

School of Management

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**RISK CONTROL SYSTEMS IN THE BANKING SECTOR:  
A CASE OF INTERCONTINENTAL BANK GHNA LTD.**

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## **ABSTRACT**

Risk management as a component of the internal control mechanism of any organisation is as important as the reason for the existence of that organisation. This is because any organisation without a risk management system in place may as well not be in existence since they may lose the profit and the whole capital together. Every organisation needs to put in place risk management and internal control systems in order to achieve the ultimate objectives of the organisation. This research work sought to examine the implications of risk management, particularly the effectiveness of internal controls as a risk management tool in improving bank performance. Specifically to identify risk associated with providing banking services, to explore the viability of Intercontinental Bank's internal control systems as risk management tool, to access the impact of internal control as risk management tool on IBG's performance.

The Financial Sector was chosen as according to information from the Ministry of Finance and Economic Planning, the financial services sector contributed 56.7 percent by way of total assets to the gross domestic product (GDP) at the end of January 2008. This represented a significant growth from 31.9 percent at the end of December 31, 2005 and the sector is likely to be more prone to risk (Yeboah, 2008).

Purposive sampling technique was used in choosing Intercontinental bank as a case study and also the availability of research information was considered. Employees of the bank were surveyed on various internal control mechanisms that must be in operation and their effectiveness. The management of the bank were also interviewed since they are the regulators, implementers and supervisors of those internal control systems.

Some of the risk associated with providing banking services identified were: availability of organisational objectives, availability of competent staff, and provision of resources, risk management policies and technology. The findings showed that the bank was doing well in putting all the internal control mechanisms that must be in place and the supervision of the control mechanisms was quite strong. However, their weakest point was the allocations of

resources to enable personnel perform certain risk sensitive duties like advancing credit to customers in SME ( small and Medium Scale) business category.

It was recommended that risk management policies of the bank must be updated regularly to avoid them getting irrelevant with time. Also, the bank must make the effort to resource all departments/units of the bank with the right number of experienced and trained staff for them to be able to carry out their task in a manner that avoids the occurrence of unnecessary risk.

## TABLE OF CONTENTS

|       |   |    |
|-------|---|----|
| 1     | Introduction .....  | 10 |
| 1.1   | What is Risk Control System? .....                              | 11 |
| 1.1.2 | What are the Key Banking Risk.....                              | 11 |
| 1.2   | Theoretical Background.....                                     | 11 |
| 1.3   | Problem Discussion .....  | 12 |
| 1.4   | Research Objectives.....  | 14 |
| 1.5   | Research Questions.....   | 14 |
| 1.6   | Thesis Structure .....  | 15 |
| 2     | Literature Review.....  | 16 |
| 2.1   | Definition of Risk.....   | 16 |
| 2.2   | Risk Management.....  | 17 |
| 2.3   | Rationales for Applying Risk Management .....                   | 17 |
| 2.4   | Risk Management Methods in the Enterprises .....                | 18 |
| 2.5   | The Risk Management Process.....                                | 19 |
| 2.6   | Effective Risk Management.....                                  | 21 |
| 2.7   | What is “Internal Control”?.....                                | 22 |
| 2.8   | Origin, History and Purpose of COSO.....                        | 22 |
| 2.8.1 | The COSO Model.....   | 22 |
| 2.8.2 | The COSO Components.....  | 23 |
| 2.9   | The Perspective of Internal Control .....                       | 26 |
| 2.9.1 | Internal Accounting Control .....                               | 26 |
| 2.9.2 | Internal Control .....  | 27 |
| 2.10  | Risk Management versus Internal Control L System.....           | 27 |
| 2.11  | Importance of Risk Management and Internal Control systems..... | 27 |
| 2.12  | The Basel Committee and Risk Management .....                   | 28 |
| 2.13  | Risks assessment in financial institutions and banks.....       | 28 |

|        |  |    |
|--------|--|----|
| 2.14   | Banking and Risk Management.....   | 29 |
| 2.15   | Implementation Principles for Firm-Wide Risk Management.....                 | 30 |
| 3      | Methodology.....   | 32 |
| 3.1    | Introduction.....  | 32 |
| 3.2    | Research Strategy.....   | 32 |
| 3.3    | The choice of the company.....   | 33 |
| 3.3.1  | The financial Sector.....  | 34 |
| 3.4    | Research Design.....   | 34 |
| 3.5    | Sampling and Sampling Techniques.....  | 35 |
| 3.6    | Data Collection Instruments.....   | 35 |
| 3.7    | Secondary Data .....   | 36 |
| 3.8    | Data Collection Procedure (Primary Data).....                                | 36 |
| 3.9    | Validity and Reliability.....  | 37 |
| 3.9.1  | Validity .....   | 37 |
| 3.9.2  | Reliability.....   | 37 |
| 3.10   | Data Analysis.....   | 38 |
| 4      | Data Analysis and Discussion of Findings.....                                | 39 |
| 4.1    | Introduction.....  | 39 |
| 4.2    | Organizational Culture for risk management.....                              | 39 |
| 4.3    | Organisational Objectives.....   | 41 |
| 4.4    | Risk Identification and Assessment.....                                      | 42 |
| 4.5    | Risk Management Policy.....  | 44 |
| 4.6    | Control Environment.....   | 44 |
| 4.7    | Accounting Information and Communication System.....                         | 48 |
| 4.8    | Control Activities.....  | 50 |
| 4.9    | Monitoring or Self-Assessment.....   | 51 |
| 4.10   | Relationship between Internal Control tools and Performance.....             | 52 |
| 4.10.1 | Organisational Performance by Risk Management and the Separation of Duties.. | 53 |
| 4.10.2 | Decision Approvals Guided by Policies and Procedures and Organisational      |    |

|   |    |
|---|----|
| Performance.....  | 54 |
| 4.10.3 The Board’s Approval of Bank’s Internal Control Systems and<br>Organisational Performance..... | 55 |
| 4.10.4 Accounting Systems and Organisational Performance .....  | 56 |
| 4.11 Responses from Interview .....   | 57 |
| 5        Summary of Findings, Conclusion and Recommendations .....                                    | 59 |
| 5.1 Introduction.....   | 59 |
| 5.2 Summary of Findings.....  | 59 |
| 5.3 Conclusion.....   | 61 |
| 5.4 Recommendation .....  | 63 |
| References.....   | 64 |
| Appendix .....  | 70 |
| Appendix 2 .....  | 79 |
| Appendix 3.....   | 81 |

## LIST OF FIGURES AND TABLES

|            |    |
|------------|----|
| Figure 2.1 | 16 |
| Figure 2.2 | 20 |
| Table 4.1  | 39 |
| Table 4.2  | 41 |
| Table 4.3a | 42 |
| Table 4.3b | 43 |
| Table 4.4  | 44 |
| Table 4.5a | 46 |
| Table 4.5b | 47 |
| Table 4.6a | 48 |
| Table 4.6b | 49 |
| Table 4.7  | 50 |
| Table 4.8a | 51 |
| Table 4.8b | 52 |
| Table 4.9  | 53 |
| Table 4.10 | 55 |
| Table 4.11 | 56 |
| Table 4.12 | 57 |



## **GLOSSARY**

|        |   |
|--------|---|
| AICPA  | The American Institute of Certified Public Accountants          |
| ALCO   | Asset-Liability Committee                                       |
| COSO   | Committee of Sponsoring Organization of the Treadway Commission |
| CIMA   | Chartered Institute of Management Accountants                   |
| GC 100 | Ghana Club 100  |
| IOSCO  | International Organisation of Securities Commissions            |
| IBG    | Intercontinental Bank Ghana                                     |
| ICAEW  | Institute of Chartered Accountants in England & Wales           |
| IFA    | International Federation of Accountants                         |
| IRM    | The Institute of Risk Management                                |
| KPMG   | Klynveld Piet Marwick Goerdeler                                 |
| SEC    | Security Exchange Commission                                    |
| UCLA   | University of California- Los Angeles                           |

# CHAPTER ONE: INTRODUCTION

## 1.0 Introduction

Risk management is essential for any business that desires to make significant strides into the future. This is because the future, in as much as researches can give an idea of what it would look like, is still unknown. Anything unknown comes with many uncertainties as well, and uncertainties are what make risk a challenge. In the view of the State Bank of Pakistan (n.d), risks are usually defined by the adverse impact on profitability of several distinct sources of uncertainty. The sources of uncertainty can either come from the market, the customer or from operations. The ineffective management of these sources can lead to the creation in reduction of a firm's value ( Pyle,1997)

In Ghana, banks compete with each other as they strive to create products and services to win more customers and make moves to attract the 'unbanked' population. Also, as a growing economy, strong financial institutions are required to play major role in harnessing the needed capital to support the infant but fast growing oil industry and propel the country further forward into upper middle income economy. The above, present banks in Ghana with potential risk issues.

According to Carey (2001) risk management is more important in the financial sector than in other parts of an economy. All though they play financial intermediation function, banks facilitate capital formation and promote economic growth. However, the ability of banks to engender economic growth and facilitate development depends on the health, soundness and stability of the risk management system. This sets banking as a business of risk.

The Deutsche Bank Research (2008) explains that banking problems as a result of poor risk management span the existence of banks. And the problems seen in the last three decades in the industry are not rare especially when placed in a broader context, a discovery made by Reinhart and Rogoff (2008a), during the exploration of financial history of the last eight centuries. This is a strong indication that the concept of risk and its management in the financial sector is not new. Generally, many literatures have been published on risk management. (Al-Tamimi and Al-Mazrooei, 2007).

