses from raters and computed the Content Validity Index (CVI). The estimation for validity was 0.75 and above, meaning that any value below it would make the instruments invalid (DF Polit - 2006 - Cited by 1134) and (Beck, C.T., & Gable, R.K. (2001).

. Table below shows a summary of the experts' ratings

$$CVI = \frac{Numberofdeclaredvalid}{Totalnumberofitems}$$

Table 1.2 : Determination of Reliability and Validity of questionnaire

Variables	Relevant items	Irrelevant items	total
1. Profile of the respondent	5	2	7
2. Technical questions (Internal control system and FP)	3	0	3
3 Guide interview	10	3	13
Total	**18**	**5**	**23**

CVI=18/23=0.78

The CVI of 0.78 was greater than 0.75, hence the instruments (Questionnaire and Guide interview) were considered valid. To ensure reliability of the instruments, data collection instruments were pre-tested. In pre-testing, the designed instruments were tried out on selected staff in banking sector that did not form a part of respondents. The questionnaires were amended for mistakes and a final copy was presented to the supervisor of research.

- **Reliability statistics of pre-tested data**

The Cronbach's alpha formula that will be used is stated below:

Table 3.3 Coefficient of Cronbach's Alpha

Cronbach's Alpha	N of Items
.72.2	18

Source: Primary data, 2015

The questionnaire was valid due to its reliability statistics of 0.72 which is greater than normal range 0.5 and content validity index was 0.78 which is greater than 0.75.

- **Data management and Analysis**

After data collection, coding was done ready for data entry and subsequent processing. For qualitative data, responses were classified in selected themes and each theme would represent the views of focused interviewee committees. After data entry in SPSS, it was analyzed during which tables and figures were generated. Later data interpretation was done, which subsequently led to pertinent recommendations. Furthermore, recommendations were proposed to deal either with the internal control functionality and financial performance.

CHAPTER FOUR: PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.1 Introduction

4.1.1 The overview of the institution as case study

Banque Populaire du Rwanda Ltd (BPR) is a commercial bank in Rwanda and licensed by the National Bank of Rwanda, the national banking regulator. The origins of the bank can be traced back to 1975, when the first Banque Populaire du Rwanda was formed in the settlement of Nkamba, in the city of Kibungo, Eastern Province. Over the next ten years many other similar banks were founded around the country. In 1986, the various autonomous Banques Populaires formed an umbrella called the Union des Banques Populaires du Rwanda (UBPR). UBPR was operated as a cooperative bank. In January 2008, following 33 years of experience in the Rwandan financial sector, UBPR was transformed from a cooperative bank into a commercial bank: Banque Populaire du Rwanda S.A. In June 2008, Rabobank, the Dutch cooperative banking conglomerate, acquired 35 percent of the shares in BPR. In July 2012, Visa Inc. certified the bank to issue visa-branded debit and credit cards. As of October 2015, BPR was a medium-sized financial services provider in Rwanda. Its total asset valuation was approximately US$325 million. At that time, shareholding in the bank was valued at about US$50 million. The bank focused its lending to businesses in the agricultural sector. It employed 1,477 staff at that time. In January 2016, Atlas Mara completed its acquisition of a controlling stake of BPR after acquiring shares from existing shareholders and merging the bank with the commercial banking business that was spun off BRD. As of August 2009, Bank Populaire du Rwanda maintained a network of 25 full-service branches, including at 19 locations in a whole country. Regarding governance, the activities of Banque Populaire du Rwanda are supervised by a nine-member board of directors. The current chairman of the board is John Vitalo. The day-to-day affairs of the bank are managed by a six-member executive management team, led by Sanjeev Anand, the Managing Director. Due to the results of desk review that financial statement of BPR was characterized by the losses in year 2012 to 2016, the researcher chose BPR as case study for searching the causes in line of sightseeing the role of internal control system through risk management to the financial performance of the bank.

This chapter presents the analyzed data and interpretations made there of following the study objectives. It specifically shows data on profile of respondents. It reveals the research findings from the reported answers of the respondents on the role of internal control system through risk management in Banque Populaire du Rwanda (BPR) to its financial performance.

4.2 Profile of Respondent

It is important to describe the socio-demographic characteristics of the respondents in order to know the competence of each category of the respondents in participating scientific research. In this Study, the respondents were described according to gender, current occupation in the bank, age, education level, and field of studies. In each case, respondents were asked through a closed ended questions, to provide their respective profile information, to enable the researcher classify and compare them accordingly. Their responses were analyzed using frequencies and percentage distributions as summarized in table below:

Table 4.1 Profile of the respondent

Gender of the Respondent		
Category	**Frequency**	**Percent**
Male	25	71.4
Female	10	28.6
Total	**35**	**100**
Current Occupation of the Respondents		
Category	**Frequency**	**Percent**
Finance Director	1	2.9
Chief internal auditor	1	2.9
Chief accountant	1	2.9
Branch Manager	1	2.9
Accountant	6	17.1
Cashier	12	34.3
Auditor	7	20
Financial Analyst	2	5.7
IT System Specialist	4	11.4
Total	**35**	**100**
Age group of the Respondents		
Category	**Frequency**	**Percent**
Below 20 years	2	5.7
[21-40 years]	18	51.4
[41-60 years]	14	40

Above 60 years	1	2.9
Total	**35**	**100**
Education level of the Respondents		
Category	**Frequency**	**Percent**
Diploma	8	22.9
Advanced diploma/A0 Degree	21	60
Post graduate	3	8.6
Master's degree	3	8.6
Total	**35**	**100**
Field studies of the Respondents		
Category	**Frequency**	**Percent**
IT and Computer Sciences	6	17.1
Auditing	3	8.6
Accounting and/ Finance	25	71.4
Social Sciences	1	2.9
Total	**35**	**100**

Source: Primary data, 2015

4.2.1 Gender

The above table indicates that, the study involved 35 respondents whereas 71.4 % were male and 28.6 % were female. This is indicating that majority of the respondents who were employed in Banque Populaire du Rwanda (BPR) main Branch were male. The female is approximately of 1/3thof the total population of the researcher's sample. Also the researcher considers the gender in this study so as to see if there is gender equality in employees of BPR as we know gender equality denotes women having the same opportunities in life as men, including the ability to participate in the public sphere.

4.2.2 Occupation

Regarding current occupation, researcher found that about 34.3% respondents were cashiers include i.e. (cashiers/tellers). And 17.1 % of respondent were accountants, 20 % were Auditors, 11.4 % were IT specialist and finally 2.9 % were chief accountant, chief auditor, Director of finance, Branch manager and financial Analyst respectively. This helps the researcher to attain the valuable and reliable information for the implementation and compliance of the internal control of the Bank and risk management functions.