At the launch of the PricewaterhouseCoopers Ghana Banking Survey, the Governor of the Central Bank of Ghana reiterated the call for Board of Directors of Banks to establish good risk management practices at senior levels with direct reporting to a committee of the Board to ensure effective monitoring and control of risk in their operations (Amissah-Arthur, 2010).

Bank of Ghana has introduced its framework for Risk-Based Supervision to meet the new challenges in the banking industry with respect to new technologies, branch expansion, product innovation, size and speed of financial transactions, and as a precursor to the full implementation of the Basel II accord. This framework involves the critical identification of risks associated with the operations of banks, and the assessment of management oversight functions of risks, in order to ascertain the effectiveness of these oversight functions to mitigate the impact of risks. In the process, banks would be compelled to focus more on their risk management systems to facilitate their improvement and thereby improve the overall risk management functions within their institutions (Amissah-Arthur, 2010)

## **1.1 What is Risk Control Systems?**

For the purposes of this discussion, risk control is the entire process of policies, procedures and systems an institution needs to manage prudently all the risks resulting from its financial transactions, and to ensure that they are within the bank's risk appetite, (Risk mitigation 2000). It also encompasses Risk Management, Internal Audit, Internal control, Corporate Governance and information communication among other areas. This thesis discussion will concentrate on Internal Control and Risk Management systems in Intercontinental Bank Ghana.

### **1.1.2 What are the Key Banking Risks?**

The major banking risks identified by Pyle (1997) are as follows as:

- Market risk is the change in net asset value due to changes in underlying economic factors such as interest rates, exchange rates, equity and commodity prices.
- Credit risk is the change in net asset value due to changes in perceived ability of counter parties to meet their contractual obligations.

- Operational risk results from costs incurred through mistakes made in carrying out transactions such as settlement failures, failures to meet regulatory requirements, and untimely collections.
- Performance risk encompasses losses resulting from the failure to properly monitor employees or to use appropriate methods(including “model risk”)

The focus of this research would be in exploring the first two risks identified by Pyle, that is, Market risk and Credit risk.

## **1.2 Theoretical Background**

Numerous reports have come out in the last four years with recommendations on best practices in risk control systems. Two stand head and shoulders above the rest. They are the G-30 report released in July 1993, entitled "Derivatives: Practices and Principles" (a private sector initiative) and "Risk Management Guidelines for Derivatives", written jointly by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions (IOSCO) which came out a year later. These two reports together have shaped today's best practices in risk control (Risk mitigation 2000).

Both reports emphasize the importance of determining at the highest level the policy and scope of a firm's involvement in and the use of financial instruments; oversight by boards of directors and senior managers; a risk management process that involves continuous measuring, monitoring and controlling of all risks (especially market and credit); accurate and reliable management information with comprehensive limits; frequent management reporting; sound control and operational systems; and thorough audit and control procedures. They also stress the importance of the human factor in risk management - professionals involved must have the necessary skills and experience, and the firm should not deal in any instrument until senior managers are fully satisfied that all relevant personnel understand and can manage the risks involved.

In addition, the G-20 insisted on stronger regulation and oversight of systematically important financial institutions. These banks must develop contingency plans, or “living wills,” that will

make it easier to dismantle them at the time of crisis. Major cross-border firms will have to establish crisis-management groups to strengthen international cooperation.

### **1.3 Problem Discussion**

The growing complexity of the banking environment has placed more responsibilities on leaders of banks to be more prudent and cautious in their management of risk issues that confront the banks. It is important to understand that financial risk is inherent to the business of banking and banks' roles as financial intermediaries (Thirlwell, 2002). Lack of proper attention to risk matters could either result in a direct loss of earnings / capital or may result in imposition of constraints on bank's ability to meet its business objectives. Such constraints pose a risk as these could hinder a bank's ability to conduct its on-going business or to take benefit of opportunities to enhance its business.

Apart from the external risk issues such as changes in the market and consumer dynamics that affect banks, there are a myriad of internal risk challenges that do have great impact on banks success as well. These challenges have become enormous because of the prevalence of economic, technological, social and legal interdependence. Every organisation need to put in place risk management and internal control systems in order to achieve the ultimate objectives of the organisation even though these (risk management and internal control) would vary for different organisations. Risk management and internal control systems are critical and fundamental to the successful operation and day-to-day running of a business.

Risk affects many areas of banking activities, such as strategy, operation, finance, technology and environment. Specifically, internal risks may include loss of key staff, substantial reductions in financial and other resources, severe disruption to the flow of information and communication, fires or other physical disasters, leading to interruptions of business and/or loss of records, Sani and Chaharmahalie (2010). More generally, risk also encompasses issues such as fraud, waste, abuse and mismanagement which have possible implications on firm performance.

Amissah-Arthur (2010) believes that the culture of risk management is not well rooted in Ghanaian banking system. This can be attributed to the fact that Ghanaian banking industry has not seen much financial turbulence that will cause them to put their house in order. Until the

industry experiences dangers, an assessment of the risk management systems put in place by the various banks can be done through researches like this to expose threats and possible threats and zoom in on the need to establish risk management functions to serve their rightful purposes. Furthermore, as banks in Ghana grow bigger and go international because of capital injections, they are likely to take on several risks that they have previously been unfamiliar with. Banks' ability to manage cross border regulatory risks, currency risks, and other market risks will become critical going forward.

The foregoing emphasizes the need for risk management. However in the literature various studies tend to specifically examine the implications of risk management, particularly the effectiveness of internal controls as a risk management tool in improving bank performance.

In light of the research problem identified in the above section, the following objectives were the focus of this study:

#### **1.4 Research Objectives**

This thesis aims to achieve the following objectives:

- a) To identify risk associated with providing banking services.
- b) To explore the viability of Intercontinental Bank's internal control systems as risk management tool.
- c) To assess the impact of internal control as risk management tool on IBG's performance.

#### **1.5 Research Questions**

- a) What risks are associated with the provision of IBG's Services?
- b) How effective are the IBG's internal control systems as a risk management tool?
- c) What impact has internal control as a risk management tool on the bank's performance?

## **1.6 Thesis structure**

The report was organized under six chapters. Chapter one, the introductory section, outline the background to the study and examine the basic concepts of risk control systems and management.

Chapter two was devoted to literature review. The purpose of this chapter is to acquaint the reader with existing studies relative to the issues covered in the study. It thus provides the theoretical framework for the study and partly establishes the need and relevance for it. This includes leading writings on the principles, and the different dimensions and philosophies of risk management and control systems.

Chapter three examines the research method used in undertaking the studies.

Chapter four discusses the research findings. Chapter fives details the analysis of the findings, keeping actual information separate from interpretation, inference and evaluation. The chapter also evaluates the results of the findings during the field study.

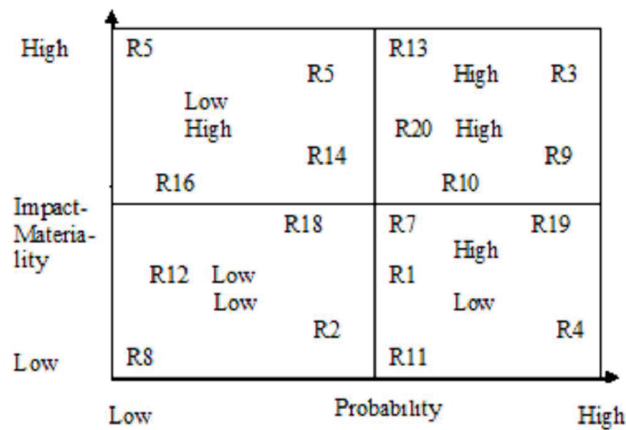
The final section, chapter six, give a brief summary of all the components in the first five chapters. Finally a summary of the conclusions from the study was given together with recommendations for improvement on risk management and internal controls.

## CHAPTER TWO: LITERATURE REVIEW

The weaknesses of many companies' control systems have been highlighted due to the big financial scandals of recent years (between 2001 and 2003) and as a result increased attention on risk control system which encompass risk management, internal controls, internal audit and their role in modern organizations (Risk mitigation 2000). Our research seeks to examine risk management systems and internal controls in providing banking service.

### 2.1 Definition of Risk

According to Mun (2004), "risk is any uncertainty that affects a system in an unknown fashion whereby the ramifications are also unknown but bears with it great fluctuation in value and outcome". For our thesis work, Risk can be defined as the combination of the probability of an event and its consequences (IRM et al., 2002). In other words, how likely it is that an event will happen and how bad it will be if it happens. There is therefore uncertainty about events and their consequences see figure 2.1.



**Figure 2.1: The Risk Impact/Probability Chart**

Source: Adapted from IRM et al., (2002) and Holt (2006)

These risks could be estimated quantitatively or qualitatively in terms of the probability of the occurrence and the consequences. Figure 2.1 is based on the principle that a risk has two



dimensions: (1) probability - risk is a future event which may or may not occur. The probability lies between just above 0% and just below 100%. If it is 100%, then it would be certainty and not a risk and if it is exactly 0%, it wouldn't be a risk, and (2) impact or consequences - risk by nature has a negative impact and consequences (IRM et al., 2002).

## **2.2 Risk Management**

Risk management is the entire process of policies, procedures and systems an institution needs to manage prudently all the risks resulting from its financial transactions, and to ensure that they are within the bank's risk appetite. In some organisations, risk management work is carried out by independent risk management units rather than specially-named risk control sections.

Risk management is viewed as a corner stone of good corporate governance and therefore results in better service delivery, more efficient and effective use of scarce resources and better project management (Collier et al., 2007). It has to do with identification, analysis and control of such risks that threaten resources, assets, personnel and the earning capacity of a company. According to Dorfman (2007), risk management is the logical development and implementation of a plan to deal with potential losses. Dorfman continues to say that risk management is a strategy of pre-loss planning for pre-loss resources. One example of an integrated solution to risk management is enterprise risk management” (CIMA, 2005).

## **2.3 Rationales for Applying Risk Management**

Businesses with history of mistakes, damages or individuals with risk prone profile pays higher premium due to high risk because the premium vary with the profile of insurance taker. A lot of concern focuses on calculating and controlling the risk in various ways so that it can set premium at the levels which are necessary to make the money. For example, a company, which is not utilizing insurance, opens the door to lower premiums. The main purpose of risk management for a manager is to avoid contractual, tortuous or statutory liability (Ashby and Diacon, 1996). Ashby & Diacon (1996) found that the drivers for using risk management are primarily negative and the aim is to avoid risk outbreaks. They also found that companies have not set their common risk management objectives. There were no associations between the risk management and firm's financial characteristics or operating behaviour. This is also emphasized by Hillson

and Murrey Webster (Composition of the Institutes 2005 Corporate Governance Committee), who stated that the influence of individual attitudes and corporate culture is probably more important than the actual risk management tools.

## **2.4 Risk Management Methods in the Enterprises**

The format and experience on internal control affects the risk management. James Lloyd Bierstaker and Jay C. Thibodeau via internet researched 73 auditors, who had a mean of 41.4 months of audit experience and a mean of 30.2 months of experience evaluating internal control. They found that different investigating format will affect the performance of auditors. They suggested that the use of a questionnaire to document and evaluate an auditee's internal control. According to the Sarbanes-Oxley Act, this plays a significant role to identify internal control, which will help auditors performing well in evaluating its weaknesses (2002).

There are two implications of the results for both the audit judgment and literature audit practice. From a practical standpoint, the results of this study indicate that completing a questionnaire may help auditors to identify important control weaknesses. Furthermore, the purpose of using questionnaire is to cause improvements in error detection, fraud detection, and avoidance of audit failure. It is an important set of avenues for future research. These findings are particularly important given recent evidence that audit firms appear to be increasing the use of narratives, relative to questionnaires, to enhance efficiency (Bierstaker and Wright, 2004).

In 2008, French Caldwell studied the core knowledge management (Blackmon and Maylor, 2005) principles of business focus, accountability and operational support can be applied to information risk management to create risk intelligence. It finds that information governance and information risk management bring the most business value for risk intelligence strategy. "Developing risk intelligence maximizes the return on value from information risk management investments" (Caldwell, 2008). This paper suggests that the three KM principles of business focus, accountability and operational support help ensure the alignment of the KM architecture to business needs (Caldwell, 2008). These principles can be used in financial information risk management as well. Financial information is the most important information in spite of its lag character. It is a major research to find out the way of converting the millions of financial

information records to usable information efficiently and effectively, and the solution to control the high financial crisis points in regular work.

## **2.5 The Risk Management Process**

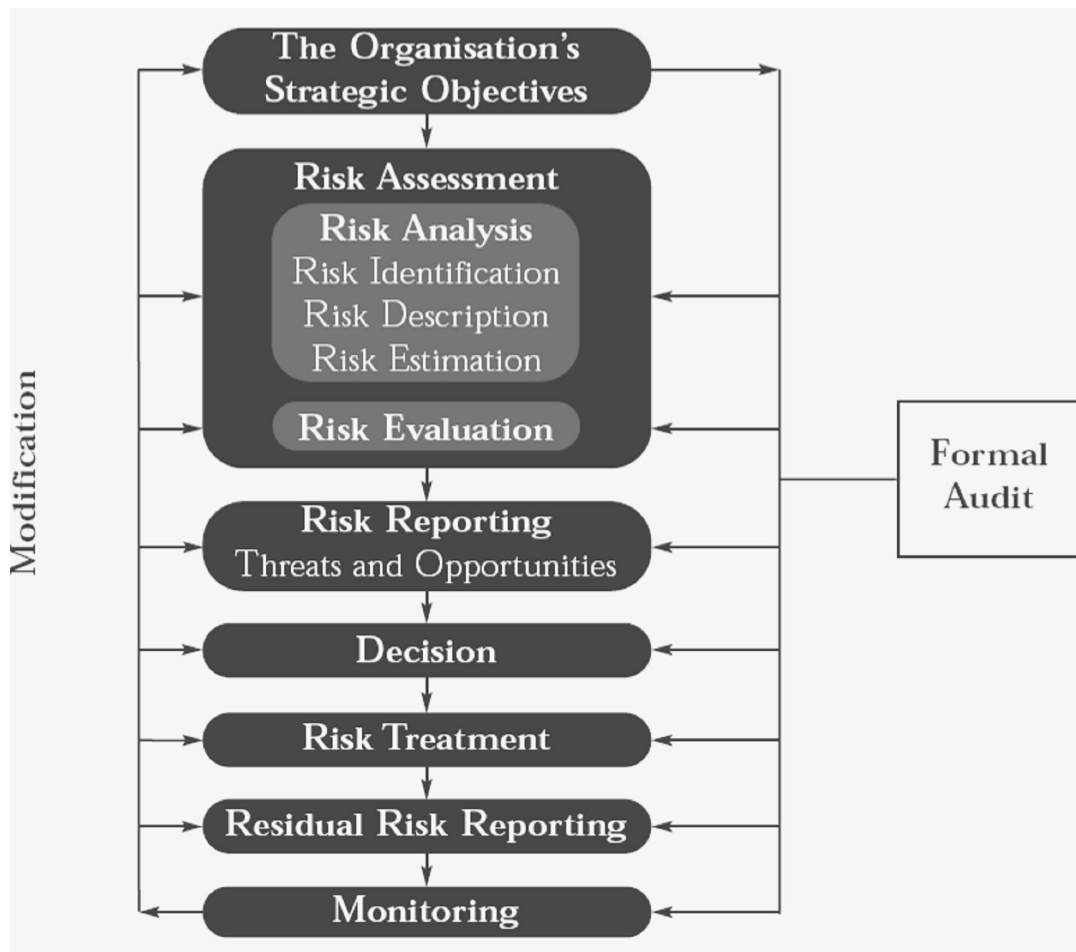
The risk management process is a continuous activity as illustrated in figure 2:2. The process involves these basic steps: understanding the mission of the organization, performance of risk assessment to identify the risks associated with the mission, categorizing and prioritizing the risks, design processes, training and checks (controls) for top level risks, monitoring internal control effectiveness and making improvements as required and repetition of the steps as shown in figure 2:2.

Understanding the mission of the organization is the first step to effective risk management. It is important that an organization clearly articulates its mission. In this way, risks associated with the mission can be easily identified. The next step is to start listing the risks. These risks could be categorized into human error, fraud, system or process weakness or problems. Once the risks are listed, the company must then proceed to prioritizing these risks. It is unlikely that a company would be able to address all the risks listed; therefore it would be important that a company identifies high priority risks and focuses on them first. This leads to creating internal control systems that complies with Section 404 of the Sarbanes Oxley Act.

It is difficult and exhausting to envisage, predict and prevent every single risk associated with a business activity. A company can therefore be successful in managing its risks by breaking it down into stages that are manageable. Companies must identify and mitigate high priority risks first and then continue to review, prioritize and address the rest of the risks according to the needs of the organization (Institute of Risk Management et al., 2002).

The risk management team, risk manager or internal control committee could rank the risks as risk1, risk 2, high-level risks, medium-level risk, low-level risk, et cetera. The idea is to first attend to all risks with the greatest probability of occurrence and greatest loss. However, the number of risks addressed at a time depends on the size and ability of the entity. The next step is to find the best way of mitigating these risks. A well-defined process is then used to minimize the risks and then communicated to all personnel at all levels of the organization through

procedures, policies, instruction and training. Finally, these processes should be monitored on regular basis to make sure that they are functional and effective. Corrections are then made as and when necessary. The company then repeats the risk assessment or risk management process so as to attend to the next level of risks.



**Figure 2.2: Risk Management Process**

Source: IRM et al., (2002)

Companies need risk management strategies in order to be successful at risk management. It helps management to identify and decide which risks to avoid, control, transfer to another party

such as an insurance company or which risk to tolerate, that is accepting some or all the consequences of a particular risk.

The focus of good risk management is the identification and treatment of these risks. Its objective is to add maximum sustainable value to all the activities of the organization. This activity must also be realistic, practical and cost effective.

## **2.6 Effective Risk Management**

Effective risk management involves risk assessment, risk evaluation, risk treatment and risk reporting. The focus of good risk management is the identification and treatment of these risks in accordance with the organization's risk appetite. These risks need to be managed and controlled in order to prevent vibrant organizations from catastrophic losses and help them achieve their goals and objectives.