4.2.3 Age

Concerning age of the respondents, the researcher found that the age of the respondents ranged from twenty to sixty years. Grouping the respondents was based on their age at the interval of twenty years and from that four categories were found from the researcher finding. The larger number of the respondents lied into second category of the age distribution 21 to 40 years; the respondents under this category were (51.4%), while that of the respondents whose age ranged between 41 to 60 years were (40 %). However, the number of respondents whose age ranged below 20 represents (5.7%) and above 60 years found (2.9%). The majority of respondents were young (57.1 %) who were aged between 20 to 41years.

4.2.4 Education

Education is the most important input for planning purposes, generally, the education facility influences proper performance of an individual and any other occupational. It has more prone effects on entity operation and control. In this study, the educational level of the respondents differs in relation to specialization and experience in business operation. The findings from Table 4.1 depicted that, (60 %) of respondents' attained Advance Diploma/First degree level while (22.9%) of the respondents possess Ordinary Diploma. On other hand (8.6%) attained Master's Degree and post graduate respectively. This level of education possessed by respondents enabled the researcher to get reliable data concerning the functionality and efficiency of internal control placed by the entity, because the person who have this level of education has got good understanding and reasoning so can provide more reliable information concerning the efficiency and effectiveness of internal control and how it contributes to the organization success.

4.2.5 The field of study

The field studies of the respondents we distributed according to required qualification of employees where who studied accounting and finance represent (71.4%), Social sciences represent (2.9%) while who studied auditing represents (8.6%), IT and computer sciences represent (17.1%). This profile of the respondent has a fully necessary to provide relevant information. The most of bank Populaire staff have many years of experience with medium level of academic qualifications, where some staff begun the work with irrelevant degree to finance and went to seek the academic qualification in recent years. This affected BPR managements and the level of financial management control met with those problems of unqualified staffs.

4.3 Banque Populaire du Rwanda (BPR) Performance in Terms of profitability

The financial performance of the bank is characterized by different aspects. Among there aspects there is a concepts of profitability. The profitability is measured by the ratios such as:

Return On Assets ratio (ROA) ratio, Return On Equity (ROE) ratio and Interest Income on Loans (IIOL) ratio.

4.3.1 Profitability Analysis

Before assessing the functionally of internal control system through risk management functions the researcher reviewed the financial documents that showed the general picture of the problems in term of financial performance. The results from desk review illustrated that there are continuous losses that observed in financial statements in year 2012 up to 2016, That is why the researcher took the scope time of study 2012-2016. The financial annual reports (2012-2016) of BPR were examined and provide information as summarized in the table below:

Table 4.2 The Statements of Comprehensive Income 2012-2016

	2012	2013	2014	2015	2016
Profit/Loss in Rwf	(762,171,000)	(5,166,512,000)	908,808,000	(1,974,793,000)	(663,780,000)
Effect	Loss	Increase of loss	Profit	Loss	Decrease of loss

Source: Compiled income statements report (2012-2016)

The table 4.2 gives a historical insight into BPR's financial performance in terms of profitability within 5 years. The Bank shows an increase of a big loss from 2012 to 2013.Only for 2014 BPR realized a profit. For 2015, BPR again realized a big loss as shown by the above mentioned figures which has been reduced in 2016. From this data, the researcher expects that loss would have continued to decrease and BPR could make profit only when strong credit strategies, internal control system and risk management tools put in place are very strong.

After examining the situation of financial statements, the researcher checked the profitability ratios in order to measure the financial performance of BPR. Three ratios were calculated.

- **Profitability Ratios**

Return On Asset (ROA) = Net Income (Loss)/Total Assets (how profitable are total assets)
Return On Equity (ROE) = Net Income (Loss)/Equity (how profitable is equity)

Interest Income on Loans = Interest Income on loans/Gross Loans (how are profitable gross loans).

- **The interpretation of results of profitability analysis:**

The profitability studies the ability of the bank to generate revenues capable of covering costs. As a first look, the institution has to register positive economic results, otherwise this is a first warning of something going wrong, because it means it is incapable of managing costs in accordance to revenues. It depends on the size of the loss, but negative results erode equity and, as a consequence, reduce bank's own resources.

Table 4.3 Profitability ratios

Year	Ratios	Interpretation
2012	$Reurn\ On\ Asset\ (ROA) = \frac{Net\ income\ (Loss)}{Total\ Assets} = \frac{(762{,}171{,}000)}{163{,}156{,}318{,}000}$ =(0.0046) Return On Equity(ROE)=$\frac{Net\ income(loss)}{Equity} = \frac{(762{,}171{,}000)}{18{,}947{,}887{,}000}$= (0.040) Interest Income on Loan=$\frac{Interest\ income}{Gross\ Loan} = \frac{22{,}574{,}358{,}000}{120{,}476{,}222{,}000}$= 0.18	Negative ratio erodes equity and, as a consequence, reduce bank's own resources.
2013	$Reurn\ On\ Asset\ (ROA) = \frac{Net\ income\ (Loss)}{Total\ Assets} = \frac{(5{,}166{,}412{,}000)}{157{,}438{,}892{,}000} =$ (0.032) Return On Equity(ROE)=$\frac{Net\ income(loss)}{Equity} = \frac{(5{,}166{,}412{,}000)}{13{,}781{,}375{,}000}$ = (0.37) Interest Income on Loan=$\frac{Interest\ income}{Gross\ Loan} = \frac{19{,}989{,}207{,}000}{100{,}346{,}190{,}000}$ =0.19	Negative ratio erodes equity and, as a consequence, reduce bank's own resources.
2014	$Reurn\ On\ Asset\ (ROA) = \frac{Net\ income\ (Profit)}{Total\ Assets} = \frac{908{,}808{,}000}{157{,}717{,}236{,}000}$ = 0.0057 Return On Equity(ROE)=$\frac{Net\ income(Profit)}{Equity} = \frac{908{,}808{,}000}{15{,}880{,}898{,}000}$ = 0.057 Interest Income on Loan=$\frac{Interest\ income}{Gross\ Loan} = \frac{19{,}544{,}228{,}000}{107{,}532{,}353{,}000}$ = 0.18	

2015	$Reurn\ On\ Asset\ (ROA) = \frac{Net\ income\ (loss)}{Total\ Assets} = \frac{(1,974,793,000)}{171,566,020,000} =$ (0.011) Return On Equity(ROE)=$\frac{Net\ income(loss)}{Equity} = \frac{1,974,793,000}{13,868,885,000}$ = (0.14) Interest Income on Loan=$\frac{Interest\ income}{Gross\ Loan} = \frac{---------}{---------}$ (Not available)	Negative ratio erodes equity and, as a consequence, reduce bank's own resources.
2016	$Return\ On\ Asset\ (ROA) = \frac{Net\ income\ (loss)}{Total\ Assets} = \frac{(663,780,000)}{251,602,802,000} =$ (0.0026) Return On Equity(ROE)=$\frac{Net\ income(loss)}{Equity} = \frac{(663,780,000)}{41,532,112,000}$ = (0.015) Interest Income on Loan=$\frac{Interest\ income}{Gross\ Loan} = \frac{---------}{---------}$ (Not available)	Negative ratio erodes equity and, as a consequence, reduce bank's own resources.