According to Leland (1998) effective risk management allows firms to increase their debt capacity, and enjoy the associated debt tax shield. Graham and Rogers (2002) test these two hypotheses, finding evidence for the Leland debt capacity hypothesis, but not the tax convexity hypothesis. That is, firms with active hedging programs have higher debt ratios, but firms with more convex tax schedules are not more likely to engage in derivatives hedging. Also Smith and Stulz (1985) argue that hedging could be motivated by managerial risk aversion (since managers have a large, non-diversifiable stake in the firm) while DeMarzo and Duffie (1991) develop a career concerns type model in which managers hedge to influence labor market perceptions of their managerial quality. Tufano (1996) finds evidence that managerial variables affect the degree of hedging in the gold mining industry. Fenn, Post and Sharpe (1996) find that firms who use interest rate swaps issue more short-term and floating-rate debt, since they are able to better hedge the resulting interest rate risk. Guay (1999) finds that the introduction of a derivatives hedging program is associated with decreases in firm risk, suggesting derivatives are being used for hedging rather than pure speculation. Allayanis and Weston (2001) argue that initiating a derivatives hedging program is associated with a substantial increase in firm market value (as much as 4.8 per cent). However, Guay and Kothari (2003) show that firm' derivatives positions

are quite small relative to firm size and cash flows, which suggests that Allayanis and Weston's estimates of the effect of hedging on firm value may be implausibly large.

## **2.7 What is “Internal Control”?**

What is the difference between “internal control” and “external control” or just “control”? In a corporate context Jensen (1993) tries to separate internal control from external control. He identifies four “control forces” operating to resolve problems occurring due to a divergence between managers' decisions and the decisions that would be optimal from a societal standpoint. Out of these four control forces, three are regarded as external: capital markets, the legal/political/regulatory system and product and factor markets. To these three external control forces, Jensen adds a fourth, internal one: The internal control system, headed by the board of directors – this system is described as closely related to the company board's tools to ensure a good functioning of the firm, i.e. it's governing of the firm. The findings of the Treadway Commission Report of 1987 in the United States (USA) confirmed absence of, or weak, internal controls as the primary cause of many cases of fraudulent company financial reporting.

## **2.8 Origin, History and Purpose of COSO**

COSO has existed for over 25 years, having been formed in 1985. The purpose of COSO is to study the causal factors that lead to fraudulent financial reporting and to develop "recommendations for public companies and their independent auditors, for the SEC and other regulators, and for educational institutions" (COSO). COSO is sponsored by five U.S. professional organizations: the American Accounting Association, the American Institute of Certified Public Accountants, Financial Executives International, The Institute of Internal Auditors, and the Institute of Management Accountants. COSO has created several recommendations that are used by companies to aid in developing, implementing, and monitoring internal control.

### **2.8.1 The COSO Model**

The COSO Model defines internal control as: “a process, effected by an entity's board of directors, management, and other personal, designed to provide reasonable assurance regarding

the achievement of objectives in the following categories: Effectiveness and efficiency of operations, Reliability of financial reporting, Compliance with applicable laws and regulations” (COSO 1994 p. 3) .The COSO definition is meant to clarify four distinct features of internal control:

1. Internal control is an ongoing process, a series of actions, which ideally should be intertwined with the other processes of an organization. It is a tool for the management and is to be regarded as a means to an end, i.e. the fulfillment of the goals of an organization

2. Internal control is accomplished by the people of the organization. At the same time, internal control affects how people within the organization acts. Every individual has a unique background, different needs and different priorities and this will affect communication and performance within the organization. Internal control is a way to strengthen the recognition of responsibilities as well as the limits of authority, and to align the work carried out by people within the organization with the targets of the entity as a whole.

3. Internal control can only be expected to provide reasonable assurance due to a number of natural limitations, one obvious being the fact that controls are not for free – the relative costs and benefits of controls must be taken into consideration.

4. Every organization has a mission which motivates a number of objectives. The COSO model recognizes and divides objectives into three categories:

- Operations — relating to effective and efficient use of the entity’s resources.
- Financial reporting — relating to preparation of reliable published financial statements.
- Compliance — relating to the entity’s compliance with applicable laws and regulations. The categories, while distinct, are to be considered overlapping, meaning that objective may belong in more than one category. (COSO 1994)

### **2.8.2 The COSO Components**

According to the COSO model internal control consists of five components that together form “the COSO framework”: Control Environment, Risk Assessment, Control Activities, Information

and Communication and Monitoring. All these components are to be considered as interconnected; they form an “integrated system that reacts dynamically to changing conditions” (COSO 1994 p. 11). According to the COSO framework, ideally all these components are integrated as a natural part in the infrastructure of every organization. In the listing below, each component is described in more detail.

**Control Environment:** The Control environment is the foundation for all other components of internal control, providing discipline and structure. It is closely related to the culture of the organization when it comes to the handling of issues related to internal control. The COSO framework specifies the Control Environment by singling out the “Control Environment Factors” that shapes the control environment. It relates to the control consciousness of the people within the organization. The control environment is the basis for all other components of internal control.

**Organizational Structure:** An organizational structure which promotes a good control environment defines key areas of authority and responsibilities. Furthermore appropriate lines of reporting should be established. The ideal organizational structure depends on the needs of the organization

**Integrity and Ethical Values:** The effectiveness of internal control is directly linked to the integrity and ethical values of the people, who create, administer and monitor them. Ethical behaviour and management integrity is to a large extent an effect of the “corporate culture”. Moral guidance should be provided and communicated, verbally and in writing, throughout the organization from top management

**Commitment to Competence:** This refers to the fact that persons within the organization should have the right competence for their task; this should be ensured by top management.

The Board of Directors or Audit Committee -These functions set the tone of the control environment.

Assignment of Authority and Responsibility- The component is closely related to “Organizational Structure” however more focused on individuals and teams. Also deals with the trade-off between decentralization and control.



Human Resource Policies and Practices - This is closely related to the commitment to competence, including hiring, education and training of employees.

Management's Philosophy and Operating Style – This is management's attitudes towards e.g. risks and reporting.

**Risk Assessment:** Risk assessment concerns the identification and analysis of internal and/or external risks that might stand in the way of achieving the objectives of the organization. The risk assessment forms a basis for analysis determining how the risks should be managed. Due to the changing nature of some risks, special forward-looking mechanisms are needed to identify these risks. The process of risk assessment may be more or less formalized, but should be in place in every organization. It refers to the organization's identification, analysis, and management of the risks that are related to financial statement preparation, in order to ensure that financial statements are presented fairly and in compliance with generally accepted Accounting Standard. (GAAP)

**Control Activities:** Control activities are the policies and procedures which help ensure that management directives are carried out. Policies establish what should be done and procedures implement the policies. The control activities ensures that the risks identified in the previous step are addressed and hence serve to counter, minimize or eliminate these risks; they can be focused on results or routines. There are control activities at all levels and in all functions in the organization. Common control activities are: Top Level Reviews, Information Processing, Physical Controls, Performance Indicator and Segregation of Duties.

**Information and Communication:** The information system of an organization produces formal as well as informal reports on how well the organization's objectives are met; this information makes it possible to run and control the organization. Every organization must capture and identify relevant information relating to both external and internal events. This is however not enough – the information also must be communicated in an effective way. Communication within the organization must occur in a broad sense, through and within all levels of the organization as well as with external parties such as customers, shareholders or suppliers. Information and communication focuses "on the nature and quality of information needed for

effective control, the systems used to develop such information, and reports necessary to communicate it effectively (Internal control issues)

**Monitoring:** This is a way to ensure that the internal control system operates effectively– the quality of the systems performance should be assessed over time. There are basically two general types of monitoring (which may be combined) – ongoing monitoring and separate evaluations: Are closely connected to the operations and, if in place, occur automatically. Examples of activities are e.g. regular management and supervision – an informed manager will probably be able to spot if a report deviates significantly from his or her knowledge of the operation.

- Separate evaluations

Should depend on the risk assessment and the efficiency of the ongoing monitoring – if the ongoing monitoring is working properly, less separate evaluations will be needed. If deficiencies in the internal control system are found, these must be reported upstream; serious matters should be handled by the board and the top management. In short: the fulfillment of the organizations goals is dependent on a working internal control system; monitoring makes sure that the internal control system works as intended. (COSO 1994)

## **2.9 The Perspective of Internal Control**

### **2.9.1 Internal Accounting Control**

The concept “internal accounting control” was used in Securities Exchange Act of 1934 of USA. It mentioned that: devise and maintain a system of internal accounting controls sufficient to provide reasonable assurances that:

- A) Transactions are executed in accordance with management's general or specific authorization;
- B) Transactions are recorded as necessary (I) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (II) to maintain accountability for assets;
- C) Access to assets is permitted only in accordance with management's general or specific authorization; and

D) The recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. (Securities Exchange Act of 1934).

### **2.9.2 Internal Control**

The McKesson & Robbins scandal of 1938 led to major corporate governance and auditing reforms. Audit committees with "outside" directors, who should be approved by the company's shareholders, are required by the SEC. The American Institute of Certified Public Accountants requires that accounts should review receivable and inventory.

Fifty years ago, people argued whether the state or private ownership should own the resources (Spira and Page, 2003).

By the 1970s, price competition became a new power that weakened audit quality. Since then, auditors are not allowed to do public advertisement for their services so that they would not compete between firms' clients according to the AICPA's new regulations. However, the institute was forced to obey those regulations only when the government saw them as anticompetitive and threatened to bring antitrust lawsuit (Weil 2004)

### **2.10 Risk Management versus Internal Control System**

Leitch (2004) published an article on Risk Management versus Internal Control. In this article, he noted that there is no difference between these two topics in principle. He went on to point out that the scope of each phrase seems to be getting wider. However, there are big differences in emphasis, with many practical implications. In the researcher's opinion, the management of risks and their control measures are inseparable. First, risks must be identified, assessed, then managed and mitigated by putting in place or implementing a strong system of internal control. As a result of separation of ownership from control, both the corporate world and governments turn to risk management and internal controls to give calm and reassurance (Collier et al., 2007).

## **2.11 Importance of Risk Management and Internal Control System**

Risk is defined as the combination of the probability of an event and its consequences (IRM et al., 2002). According to ICAEW (1999), risk is defined as real or potential events which can reduce the likelihood of achieving business objectives. The term involves the potential for both gain and exposure to loss. Risk management and internal controls are means by which businesses' opportunities are maximized and potential and material losses are reduced. An organization sets strategic and operational objectives and then manages the risks that threaten these objectives. Internal control is put in place to help manage risks and increase shareholders' value. Risks can be managed by transferring them to third parties such as an insurance company. The environments in which organizations operate are evolving constantly and as such, the risks facing these organizations change too. Therefore, a company's systems of risk management and internal control must be responsive to these changes in order to be successful. Important elements of a sound internal control system are effective financial controls, including the management of proper accounting records. Since risks exposed to a company cannot be completely eliminated, the role of internal control is to help manage and control these risks appropriately. They make sure that organizations are not exposed to avoidable risks and that financial information received and used both in the company and by the public is accurate and reliable. Therefore, a company's internal control systems play a key role in the management of risks that significantly affect the achievements of operational, financial reporting and compliance objectives.

## **2.12 The Basel Committee and Risk Management**

The Basel Committee's Principles for management of Credit Risk (1999) outlines seventeen principles which Bank's must follow to ensure smooth operations of their activities. The principles are analyzed under five main headings which includes establishing an appropriate credit risk environment, operating under a sound credit granting process, maintaining an appropriate credit administration, measurement and monitoring process, ensuring adequate controls over credit risk and the role of supervisors.

## **2.13 Risks assessment in financial institutions and banks**

All financial institutions including banks, insurance agencies and mutual funds face a certain level of risk exposure (Dominic, 1993). Among commercial banks, risk exposures credit and liquidity risk are the main causes of bank failures (The Economist, 1993; Uyemura and Van Deventer, 1993; Greuning and Bratanovic, 2003; Bluhm et al., 2002; Kealhofer, 2003). Between the two risks, credit risk causes severe bank failures. When a customer fails, there is non-payment of both interest and principal whereas when there is an interest rate risk, there is only parity between the two interest rates which are relatively small. To limit the severity of credit risk requires proper customer classification in terms of both their repayment probabilities as well as their risks.

## **2.14 Banking and Risk Management**

James Ian Vickery (2004) in his research work on Banking and Risk Management brought to light new evidence on corporate risk management by analyzing firms' choices between fixed and variable rate loans. In contrast to papers that focus on hedging using derivatives, he found strong evidence that small, young, privately held firms have a substantial 'demand for risk management'. He also found evidence that firms choices vary systematically with industry sensitivity to interest rate shocks, and that financial institutions charge a premium on fixed rate debt to compensate them for interest rate risk. He found his evidence consistent with the predictions of Krishnamurthy (2003), who shows in a general equilibrium framework that hedging helps to mute the collateral-driven multiplier effects identified by Kiyotaki and Moore (1997). Evidence from his work that small firms are more likely to use fixed rate debt also fits with Gertler and Gilchrist's (1994) findings that small manufacturing firms are more affected by tight monetary policy (if small firms are more sensitive to tight money they should be more likely to hedge against it). It also suggests however, that the use of fixed rate debt does not provide sufficient insurance, since otherwise Gertler and Gilchrist's results would not have been observed in the first place.

Takang and Ntui 2008, in a research work came to the conclusion that there is a significant relationship between bank performance (in terms of profitability) and credit risk management (in

terms of loan performance). Better credit risk management results in better bank performance. Thus, it is of crucial importance that banks practice prudent credit risk management and safeguarding the assets of the banks and protect the investors' interests. They revealed that banks used different credit risk management tools, techniques and assessment models to manage their credit risk, and that they all have one main objective, i.e. to reduce the amount of loan default which is a principal cause of banks failure. They further pointed out that banks with good or sound credit risk management policies have lower loan default ratios (bad loans) and higher interest income (profitability) and those banks with higher profit potentials can better absorb credit losses whenever they crop up and therefore record better performances. Furthermore, their study shows to light a direct but inverse relationship between profitability (ROE, ROA) and the ratio of non-performing loans to capital (NPL\C) which according to them are in line with our expectations and actually tallies with conventional wisdom.

In relation to Islamic financial institutions, Khan and Ahmad (2001) conducted a survey of 17 Islamic banks on risk management issues. Many issues were highlighted; with the crux of the problem being the inability to manage risks effectively due to a lack of relevant instruments available in an Islamic banking context. Where risk is concerned, the study highlights that the rate of return risk is considered as the most critical for Islamic banks. In principle, Islamic banks are different from conventional ones due to the prohibition of 'riba' and the need to comply with the "Shari'ah". As such the nature and characteristics of risks that Islamic banks are exposed to should be different from conventional banks. However, in practice, Islamic banks offer products which are quite similar to the conventional banks and emulate the practices of the conventional banks.

## **2.15 Implementation Principles for Firm-Wide Risk Management**

Implementing firm-wide risk management practice entails a significant commitment of management time and institutional resources. It requires a focus on the central businesses of the organization, bottom-to-top review of lending or origination, trading or market making, and intermediation with a risk management perspective. It leads to the construction of data bases and reporting systems quite different from standard accounting systems. In this process, several

guiding principles must be maintained for successful implementation of firm-level risk management practices.

According to them risk management must be an integral part of an institution's business plan. Decisions to enter, leave or concentrate on an existing business activity require careful assessment of both risks and potential returns. Risk management practices must be defined for each business activity that is pursued. Finally, business activities not part of the institution's focus must be eliminated so that avoidable risks are not assumed due to lack of management oversight.

The specific risks of each business activity of an institution must be defined and the means to measure the risks must be developed. Similarly, databases must be developed to obtain proper and consistent risk measurement across the entire organization. Credit risk evaluation techniques, for example, should be the same in corporate lending, as in correspondent banking. Only then will aggregate credit quality reports, have meaning to senior management. Procedures must be established so that risk management begins at the point nearest to the assumption of risk. This means that trade entry procedures, customer documentation, client engagement methods, trading limits, maximum loan sizes, hedging strategies, and a myriad of other normal business activities must be adapted to maintain management control, generate data in a consistent fashion and eliminate needless exposure to risk. Also data bases and measurement systems must be developed in accordance with the way business is conducted. For example, most accounting systems for trading operations record trades on the basis of settlement day. However, to measure trading desk risks, risk management systems must record positions on a trade database. This means that the risk management system must access the trade entry system directly. Moreover, for accurate daily reports, trades must be recorded, entered, and checked in a timely fashion. (Oldfield G.S and. Santomero A.M 1997)

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1. Introduction**

The objective of this chapter is to provide a rational argument for choosing a specific method or technique for the research. This includes the consideration of the philosophies, approaches, strategies, choices, time horizons, and techniques and procedures as illustrated by Saunders, et al (2007) in their research 'onion'. In fact, it provides an outline of methods and procedures to show that the methodology used in this research is scientific as the process is systematic, methodological, rigorous, conventional, and value-free or unbiased (Mason et al, 1999).

This makes this chapter very important if the validity and reliability of the results of the study are to be attained as well as ensure the replicability and generalization of research results.

### **3.2 Research strategy**

There are various research strategies available to meet the research objectives of this study and none is inherently superior or inferior to the other (Saunders et al, 2007). Thus, there is no explicit rule for one to follow in selecting one method over another and the choice may vary according to several factors such as the nature and any other constraints affecting the collection of data.

Robson (1993) argues that, there are three traditional research strategies: experiments, survey and case study. However, earlier studies reveal four basic methods namely, case study, historical review, experiment, and survey (Jankowicz, 1991). Recent research methods literature adds other strategies like action research, grounded theory and ethnography (Saunders, et al, 2007).

On the whole, the strategies that dominate most literature are the four (4) cited by Jankowicz. Yin (2003) adds that, each strategy can be used for exploratory, descriptive and explanatory research, some of which may either be deductive or inductive.

Taking into account the nature and objectives of this study, the case study strategy was chosen over the other strategies. It involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence. It also includes the development of detailed, intensive knowledge about a single case, or a small number of related



cases (Robson, 1993). In simple terms, it represents a comprehensive description and explanation of the many components of a given social situation which may be a single, multiple, holistic and embedded case studies (Yin, 2003). Morris and Wood (1991) recommend case study strategy as the best if one wishes to gain a rich understanding of the context of the research and the processes being enacted. Moreover, it is a worthwhile way of exploring new and existing theory or concept. Most importantly, case study because it allows the combination of the various data collection methods, such as interviews, observations documentary analysis and questionnaires, also known as triangulation (Saunders et al, 2007).