Source: Secondary data, 2017, BPR, Annual reports and Financial Statements.

The results in the above table 4.3 revealed that the ratios of Return On Asset (ROA) and Return On Equity (ROE) were completely negatives. This indicate that the equity of the bank tends to be reduced in each year as consequences of the reduction of bank resources. The interest income on loan ratios are weak, this also indicate that in year 2012, 2013, 2015 and 2016; the bank offered more loans in each year and loan recovery is still at low level, this made continuous losses of the bank.

The researcher also interested to know the main causes of these continuous losses, the key informants' interviewees were interviewed and reported the main causes of continuous losses and also reported that there is money laundering and fraudulent cases in Bank Populaire. The interview report was summarized in below paragraphs.

4.3 The main causes of inadequate financial performance in Bank Populaire du Rwanda

The first objective of the study is to set out the main causes of inadequate financial performance in BPR. Through the interview report; the selected members of the Board Risk, Audit and Compliance Committee, and Executive committee reported on the major causes of poor financial performance as:

4.3.1 Big size of BPR Locations

BPR is very huge bank with different outlets, sub-blanch, branches countrywide and in the rural sector of Rwanda and this wideness leads to the poor management.

4.3.2 Centralization of Decision

There is no Decentralization or delegation of powers in BPR where all decisions are made from head office. It means that there are unnecessary delays in decision making and this affect the services of the bank in general to its customers in term of granting loans (Delays of loan) approvals) and any other important ant services of the bank. As a results of the delays, many potential customers of the BPR leave the bank to the other commercial banks such as BK, EQUIRT BABK< KCB, ECOBANK and others where they can get a good and faster services especially for loans.

Blanch Manager cannot take any decision in approval of the loans. The loans process is very long in BPR due to the centralization system while in other commercial banks there is a rapid process which facilitates the customers to get their loans as fast as possible. Unfortunately, In BPR the loans recovery unit is centralized to the head office, and we all know that BPR is the first Commercial Bank in Rwanda that has a big number of blanches, sub-blanches, and outlet across the country. No recovery officers on blanch level, sub-blanch and outlets.

4.3.3 Authorization process

Authorization process is too long in BPR (there is a bureaucracy). There is a significant weakness in loans recovery unit where a big number of loans are not recovered due to the lack of ownership. As responded in this interview, the loan recovery unit normally can be a strong unit based to its importance in the Bank.

4.3.4 Mismanagement within the bank

As responded in this interview, there is mismanagement within the bank to the extent that BPR rent the houses in the different towns and villages across the country for more competition with other commercial banks instead of using its own houses which are not used. In other words, BPR create unpurposive renting expenses while some of its assets are not in use.

4.3.5 Unfairness in procurement process

As responded, there is unfairness in granting loans and in tendering process of BPR. As said procurement process is not fair to the extent that some time BPR award the tender to the incapable bidders. As result of these act some of the works have been abandoned by the contractors uncompleted while it has a big cost to BPR.For the loans, sometimes the commercial officers approve the loans to the customers based to the false documents. Here the customer makes a loan application with false supporting documents in terms of guaranty. And for the project which are not financial viable with the false assets attestation. This can be discovered by commercial unit during the site visit and basic due diligence. These caused the bank falls into accusation to the court and fail to make a public action of the assets guaranteed.

4.3.6 Adapting Technology

Changing the accounting system from manual to electronic system in BPR challenging the Bank where there is a high movement of the international consultant to come for train the staff in operations and maintenance and these were costly to BPR.

4.3.7 Instability of top leaders of BPR

The interview revealed that within last five years the top leaders of BPR changed. It changes the leaders every year. (CEO, Chef Finance, and operational directors and other senior leaders). These affect negatively the performance of the bank because of mismanagement of new manager coming from other commercial banks and fail to manage BPR because of its wideness.

4.3.8 Heavy payroll

At least 50% of the total payroll is for senior leaders because of high index of salaries. There is no structured salary for them it is a kind of negotiation.

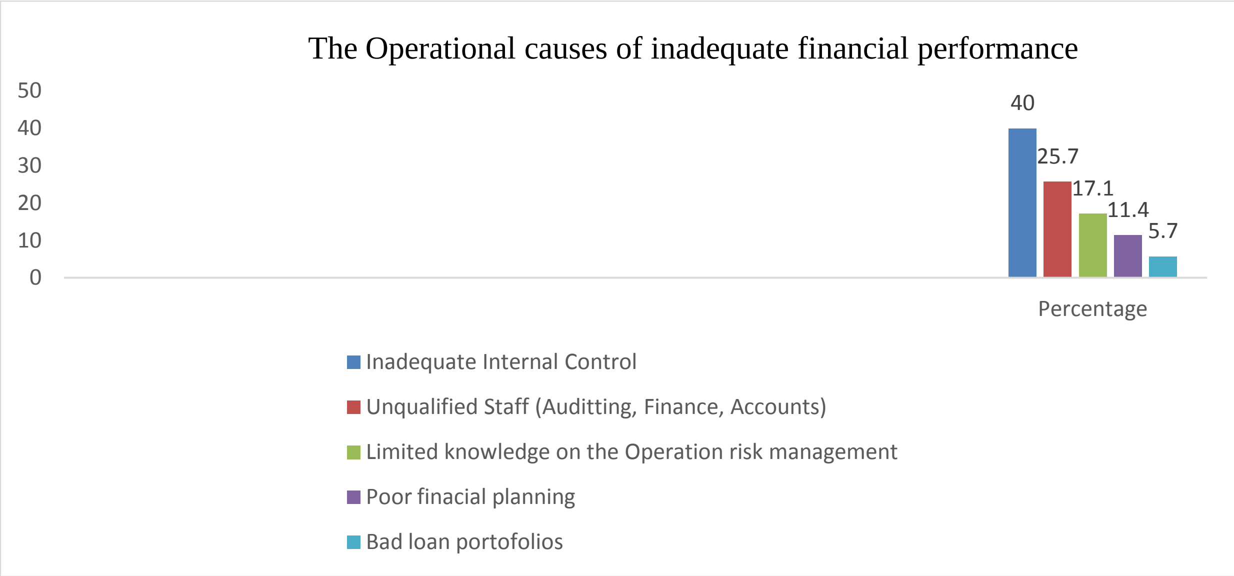
4.3.9 Payment of Penalties in the court

Due to the failure in the court; For instance, this year there is 400 staff that were stopped to the jobs within BPR and now they submitted their cases to the court against BPR and they were requesting indemnity payment.

4.4 The operation’s causes of inadequate financial performance in BPR

The causes that linked to the operations were examined through open ended questions. The figure below summarizes the results from the respondents.

Figure 4.1 The operation's causes of inadequate financial performance



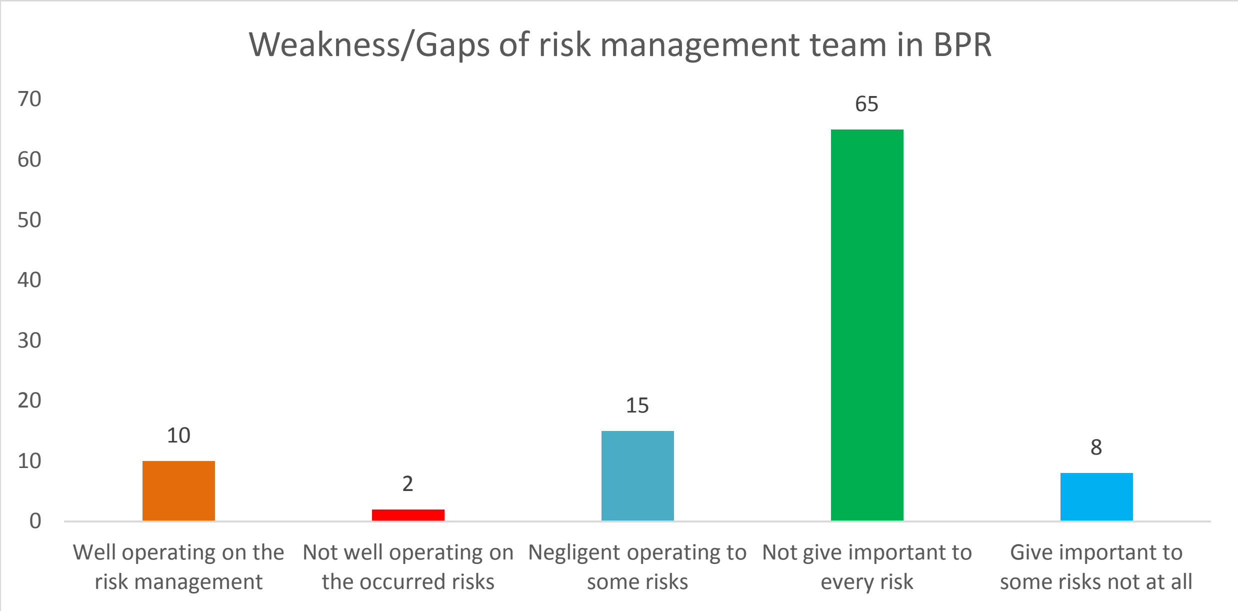
Source: Primary data, 2015

The above figure shows that, the operational/technical causes of inadequate financial performance of BPR were inadequate internal control system at (40%), Unqualified staff specifically in the field of auditing, accounting, finance at (25.7%), Limited knowledge on operation risk management at (17.1%); poor planning on financial issues represent (11.4%) and the last was bad loan portfolio at (5.7%). These indicated that the losses and poor management of BPR in year 2012-2016 were caused by the weakness of internal control system and mismanagement of technical leaders.

4.4 The weakness of internal risk management team in BPR

The second objective of the study is to examine the weakness/gaps of internal control system through risk management established by BPR Management that lead inadequate financial performance, the research use open-ended questions and the interview guide in assessing the gaps/Weaknesses. The results of the study are summarized in the figure below:

Figure 4.2 The weakness of internal risk management team in BPR



Source: primary data,

The researcher found that a 65% of the respondents said that the risk management team do not give important to every risks, and 15 % reported that there is a gaps of inefficiency basing the negligent operating to some risks where only 10% said that there is well operating on the risk management in BPR. This results indicated that there is weakness and gap in managing risks that lead inadequate financial performance in the Bank.

In the other hand**,** the guide interview was conducted to the board committee especially to the member of the Board Risk, Audit and Compliance Committee, Firstly, regarding gaps of internal control the interviewee reported that, Internal Audit system in BPR is not independent and it is centralized. The auditors are only at head office and in few branches not in every branch. Due to the size of the bank the auditors do not cover all cases, in other words the auditors are not enough to the compare with BPR branches.

Secondly, the BPR has Risk Management committee, which is only interested to the credit risk than others. It does not cover all potential risks area of the Bank such as procurement and frauds

4.5 Reported risks in Banque Populaire

The third objective of the study is to assess the kind of frequent risks. The Quantitative response was reported by 35 respondents with multiple choices. The answers were linked to the qualitative reported for assuring the accuracy of information. The table below indicates the results.

Table 4.4 Identified risks that lead to inadequate financial performance of BPR

Identified Risks	Count	Percentage
Failure of granting loan to the customers	25	71.4
Failure of Loan recovery	19	54.3
Embezzlement and money laundering	28	80.0
Fraudulent linked to dishonest staff	17	48.6
Failure linked to entire management of the bank	30	85.7
Weakness of board committee (Auditors and Executive)	32	91.4
Weakness of staff management and setting salary of top leaders	21	60.0
Acceptance of related collateral forgery documents	27	77.1

Source: primary data, 2017

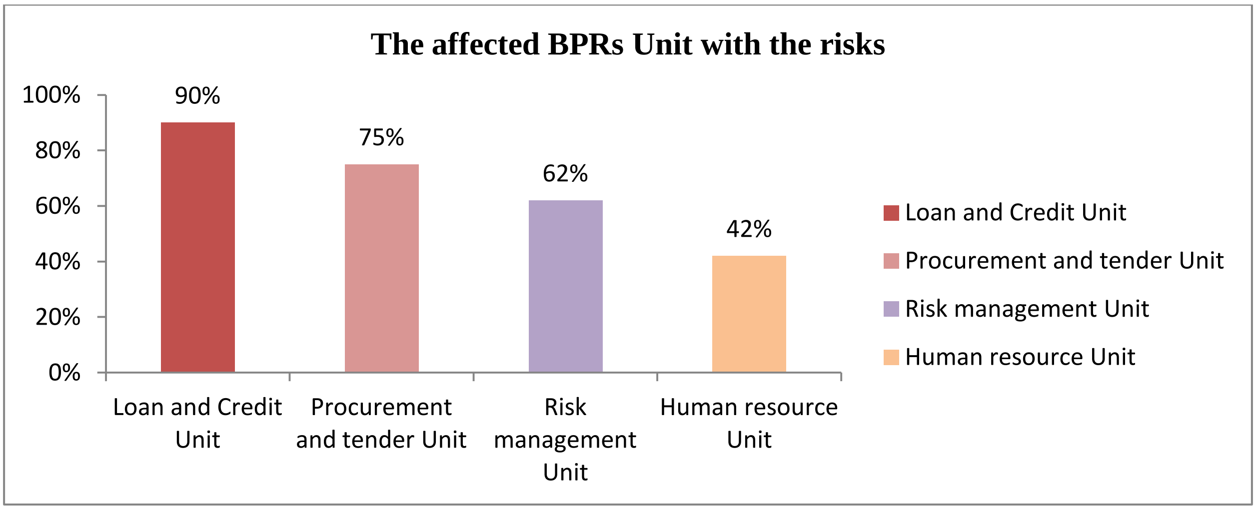
The respondents reported that Weakness of board committee (Auditors and Executive), Failure linked to entire management of the bank and Embezzlement and money laundering risks were above 80%. The risks of Failure of granting loan to the customers and Acceptance of related collateral forgery documents were above 70%. The risks of Weakness of staff management and setting salary of top leaders, Fraudulent linked to dishonest staff, Failure of Loan recovery were 48.6% to 60%. These resulted to inadequate financial performance in BPR. This was also supported by qualitative report that states that the process of granting loans used by BPR is not efficient due to the bureaucracy in terms of authorization and approvals. The outlet is not allowed to grant a loan. Therefore, is the major cause for BPR to lose potential clients.