In addition to the case study, the archival strategy was considered as it makes use of administrative records and documentations as the principal source of data (Saunders et al, 2007). Indeed, the experimental strategy is obviously not suitable as it owes much to the natural sciences, both costly and complex (Hakim, 2000) and will not be feasible for many business and management research questions because most people will not be willing to participate in experiments and those who volunteer may not be representative (Hakim, 2000; Neuman, 2007; Saunders et al, 2007).

Furthermore, the survey method though considered the best, because it is applicable to a much wider variety of topics and designs in business and management, it is limited by the need for a lot of time to ensure that the sample from the population is representative and piloting the data collection tools to ensure a good response rate. Moreover, there is a limit to the number of the questions that any questionnaire can contain if the goodwill of the respondent is not to be presumed too much (Saunders et al, 2007). What's more, there may be various errors ranging from sample frames, no response, question wording or order and interview bias which may compound each other (Neuman, 2007).

### **3.3 The Choice of the Company**

Intercontinental Bank Ghana Limited (a bank jointly owned by Ghanaian and Nigerian interests) is a subsidiary of Intercontinental Bank Plc. (the third largest and the second most capitalized

bank in Nigeria with a network of over 200 business offices). Intercontinental Bank Plc. is today rated by the Financial Times of London as the 16th largest bank in Africa and among the top 1000 banks in the world. In Ghana, it is one of the leading banks specialized in investment banking and currency trading (derivatives).

### **3.3.1 The Financial sector**

The Ghanaian Financial markets are mainly made up of money markets and the capital markets. Out of these markets, exist other markets like the derivative markets, foreign exchange markets, the bond markets, the equity markets and their institutions and operational instruments.

There are both domestic and international capital and money markets. Transactions in these markets are mainly on wholesale basis. Due to different regulations and economic developments of different countries, there are different market structures, pattern of growth and different instruments traded in these markets.

The financial markets in Ghana are made up of the bond markets, equity markets, foreign exchange markets and the derivative markets which just started in the late 1990's. The money markets dominate the financial markets in Ghana. The size of both the capital and money markets in Ghana is small relative to that of the UK for instance. The dominance or larger size of the money markets is due to the volatility and unattractive nature of the capital markets.

The more developed a country's financial system, the greater the economic investment and growth of that country (Patrick, 1966). The financial sector is not well developed and is bedeviled with huge trading losses and high bad loans profile. The sector has a special role, as it mobilizes resources and allocates them to those investments that are capable of generating the highest return on capital. The better the financial sector can fulfill this role, the better the economy will perform in the long run.

## **3.4 Research Design**

A common goal of research is to collect data which is representative of a population. McNeil and Chapman (2005) argued that there is no solution to any approach to research, only a series of compromises. Amaratunga et al (2002) also suggested that because there are various research

choices, the researcher must justify the approach chosen since each technique is associated with distinctive means of collecting and analyzing data.

### **3.5 Sample and Sampling Techniques:**

For the purpose of the study, both primary and secondary data were used. Structural questionnaires were used to collect responses from respondents as well as a guide for the interview. The primary sources of data were obtained through the use of interviews and questionnaire. Population of divisional heads of Treasury, Retail Banking, Corporate Banking, Internal Control and Risk Management Divisions numbering seven (7) were interviewed whilst their subordinates (fifty three in number) of the said divisions were given questionnaires to answer. Secondary information was obtained from available literature.

A total of 60 survey questionnaires were distributed, of which 7 were interviewed on specific questions. The questionnaires were personally distributed and administered to the respondent

This approach tends to ensure faster and better response rates than other methods (such as mail and electronic) of data collection (Pelosi et al., 2001). A total of 53 responses were received, which was made up of 49 questionnaires and 4 interviews granted. The response rate of usable replies is 92.45%.

### **3.6 Data Collection Instruments**

The researcher employed questionnaire and interview technique to gather the necessary information. In relation to the interview, the researcher used interview guide to solicit the necessary information. A questionnaire was developed to seek the respondent's understanding of risk management and internal control procedures in Intercontinental bank based on a Likert scale of 1 (strongly disagree) to 5 (Strongly agree).

The questionnaire (Appendix 1) had three sections:

Section A identifies the respondents, their current position and qualification;

Section B concentrates on risk management practices of the bank and whether the Bank's policy on risk management is appropriate to its operations;

Section C looks at the internal control systems of the Bank and whether they are adequate and appropriate

To complement the data from the questionnaires, interview was carried out. Those interviewed include:

The risk Manager

The Head Internal Audit Division

Head of Treasury Division

Head of Corporate Banking Division

The Interview guide (Appendix 2) has two main parts:

Part A concentrates on soliciting information on aspect of internal controls which will assist the researchers to better analyse information in interview section.

Part B relates to the type of risk that the Bank faces and how such risks are addressed by the Bank.

### **3.7 Secondary Data**

In order to get hold of secondary data about theories concerning risk control systems, books, articles, databases and the internet have been used. The library at Blenkinge Institute of Technology has been a central spot for collecting secondary data.

### **3.8 Data collection Procedure (Primary Data)**

The primary data in this dissertation mainly comes from the conducted interviews and completed questionnaires. Both the interview questions and the questionnaire for other staff were sent out early November 2011 and the deadline for receiving completed questionnaires was end of November 2011. For information about the interviews, the question was sent to the respondents a few days before the interviews actually took place. A number of relevant questions were asked in connection with the research problem. Our main questions were asked in the same order, since we wanted the interviews to be as similar as possible. Respondents were also asked to state whether risk measures were integrated into their performance measurement systems. The purpose of these questions was to measure the extent to which internal control is a risk management tool in IBG. Details of some aspect of the questionnaire were adopted from the component of the COSO model (1994) and KPMG International (2004).

After each question we had unstructured resulting questions, because we wanted to get relevant information and deeper understanding of the different measures the bank use in controlling risk. To reduce the risk of missing information, one person asked the questions and the others wrote down the answers. If something was not perfectly clear when the interviewed material was analysed, we had the possibility of placing e-mails and phone calls (Saunders et al, 2003).

### **3.9 Validity and Reliability**

When researchers research they must take the two concepts of validity and reliability into consideration. A research must have high validity, meaning that a research must measure what it is supposed to measure. The reliability must also be high, meaning that a research has to be done in a reliable way. There is a relation between these two concepts, and therefore researchers must take both concepts into consideration and they cannot focus only on one of them (Saunders et al, 2003).

#### **3.9.1 Validity**

Validity means having control of the credibility. There are two main types of validity: internal and external. The internal validity signifies the degree of credibility, and means that the questions in the interview should be asked in line with the purpose of the dissertation. External validity means that the research is conducted only on the appointed group of respondents. External validity also involves how applicable the conclusions of the research are on a general level.

#### **3.9.2 Reliability**

Reliability means that a research is done in a reliable way. Two different researches with the same aim and with the same methods will show the same result if no changes are made to the population (Svenning, 1997). To get higher reliability, the authors were present during the interviews. A tape recorder was used as an aid because we did not want to miss any relevant information. In case of a technical problem, we also took notes during the interviews. Directly after the interviews, while we still had a good picture in our heads, we listened to the tape and summarised the material. To avoid influencing the interviewee, we tried to be as neutral as

possible and let the interviewee speak freely. The same questions were given to all the respondents. To strengthen the reliability, we constructed two questionnaires. One was given to the respondents in advance and a detailed one for ourselves with additional questions and examples. We wanted the respondents to speak openly and not be influenced by our alternatives and examples. When analyzing the result from the interviews we tried to be as objective as possible (Saunders et al, 2003)

### **3.10 Data Analysis**

The Statistical Package for the Social Sciences (SPSS) was used for the analysis of the data collected. The data was input into the software and it was used to generate the mean values of the variables under consideration. It was also used to generate the charts which aided in the interpretation of the results obtained.

## CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION OF FINDINGS

### 4.1 Introduction

This section of the research work presents analysis and discussion of the data obtained from the data collection process. Fifty-three (53) questionnaires were administered to some employees of the bank; however 49 responded questionnaires were obtained representing a 92.4% response. Seven (7) interviews were designed to be conducted but only 4 were successfully done.

In the analysis of the responses descriptive statistics giving information about the means and other descriptive were used. The interpretation of the means took into consideration the rating/scale: Strongly Disagree-1.00 Disagree-2.00 Neutral-3.00 Agree-4.00 Strongly Agree-5.00. Correlation analyses were also done to establish the relationships that exist between some of the variables that are being measured.

### 4.2 Organizational Culture and Risk Management

|                | Effective risk management is important to the achievement of your organization's objectives | Your organization's performance can be improved by effective risk management | The responsibility for risk management within your organization is well documented and communicated and understood | Your organization is able to allocate appropriate resources in support of risk management policy and practice | Your organization encourages and provides resources to staff to undertake relevant training to improve their skills in risk management. | Risk issue is reported to the Board or a board committee |
|----------------|---|--|--|---|---|--|
| Variable       | 1   | 2  | 3  | 4   | 5   | 6  |
| N              | 49  | 49   | 49   | 49  | 49  | 49   |
| Mean           | 4.90  | 4.80   | 3.84   | 3.98  | 3.27  | 2.02   |
| Std. Deviation | 0.306   | 0.407  | 0.624  | 0.750   | 0.930   | 0.829  |
| Min.           | 4   | 4  | 3  | 2   | 2   | 1  |
| Max.           | 5   | 5  | 5  | 5   | 5   | 4  |

**Table 4.1: Organizational Culture and Risk Management**

The maximum and minimum levels for 'Effective risk management is important to the achievement of your organization's objectives' and 'Your organization's performance can be improved by effective risk management' are both 5 and 4 respectively, showing the level of agreement the members of staff of the bank were concerning the role risk management do play in achieving the organization's objectives and improving the performance of the organisation. The mean values of 4.90 and 4.80 indicate that most of them responded agree (4) and strongly agree (5), hence the skewed direction of the means towards strongly agree (5).