There is a significant weakness in loans recovery unit where a big number of loans are not recovered due to the lack of ownership of the loan Group and compliance committee in BPR. As responded in this interview, the loan recovery unit normally can be a strong unit based to its importance in the Bank. Unfortunately, in BPR the loans recovery unit is centralized at the head office. In addition, the Internal Control system is inefficient and insufficient in term of controlling risks, and to ensure financial performance in the BPR and internal audit unit is centralized and not independent and control risk committees do not well give important to all observed risks.

4.6 Location of risks in the BPRs divisions

It is important to indicate the risk location in the department for easy to recommend BPR where the risks are observed in. As the results in the above table 4.3 indicates the kind of risks that lead inadequate financial performance in BPR; the respondent reported the affected units with the mentioned risks. The table below reveal the findings.

Figure 4.4 location of risks by BPR division



Primary data, 2017

Due to the failure of granting loan to the clients and fail to the loan recovery the Loan and credit unit was affected at 90% as reported in both quantitative and qualitative responses that the loans, sometimes the commercial officers approve the loans to the based false documents. Here the costumer makes a loan application with false supporting documents in terms of collaterals.

The procurement unit come to the second place with 75% this is linked to the interviewee report that procurement process is not fair to the extent that some time BPR award the tender to the incapable bidders. As result of these acts some of the works have been abandoned by the contractors uncompleted while it has a big cost to BPR.

The 3rd was risk management unit with 62%, this was supported with interviewee who stated that

Risk Management is in place in BPR but it does not cover or risk area of the Bank, there are focusing only to the credit risk but they are not concerned by other potential risks such as procurement and fraud.

The Human resource unit is affected by the risks in term of staff management and setting salaries of top Leaders. The respondent rated 42% which is also supported by interviewees report that the court penalties are sometimes charged the bank due to the stopped staff on the jobs within BPR and they submitted their cases to the courts against BPR by requesting indemnity payment. There is also a heavy payroll for top leaders who have salary negotiation at high index and this put the bank in the losses because this costs are not early planned.

4.7 The adopted strategies to prevent and detect fraud and money laundering in the BPR

The forth objective is to assess the adopted risk management strategies to prevent and detect fraud and money laundering in BPR, basing on causes of inadequate financial performance, assessed risks and affected units, the adopted strategies to prevent those anomalies were examined. The table below indicate inefficient components and its overcome solutions/Strategy that reported by the respondents.

Table 4.5 the Mitigation strategies to identified problems of inadequate financial performance

Identified problem of inadequate financial performance due to the fraud and money laundering	*The Adopted Strategies/Overcoming solution by the risk management team of the BPR*
1. The Size of BPR: BPR is very huge bank with different outlets, sub-blanch, branches countrywide and in the rural sector of Rwanda and this wideness leads to the poor management	There is a need of reducing the number of outlets and sub-branches. And promote BPR private agencies in rural areas and there is need of project study of creating BPR private agencies.
2. Centralization of Decision: There is no Decentralization or delegation of powers in BPR where all decisions are made from head office. It means that there are unnecessary delays in decision making and this affect the services of the bank in general to its customers in term of granting loans (Delays of loan) approvals) and any other important ant services of the bank	There is a need of decentralization of decision. To give the branch manager to take decision and to increase capacity building of branch managers in financial management.
3. Authorization process: Authorization process is too long in BPR (there is a bureaucracy). There is a significant weakness in loans recovery unit where a big number of loans are not recovered due to the lack of ownership. As responded in this interview, the loan recovery unit normally can be a strong unit based to its importance in the Bank.	There is a need of the ownership of branch manager in taking loan decision and other process and strengthening regular monitoring of loan treatments.
4: Mismanagement within the bank: There is	The BPR must strength the asset management

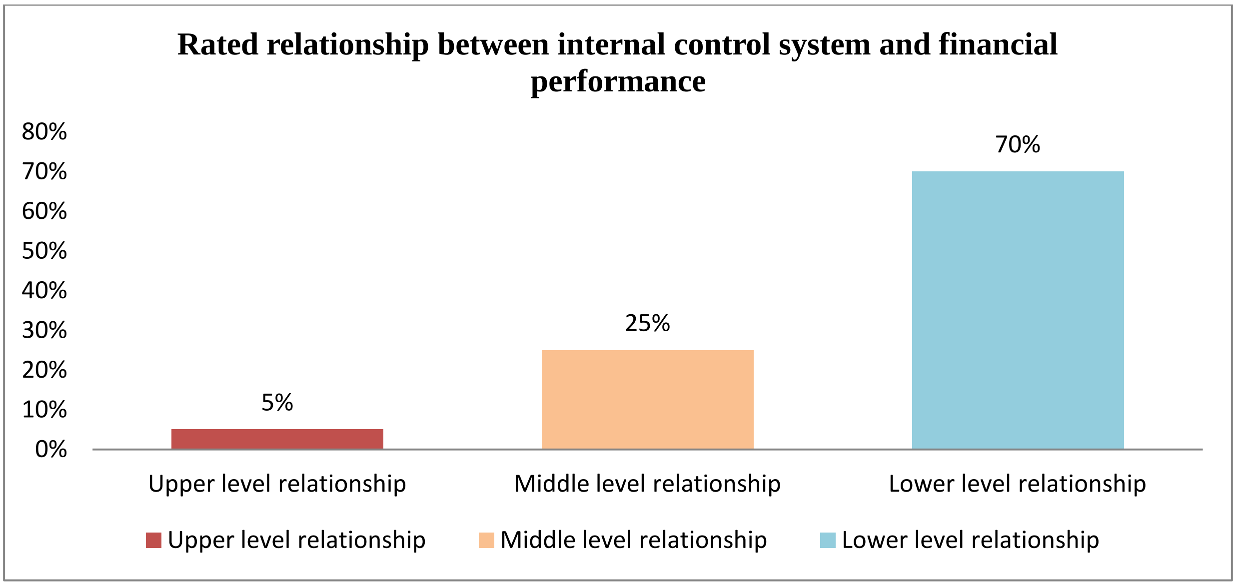
mismanagement within the bank to the extent that BPR rent the houses in the different towns and villages across the country for more competition with other commercial banks instead of using its own houses which are not used. In other words, BPR create unpurposive renting expenses while some of its assets are not in use.	and avoiding using external assets while it has their own. It must use its resources instead of using the rented assets. The strong management team is needed in order to put in place entire management of the bank.
5.Unfairness in procurement process: as responded, there is unfairness in granting loans and in tendering process of BPR	The BPR should strength the tendering committee and conduct regular monitoring of tender process and conduct marketing study on user satisfaction study to the customers about tender and procurement services deliveries.
6. Adapting Technology: Changing the accounting system from manual to electronic system in BPR challenging the Bank where there is a high movement of the international consultant to come for train the staff in operations and maintenance and these were costly to BPR.	The BPR should train their staff to the adapted new technologies and should organize the pilot process of using technology and to hire national consultants who will be available at any time BPR meet with technological challenges. This will reduce the cost of technology.
7. Instability of top leaders of BPR, the interview revealed that within last five years the top leaders of BPR changed. It changes the leaders every year. (CEO, Chef Finance, and operational directors and other senior leaders). ***8: Heavy payroll with high salary index:*** At least 50% of the total payroll is for senior leaders because of high index of salaries. There is no structured salary for them it is a kind of negotiation	The BPR should maintain the top leaders at least 3 years, Especially Operational managers and chief finance who are the main operators of the bank units. The BPR should set policy salaries with the employee standards. The negotiation salary is good but if the employer makes a wrong in negotiation affect the wealth of the institution. The BPR must take attention to the negotiation salaries.
9. Payment of Penalties in the court: Due to the failure in the court; For instance, this year there is 400 staff that were stopped to the jobs within BPR and now they submitted their cases to the court against BPR and they were requesting indemnity payment	The BPR should take attention in terminating the contract of employee. It can strengthen and respect the procedures of stopping employees with the contract agreements of the parties. It can reduce the causes of employees' turnover and be attention in recruitment process.

Source: Primary data, 2017

4.8 Relationship between internal control system toward risk management and financial performance

Through the respondents' perceptions, they are asked to rate the relationship between internal control system and financial managements. The researcher use levels such as upper level strong relationship, middle level relationship and lower level relationship. The figure 4.5 indicates the rated levels.

Figure 4.5 rated relationship level between internal control system through risk management and financial performance



Source: Primary data, 2017

The most respondents (70%) estimated that, the level of relationship between internal control system and the financial performance was at low level relationship and it was supported by previous results such as the causes of inadequate financial performance and annual income statement 2012-2016 of Banque Populaire financial reports.

4.8 significance and correlational tests between identified risks and financial performance in BPR

The reported risks by interviewees were categorized and ordered using statistical tools and were linked to the results and ratios from financial statements and were statistically treated.

The relationship and significant effects were tested using non-parametric statistics of Chi-Square test. The reported management risks (Table 4.3) were linked to the results from the income statements to produce statistics that help researcher to assess significance effects between internal control systems towards risk management and BPR financial performance. The table below indicates the results.

Table 4.6 Correlation and significance level between identified risks and financial performance in the BPR

Dep.	Identified Risks (Independent Var)	Pearson.correlation(ROE)	Chi-square test(value)	P-value	Interpretation
BPR Inadequate Financial performance	Failure of granting loan to the customers	0.55	47.327	0.000	Sign. Effect
	Failure of Loan recovery	0.637	62.273	0.000	Sign. Effect
	Embezzlement and money laundering	0.438	43.779	0.000	Sign. Effect
	Fraudulent linked to dishonest staff	0.92	70.000	0.000	Sign. Effect
	Failure linked to entire management of the bank	0.37	31.433	0.034	Sign. Effect
	Weakness of board committee (Auditors and Executive)	0.551	47.327	0.000	Sign. Effect
	Weakness of staff management and setting salary of top leaders	0.707	64.825	0.000	Sign. Effect
	Acceptance of related collateral forgery documents	0.447	43.734	0.008	Sign. Effect

Source: Primary data 2017

The results in the table above 4.5 revealed that is a significance relationship and significance effects between identified risks and inadequate financial performance. All probability values are less than significance value of 5%. These results are supporting the research hypothesis that there is a significance relationship and significance effects between internal control systems toward risk management and inadequate financial performance of BPR. The research finding proved that the internal control system in BPR failed to control and to avoid the reported risks in table 4.3. The most risks are Fraudulent linked to dishonest staff with (r=0.92; sign 0.000) followed by Weakness of staff management and setting salary of top leaders with (r= 0.707, sign 0.000), the failure of Loan recovery with (r=0.63, sign 0.000) and Failure of granting loan to the customers with (r=0.55 sign 0.000).

CHAPTER FIVE: FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Findings

The study aimed to assess the role of internal control system through risk management functions in ensuring adequate financial performance in the BPR, the study was conducted in BPR Kimironko branch where there was problem of money laundering and fraudulent in year 2012 up to 2016, the researcher was interested to know the main causes of these problems and the relationship between risk management functions and financial performance of the bank. 35 technical staff and 2 committees' members of risk management team were selected to participate in this study. The structured ended questionnaire was developed for quantitative data and Guide interview for qualitative data, the desk review was done on BPR financial reports (2012-2016) and financial statement results were used to calculate profitability ratios and to be a part of secondary data for explaining research phenomena. The key findings were summarized for each objectives as stated in the below paragraphs.

Firstly, the research reviewed the financial documents such as annual report of BPR from 2012 to 2016. The internal audit report was also reviewed. The income statements of 2015 and 2016 showed the bank losses as mentioned in table 4.1 which show the compiled table of income statements 2012-2016 and the calculated profitability ratios. This situation of the observed loss pushed the researcher to study in deep the main causes of these losses as set in the first objective of the study.

The first objective of the study was to examine main causes of inadequate financial performance in Bank Populaire du Rwanda

The researcher conducted the interview to the selected member of the Board Risk, Audit and Compliance Committee, and Executive committee reported that the main causes of inadequate financial performance in BPR are Uncontrolled Size of the bank, Centralization of Decision, Authorization process that are not decentralized, Mismanagement within the bank in term of using bank immobile assets and other activities, Unfairness in procurement process, challenges associated to the adoption of new technology and its costs, Instability and turnover of top leaders of BPR, heavy payroll that associated with high index for senior managers , Payment of Penalties in the court while the customers and terminated of the contracts of the staff. All reported causes were developed in chapter four. Additional to this the researcher used structured questionnaire to ask ordinary staff the linked technical causes (Figure4.1).