On the proper documentation and communication of the responsibility for risk management within the organization, even though none of the respondents disagreed there were mixed feelings in some of the responses as some responded neutral, that is, neither agreed nor disagreed. This may be due to the fact that the respondents may not know whether such activity was done or not. It is also possible that the activity may not have been communicated in certain terms as something about the responsibility of staff towards risk management.

The allocation of resources for the training of staff to enhance their skills in risk management and for risk management policy and practice are likely to be some of the weaknesses of IBG's organizational culture. The minimum level of the responses, (2), showed disagreement to the assertions by some of the respondents. However, the average of 3.27 obtained when it came to allocation of resources towards risk management indicates mixed feelings and uncertainty from the members of staff of the bank.

Also, generally, the respondents responded in disagreement to the reporting of risk issues to a risk board/committee or the company's board. It could mean that it does not seem to be a company regulation or better still practice otherwise there would not have been any disagreement by some of the respondents. The high number of disagreements inferred from the mean of 2.02 is only a confirmation that such practice is not known or enforced so most staff members may not be aware of it.

In total, the bank seems to do well in the setting of objectives and knowing what to do than actually doing them. There is a clear understanding of the role risk management would play in



performance and achieving the banks objectives as compared to allocation of resources to that effect and the enforcement of laid down regulations to enhance risk management. Meanwhile they are essential for the culture of the bank. As explained by Hillson and Murrey Webster (Composition of the Institutes 2005 Corporate Governance Committee) corporate culture is probably more important than the actual risk management tools that are often employed by organisations.

### 4.3 Organisational Objectives

|                | The aims and objectives of your organization are contained in a documented statement and communicated to management and staff. | The priorities of your organization's business objectives are documented, communicated and understood by management and staff | The organization's staff understands how the aims and objectives of the organization are linked to the objectives in their individual unit/area |
|----------------|--|---|---|
| N              | 49   | 49  | 49  |
| Mean           | 4.14   | 4.61  | 4.00  |
| Std. Deviation | 0.791  | 0.492   | 0.000   |
| Minimum        | 2  | 4   | 4   |
| Maximum        | 5  | 5   | 4   |

**Table 4.2: Organisational Objectives**

The averages of the responses show that the banks objectives and priorities are well documented and communicated to all employees. Last but not least, there was an absolute 'agree' response from the respondents about understanding the relationship that exist between the overall objectives and aims of the bank and that of the individual units/department of members of staff. As observed above from Table 4.2, the banks seem to do very well setting and communicating objectives and aims but may be falling short with implementation.

That notwithstanding, understanding the objectives of the company, as noted in the literature review, is the first step to avoid risk. Any activity that is not in consonance with the firm's mission and objectives exposes the bank to serious risks that may never be foreseen.

#### 4.4 Risk Identification and Assessment

|                | Your organization carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives | Internal audit staff, or other internal control staff, is involved in discussions about appropriate controls when the organization is developing new products and activities. | The organization's board and management involve internal audit staff, and other internal control staff, in the risk assessment process. | There are sufficient personnel who are competent and knowledgeable to manage current and proposed organizational activities in all areas. |
|----------------|---|---|---|---|
| Variable       | 1   | 2   | 3   | 4   |
| N              | 49  | 49  | 49  | 49  |
| Mean           | 3.94  | 4.02  | 4.04  | 4.31  |
| Std. Deviation | 0.242   | 0.777   | 0.889   | 0.466   |
| Minimum        | 3   | 3   | 3   | 4   |
| Maximum        | 4   | 5   | 5   | 5   |

**Table 4.3a: Risk Identification and Assessment**

**Strongly Disagree-1 Disagree-2 Neutral-3 Agree-4 Strongly Agree-5**

The average response to the risk assessment scale presented to the banks in variable 1 was close to 'agree'. With the maximum and the minimum responses being agree (4) and neutral (3), there does not seem to be a total and convincing assessment of risk done by bank the which is comprehensive and systematic, identifying all the risks relating to each of its designed aims and objectives. The average response of 4.02 is in the affirmative. Even though that shows that it is done, there are a few who are uncertain about it.

Similarly, to the response above of variable 2, most members of staff agree that the internal control or audit staffs are involved in every risk assessment process performed by management and the board. This should be the ideal situation because it is the job of internal control to assess the bank's risks both on the low and high levels which may then be communicated to management and the board. The cumulative response from the staff members is in recognition of this ideal situation.

Staff members highly agreed to the availability of competent staff members to handle all organizational activities. This is an important risk area; having competent staff to handle all tasks and jobs. It is not surprising the minimum response was 4 otherwise staff members would be portraying themselves as incompetent. This result is similar to the results of variable 6 in Table 4.3b on the organisation having sufficient personnel who are competent and knowledgeable, not only to manage the bank's activities as it is Table 4.3a but also manage the risk management activities. The only difference between the two is that the respondents were more leaned towards strongly agree in the managing organizational activities than managing risk management activities, as inferred from the means (4.31 and 4.20 respectively).

|                | These staff members have been provided with adequate resources to manage the organizational activities | There are sufficient personnel who are competent and knowledgeable to manage the organization's risk management activities | These staff members have been provided with adequate resources to manage the organization's risk management activities |
|----------------|--|--|--|
| Variable       | 5  | 6  | 7  |
| N              | 49   | 49   | 49   |
| Mean           | 3.88   | 4.20   | 3.55   |
| Std. Deviation | 0.634  | 0.407  | 1.156  |
| Minimum        | 2  | 4  | 1  |
| Maximum        | 5  | 5  | 5  |

**Table 4.3b: Table 4.3a: Risk Identification and Assessment**

Variables 5 and 7 seem to confirm the responses of Variables 4 and 5 in Table 4.1 above about allocation of resources to manage risk and organizational activities. Even though on the average the responses are a bit close to ‘agree’ the large standard deviation of 0.634 and 1.156 is an indication of a fairly widespread of opinions. This essentially means that the responding employees were uncertain about resourcing of staff members to execute their tasks on organizational duties and risk management. Poor allocation of resources is one of the risks associated with the bank which can have serious operational risk consequences for the company.

#### 4.5 Risk Management Policy

|                | Your organization has a documented risk management policy | Your organization’s risk management policy is made known to all staff |
|----------------|---|---|
| Variable       | 1   | 2   |
| N              | 49  | 49  |
| Mean           | 4.76  | 4.33  |
| Std. Deviation | 0.434   | 0.474   |
| Minimum        | 4   | 4   |
| Maximum        | 5   | 5   |

**Table 4.4: Risk Management Policy**

The above responses address the fact that the organisation has a documented risk management policy and the policy has been made know to staff members. That is a step in the right direction. However, it is not enough to have a policy well documented and its content disseminated; the bank must go beyond that and provide the needed resources, especially material resources to be able to deal with risk issues that may confront the company.

#### 4.6 Control Environment

Respondents confirm the performance of regular internal control checks on the internal control system that has been laid by management as mentioned under variable 1 from the average response level of 4.76. In the passage of time, most often workers get so used to an existing

system of checks such that they begin to take it for granted, especially when there has not been any bad occurrence as a result of non-compliance. It is therefore important for internal control to ensure that the laid down systems to avoid losses through risk are regularly checked for effectiveness.

The work of internal control is greatly enhanced when internal control policies are communicated to all employees. With the minimum response of 4 which is 'agree' coupled with a mean of 4.37, it shows that the communication is to all employees. Unlike the response in variable 1 below where even with a greater mean value, some of the respondents indicated disagreement. It means that not all employees are aware of the regular assessment by the internal control team.

Generally, the mean of the results on variable 2 (3.51) indicate uncertainty on the overall response of the employees. The agreements and disagreements on the part of the respondents to the question of whether external auditors regularly assess the adequacy of the internal control of the bank are not so unexpected. This is because external auditors do not interact with all or majority of employees when they came for assessment. It is possible some of the staff may not even know that external auditors have come to the bank to do assessment.

|                | The organization's internal auditors periodically assess the adequacy of the organization's internal control systems | The organization's external auditors periodically assess the adequacy of the organization's internal control systems | Internal control policies are communicated to all of the organization's employees. | Policies on Staff conduct are communicated to all of the organization's employees |
|----------------|--|--|--|---|
| Variable       | 1  | 2  | 3  | 4   |
| N              | 49   | 49   | 49   | 49  |
| Mean           | 4.76   | 3.51   | 4.37   | 4.57  |
| Std. Deviation | 0.630  | 1.210  | 0.487  | 0.500   |
| Minimum        | 2  | 2  | 4  | 4   |
| Maximum        | 5  | 5  | 5  | 5   |

**Table 4.5a: Control Environment**

What is unexpected is the obvious lack of correlation or non-agreement of the responses for variable 4 and variable 5. There is a strong agreement to the communication of policies on staff conduct to all employees of the organisation but a contradictory disagreeing response to the existence of policies on staff ethics or code of conduct. While the mean response for variable 4 is 4.57 and that of variable 5 is 1.88. If policies on staff code of conduct do not exist then what is it that is communicated? That notwithstanding, it is possible some of the respondents are not aware of its existence. Meanwhile, the latter response has grievous risk consequences for the organisation if indeed there are no policies guiding the behaviour of employees.

|                | Policies on staff ethics or codes of conduct exist | Internal audit staff, or other internal control staff, is involved in discussions about appropriate controls when the organization is developing new products and activities. | The organization's board and management involve internal audit staff, and other internal control staff, in the risk assessment process. |
|----------------|--|---|---|
| Variable       | 5  | 6   | 7   |
| N              | 49   | 49  | 49  |
| Mean           | 1.88   | 4.02  | 4.04  |
| Std. Deviation | 1.452  | 0.777   | 0.889   |
| Minimum        | 1  | 3   | 3   |
| Maximum        | 5  | 5   | 5   |

**Table 4.5b: Control Environment**

There is almost a perfect correlation observed between the responses of variable 6 and 7 and that of variables 2 and 3 from Table 4.3 which have similar questions. The means, the standard deviation, maximum and minimum values are the same. This is an indication of consistency in responses.