The second objective was to examine the gaps of the internal control system established by BPR Management in order to improve its financial performance

The researcher combined both open-ended questions and qualitative responses where the majority of the respondents (30) 85.7% reported that there is a gaps of inefficiency functionality of internal control system, where as 14.3% said that there is no gap in internal control system. The answers from the board committee especially to the member of the Board Risk, Audit and Compliance Committee reported that, Internal Audit system in BPR is not independent and it is centralized. The auditors are only at head office and in few branches not in every branch. Due to the size of the bank the auditors do not cover all cases, in other words the auditors are not enough to the compare with BPR branches. Secondly, the BPR has Risk Management committee, which is only interested to the credit risk than others. It does not cover all potential risks area of the Bank such as procurement and frauds

The third objective was to assess the kind of frequent/most risks and the affected division

The research used open-end question and answer from 35 respondents (Table 4.4) revealed that the weakness of board committee (Auditors and Executive), failure linked to entire management of the bank, Embezzlement and money laundering risks were above 80%. The risks of Failure of granting loan to the customers and Acceptance of related collateral forgery documents were above 70%. The risks of Weakness of staff management and setting salary of top leaders, Fraudulent linked to dishonest staff, Failure of Loan recovery were 48.6% to 60%. These resulted to inadequate financial performance in BPR. This was also supported by qualitative report that states that the process of granting loans used by BPR is not efficient due to the bureaucracy in terms of authorization and approvals. The outlet is not allowed to grant a loan as the major cause for BPR to mislay potential clients. There is also significant weakness in loans recovery unit where a big number of loans are not recovered due to the lack of ownership. As responded in the interview, the loan recovery unit normally can be a strong unit based to its importance in the Bank. Unfortunately, In BPR the loans recovery unit is centralized to the head office. In addition, the Internal Control system is inefficient and insufficient in BPR and internal audit unit is centralized and not independent.

The affected BPRs units are the Loan and credit unit was affected at 90% as reported in both quantitative and qualitative responses that the loans, sometimes the commercial officers approve the loans to the consortiums based to the false documents. Here the costumer makes a loan application with false supporting documents in terms of collaterals.

The procurement unit come to the second place with 75% this is linked to the interviewee report that procurement process is not fair to the extent that some time BPR award the tender to the incapable bidders. As result of these act some of the works have been abandoned by the contractors uncompleted while it has a big cost to BPR.

The 3rdaffected unit was risk management unit with 62%, this was supported with interviewee who stated that Risk Management is in place in BPR but it does not cover or risk area of the Bank, there are focusing only to the credit risk but they are not concerned by other potential risk such as procurement and fraud. The Human resource unit is also affected by the risks in term of staff management and setting salaries of top Leaders. The respondent rated 42% which is also supported by interviewees report that the court penalties are sometimes charged the bank due to the stopped staff on the jobs within BPR and they submitted their cases to the courts against BPR by requesting indemnity payment. In addition of heavy payroll for top leaders who have salary negotiation at high index.

The forth objective is to assess the adopted risk management strategies to prevent and detect fraud and money laundering in BPR, basing on causes of inadequate financial performance, assessed risks and affected units, the adopted strategies to prevent those anomalies were examined and reported in (table 4.5).

The five objectives were to examine the relationship between internal control and risk Management in BPR performance, the researcher asked the respondent to estimate the degree of relationship between internal control system toward risk management and financial management. The most respondents (70%) reported that the relationship is at lower level. These were supported by statistical test results on identified risk and inadequate financial performance in BPR. The Pearson rank correlation and Chi-square test were used to test the degree of relationship and significance effects. The results in the table above 4.5 revealed that there is a significance relationship and significance effects between identified risks and inadequate financial performance. All probability values are less than significance value of 5%. These results are supporting the research hypothesis that there is a significance relationship and significance effects between internal control systems toward risk management and financial management of BPR. The research finding proved that the internal control system in BPR failed to control and to avoid the reported risks in table 4.4. The most risks are Fraudulent linked to dishonest staff with (r=0.92; sign 0.000) followed by Weakness of staff management and setting salary of top leaders with (r= 0.707, sign 0.000), the failure of Loan recovery with (r=0.63, sign 0.000) and Failure of granting loan to the customers with (r=0.55 sign 0.000).

5.2 Conclusion

The findings of the study were linked to the study objectives as reported in part of findings. In general, the research findings revealed that the financial performance of Banque Populaire du Rwanda was inadequate in year 2012, 2013, 2015 and 2016 where the income statements balances were losses and profitability ratios shows that the bank do not capable to cover all costs of the bank and did not cover all loan recoveries. The first and third objectives findings highlighted the major causes of inadequate financial performance and frauds and associated risks and affected BPRs Units. These results provide enough evidence to prove that there is weakness of risk management functions in Banque Populaire du Rwanda and researcher highlighted key affected division of the bank and the level of weakness and the gap of internal control team in managing risks, the study showed that there some risks that are not managed and some inefficacy of operating system by Auditee, risk management and compliance committees in BPR. The recommendations were set and were summarized in the below paragraphs.

5.3 Recommendations to the management of Bank Populaire du Rwanda

The effectiveness of internal control depends on management involvement and requirements Therefore, the management in BPR should increase its co-operation and support to the internal audit department and other department approving the internal audit charter to promote efficiency and effectiveness of internal control. Management should establish the indicators and put benchmarks that can help them to measure the performance of internal control so as know exactly if the internal controls add value to organization.

- The management of BPR should promote involvement of all level management in objectives setting of the bank, so as to attract excellent internal control. An efficient internal auditing department should be regarded as a good place to develop employees' careers, because internal auditors can understand the whole operation in organization.
- Among the challenges faced by the auditors is lack of sufficient audit training. It is advisable to encourage and support internal auditors to participate in short term training

such as seminars and workshops conducted by National bank or other institutions or they can conduct in-house training by hiring expert from outsider to facilitate some issue such as risk assessment and the like.

- Management initiates and facilitates the risk-based internal audit this can help the internal auditor to add value in their organization by concentrating in the area which has high risk.
- Management should establish a system of quality control designed to provide reasonable assurance that the BPR's management and its personnel comply with regulatory and legal requirements, code of ethics and standards on quality of control and auditing is a crucial to the office.
- Management should in co-operate different skills and knowledge in the operation of internal control of the entity so as to make them conduct their work properly.
- The internal audit should be independent and decentralized to the BPR branches across the Country in order to detect and prevent fraud cases before occurrence.

5.4.2 Recommendations to the Employees and Bank as institution

- Education is one among the important indicator of efficient of internal control's function. A good education and training should provide by the all employees in all department in collaboration with the management to meet bank's needs or objectives. Since it was evident in the study that the staffing level in the internal audit department is not adequate to cover the entire bank set up, evidenced by not conducting regular review activities, not operating efficiently as well as their reports not being regular, the study therefore recommends competence profiling which should be based on what the bank expects the internal audit to do and what appropriate number staff would be required to do this job.
- The study also recommends that the BPR establishes and manages knowledge/information management system within the institution so as to enable all parties within the institution to freely access and utilize the official information and BPR establishes a strategy for improving the generation of additional finances for the operations of the bank. This could be done through writing projects, other competitive endeavors which are directly aimed at winning funds for the bank.
- Internal control is very complicated professional field, which needs a wide range of knowledge, experience, insight, and maturity, in order to execute its control well.

Therefore, professional license, integrity, independence, objectivity, knowledge and experience are all very important. Communication ability is also very important. Employees should regard communication as the tools to manage relationship with their customers and management in order to create mutually reliability, and furthermore to reach the organizational goals. Employees should also involve in setting the objectives of the bank.

After providing recommendations to the critical issues, the research recommended the areas for further research as stated below.

5.5 Areas for further studies

The researcher focused specifically on the role of internal control system through risk management to the financial performance of banks in Rwanda; the researcher only focused on the component of internal control system and its role of the financial performance of the bank. Since it advised that there are other areas for farther study in this perspective such as follow:

The contribution of ICT on the effectiveness on internal control system, or the effect of cultural and behavioral factors on the performance of the financial performance.

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APPENDIX1: FINANCIAL STATEMENTS AND OTHER DOCUMENTS OF BPR

APPENDIX2: OPEN-ENDED STRUCTURED QUESTIONNAIRE

QUESTIONNAIRE ON THE ROLE OF INTERNAL CONTROL SYSTEM TOWARD RISK MANAGEMENT ON FINANCIAL PERFOMANCE OF BANQUE POPULAIRE DU RWANDA

QUESTION 1: PROFILE OF THE RESPONDENT

Note: *Please Circle the corresponding number and write it in the appropriate box*

A) Gender ☐

1. *Female*
2. *Male*

B) Current position ☐

1. *Finance director*
2. *Chief internal auditor*
3. *Chief accountant*
4. *Branch manager*
5. *Accountant*
6. *Cashier*
7. *Auditor*

C) Age Category ☐

1. *Bellow 20 years*
2. *[21 – 40 years]*
3. *[41– 60 years]*
4. *[Above 60 years*

D) Level of education ☐

1. *Diploma*
2. *Advance diploma/ first degree*
3. *Post graduate*
4. *Master degree*
5. *Other (specify)……………*

E) Field of study ☐

1. *IT and computer science*
2. *Auditing*
3. *Accounting and/or finance*
4. *Social science*
5. *Human resource*

QUESTION 2

1. The technical causes that linked to inadequate financial performance in Banque Populaire du Rwanda (BPR) in year 2012-2016

a) Limited knowledge on operational risk management
b) Unqualified staff (Auditing, Accounting, finance)
c) Inadequate internal control system
d) Poor financial planning
e) Bad Loan portfolio

QUESTION3

a) Has BPR internal controls system?

1. Yes *2. No*

b) If Yes, choose the response of your perceptions.

1. Are there gaps in internal control system in risk management of BPR?
2. Are there not gaps in internal control system in risks management?

QUESTION 4

States the kind of frequent risks that can lead inadequate financial performance and the affected division in BPR

Frequent Risks	Affected BPR Units
a)…………………………………………..	a)…………………………………………..
b)…………………………………………….	b)…………………………………………….
c)…………………………………………….	c)…………………………………………….
d)…………………………………………….	d)…………………………………………….
e)…………………………………………….	e)…………………………………………….
f)…………………………………………….	f)…………………………………………….
g)…………………………………………….	g)…………………………………………….
h)……………………………………………	h)……………………………………………
i)……………………………………………	i)……………………………………………
j)……………………………………………..	j)……………………………………………..
k)…………………………………………….	k)…………………………………………….
l)……………………………………………..	l)……………………………………………..
m)…………………………………………… .	m)…………………………………………… .

QUESTION 5

How do you rate the relationship between internal control systems in risk management and financial performance of BPR?

a) Lower level relationship

b) Middle level relationship

c) High level relationship

APPENDIX 3: THE INTERVIEW GUIDE FOR KEY INFORMANT INTERVIEWEES (KIIs): Team of Risk managers (Auditors, compliance team, credits team, executive team, risk management team)

1. **Basing on previous financial statement especially 2012 to 2016 income statements; For your opinion what are the major causes of poor financial performance of BPR?**

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2. **Why the fraudulent actions are continuously happening in BPR?**

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4. Are BPR internal auditors independent? Are they enough to audit the entire Bank activities across the Country?

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5. Is Risk management in unit in Place? Is it competent or not? Explain

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6. Is the process of granting loans to the customers efficient?

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8. Does Commercial unit perform a due diligence before granting a loan to the clients?

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9. Does BBR Responsible unit follow the clients after granting the loans?

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10. **What are the Adopted Strategies/ Overcoming solutions to overcome Identified problem of inadequate financial performance due to the fraud and money laundering?**

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ANNEX3: SAMPLED FINANCIAL STATEMENT OF BPR

Banque Populaire du Rwanda (BPR) Performance in Terms of profitability

Statement of Comprehensive Income 2012-2016

Note	000 Rwf	000 Rwf	000Rwf
Description	**2012**	**2013**	**2014**
Interest income	22,574,358	19,989,207	19,544,228
Interest expenses	(2,862,783)	(3,713,987)	(3,574,340)
Net interest income	**19,711,575**	**16,275,220**	**15,969,888**
Fee and commission income	4,755,722	4,482,370	4,362,501
Fee and commission expenses	(1,412,665)	(2,009,971)	(1,521,428)
Net fee and commission income	3,343,057	2,472,399	2,841,074
Net foreign exchange income	938,717	1,093,895	375,101
Other operating income	1,480,119	767,933	734,228
Operating income	**25,473,468**	**20,609,447**	**19,920,290**
Net impairment charge on loans and advances	1,294,778	3,020,617	826,591
Operating Expenses	**(24,408,248)**	**(24,428,442)**	**(17,626,006)**
Loss before income tax	(229,558)	(6,839,612)	1,467,694
Income tax credit/expenses	(577,055)	1,628,658	(603,327)
Loss for the year	(806,613)	(5,210,954)	864,366

Deferred income tax credit on revaluation of buildings	44,442	44,442	44,442
Total Comprehensive(loss) income for the year	**(762,171)**	**(5,166,512)**	**908,808**

Source: BPR annual Reports, 2012-2016

Note	**000 Rwf**	**000 Rwf**
Description	**2015**	**2016**
Interest income	20,430,819	28,930,844
Interest expenses	(3,340,308)	(5,657,106)
Net interest income	**17,090,511**	**23,273,738**
Fee and commission income	4,486,086	5,872,634
Fee and commission expenses	(1,240,715)	(1,149,389)
Net fee and commission income	**3,245,371**	**4,723,245**
Net trading income	96,403	922,198
Other operating income	517,894	650,871
Total operating income	**20,950,179**	**29,570,052**
Other income	392,028	-
Operating Expenses	(9,806,115)	(11,407,603)
Personnel Expenses	(9,913,664)	13,060,923
Net impairment charge on loans and advances	(806,257)	(2,898,660)
Depreciation and amortization	(1,843,717)	2215128
Loss before income tax	(1,026,546)	(12,268)
Income tax expenses	(992,689)	(651,512)
Loss for the year	**2,019,235**	**(663,780)**
Deferred income tax credit on revaluation of buildings	44,442	0
Total Comprehensive(loss) income for the year	**(1,974,793)**	**(663,780)**

Source: BPR annual reports, 2012-2016

Comparison of BPR financial Performance from 2012 to 2016

	2012	2013	2014	2015	2016
Profit/Loss in Rwf	(762,171,000)	(5,166,512,000)	908,808,000	(1,974,793,000)	(663,780,000)
Effect	Loss	Increase of loss	Profit	Loss	Decrease of loss

Source: Compiled by researcher, 2017