#### 4.7 Accounting, Information and communication systems

|                | The organization's accounting systems are properly manage and report company transactions in accordance with the proper accounting standards | Appropriate and sufficient reports are produced by the company for the proper management and control of the company | The organization's accounting, information and communication systems are able to identify whether all risk taking activities within the company are within the company's policy guidelines |
|----------------|--|---|--|
| Variable       | 1  | 2   | 3  |
| N              | 49   | 49  | 49   |
| Mean           | 4.43   | 4.10  | 3.02   |
| Std. Deviation | 0.500  | 0.823   | 1.031  |
| Minimum        | 4  | 3   | 1  |
| Maximum        | 5  | 5   | 5  |

**Table 4.6a: Accounting, Information and communication systems**

The response to variable 1 indicate that the bank is truly managing its accounting systems and conforming to proper accounting standards, whether it is International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles (GAAP) or the Ghana National Accounting Standards (GNAS).

In as much as some responded ‘neutral’ the general response to generation of appropriate and sufficient financial reports to exercise proper management and control is ‘agree’, judged from the mean of 4.10. This practice is useful for management to have information on all financial appropriations.

The respondents are uncertain as to whether the technology, reporting standards and other financial procedures employed are able to identify whether all risk taking activities within the company are within the company's policy guidelines. It is tempting to agree with the respondents



because you can know some of the risk taking activities are within the company's policy guidelines but may not know if all the risk taking activities are within the company's policy guideline.

|                | All company personnel in the areas of control understand their roles? | All company personnel in the areas of control understand how their activities relate to others. | All company personnel in the areas of control understand their accountability for their activities. |
|----------------|---|---|---|
| Variable       | 4   | 5   | 6   |
| N              | 49  | 49  | 49  |
| Mean           | 4.27  | 4.10  | 4.61  |
| Std. Deviation | 0.446   | 0.895   | 0.492   |
| Minimum        | 4   | 3   | 4   |
| Maximum        | 5   | 5   | 5   |

**Table 4.6b: Accounting, Information and communication systems**

The respondents generally were in agreement to variables 4, 5 and 6 about the roles of the personnel in the internal control units about understanding the jobs, how their activities relate to others and their accountability for activities. This is positive because it means that personnel or staff members who are supposed to assess the controls of the company will in the nutshell be on top of their jobs. There would be no confusion in control tasks to be performed and reporting to be done.

## 4.8 Control Activities

|                | Policies and procedures exist in the organization to provide that decisions are made with appropriate approvals | There are provisions in the personnel policies of the organization to provide for periodic rotation of staff duties. | Dual controls over organization assets and separation of duties provided for in the company's organizational structure |
|----------------|---|--|--|
| Variables      | 1   | 2  | 3  |
| N              | 49  | 49   | 49   |
| Mean           | 4.14  | 4.20   | 4.08   |
| Std. Deviation | 0.577   | 0.407  | 0.571  |
| Minimum        | 3   | 4  | 3  |
| Maximum        | 5   | 5  | 5  |

**Table 4.7: Control Activities**

In spite of the minimum of 3 and the maximum of 5, the small value of the standard deviation shows that the responses chosen were not widespread. Hence a mean response of 4.14 is in agreement to the existence of policies and procedures requiring decision making to be by approval of the authorities involved. It encourages segregation of duties, UCLA (2008), to prevent one person pushing for certain approvals alone that will not be in the best interest of the company

The response of variable 2 ranges between 4 and 5, which are both agreeing responses. This establishes an emphatic agreement to the practice of periodic rotation of staff duties. This policy does not allow one staff to remain on a particular duty so long that they get to know ways or means by which they may take advantage of their position for their personal gain that cause the company to lose money.

Similarly to variable 1, variable 3 has a small standard deviation which denotes an absence of a widespread of the responses. Dual controls over the bank's assets and separation of duties also conform to the concept of segregation of duties. Segregation of duties is critical to effective internal control. According to Yale University (2008), it reduces the risk of both erroneous and inappropriate actions. Yale University shares the view that in general, the approval function, the

accounting/reconciling function, and the asset custody function should be separated among employees. This will serve as a preventive measure to fraud since it will require the collaboration of another employee to execute any dishonest act.

#### 4.9 Monitoring or self-Assessment

|                | The board approves the company's systems of internal controls. | The board reviews management's actions in dealing with control weaknesses and verify that the actions taken by company's management are appropriate and adequate | There is sufficient detail in audit reports, or other control assessment reports, for the company's board and management to understand the situation as regards internal controls. |
|----------------|--|--|--|
| Variable       | 1  | 2  | 3  |
| N              | 49   | 49   | 49   |
| Mean           | 4.24   | 4.04   | 4.27   |
| Std. Deviation | 0.434  | 0.706  | 0.605  |
| Minimum        | 4  | 2  | 3  |
| Maximum        | 5  | 5  | 5  |

**Table 4.8a: Monitoring or self-Assessment**

The performance of an effective internal control system rests on the shoulders of the management and board of the bank, KPMG (1999). The mean responses for all duties, roles, regulations and provisions involving the board and management are absolute 'agree'. It therefore implies that the supervisory role and sustenance of the internal control of the banks are in good shape.

|                | Audit reports, or other control assessment are reported, timely enough so that the company's board and management are able to take appropriate action. | The board, or a board committee, approves the appointment of the company's internal audit personnel | The board, or a board committee, approves the scope of all internal activities that Review internal controls | The board, or a board committee, reviews the results of all internal and external Audits. |
|----------------|--|---|--|---|
| Variable       | 4  | 5   | 6  | 7   |
| N              | 49   | 49  | 49   | 48  |
| Mean           | 4.20   | 4.29  | 4.39   | 4.23  |
| Std. Deviation | 0.841  | 0.456   | 0.492  | 0.425   |
| Minimum        | 3  | 4   | 4  | 4   |
| Maximum        | 5  | 5   | 5  | 5   |

**Table 4.8b: Monitoring or self-Assessment**

#### **4.10 Relationship between Internal control tools and Performance**

The tables above is a correlation table between “Your organisation’s performance can be improved by effective risk management” as measure of performance and “Dual controls over organization assets and separation of duties provided for in the company's organisational structure”, “Policies and procedures exist in the organization to ensure that decisions are made with appropriate approvals” and “The board approves the company's systems of internal controls” as the measure of internal control”. These fall into the category of what The University of Texas Health Science Centre at San Antonio, UTHSCSA (2002) describe as internal control tools.

#### 4.10.1 Organisational Performance by risk management and the Separation of Duties

The correlation table below measures the level of the relationship between views on “Your organization’s performance can be improved by effective risk management” and the responses “Dual controls over organization assets and separation of duties provided for in the company's organizational structure”. The Spearman’s correlation coefficient used to measure the strength of association between two ranked variables, Lund Research (2012). The values are measured from -1 to 1. The closer the Spearman’s correlation coefficient values to 1 or -1 the stronger than the relationship between the two variables being considered. The negative or positive sign determines if the relationship is inverse or direct respectively.

|                | Dual controls over organization assets and separation of duties provided for in the company's organisational structure |  | Your organization’s performance can be improved by effective risk management |
|----------------|--|--|--|
| Spearman's rho | Dual controls over organization assets and separation of duties provided for in the company's organisational structure | Correlation Coefficient<br>Sig. (2-tailed) | 0.593**<br>0.000   |
|                | Your organization’s performance can be improved by effective risk management   | Correlation Coefficient<br>Sig. (2-tailed) | 0.593**<br>1.000   |

**Table 4.9 Organisational Performance by risk management and the Separation of Duties**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

In that regard, a correlation value of 0.593 indicate a fairly strong direct relationship between “Your organization’s performance can be improved by effective risk management” and “Dual controls over organization assets and separation of duties provided for in the company's organizational structure”, meaning separation of duties in the bank’s organizational structure as an internal control tool influences the performance of the organisation fairly well. The correlation is statistically significant with a Sig. (2-tailed) value of 0.000, because it is less than 0.01.

#### **4.10.2 Decision approvals guided by policies and procedure and Organisational performance**

Similarly as described above, the Spearman’s correlation for the responses “Your organization’s performance can be improved by effective risk management” and “Policies and procedures exist in the organization to provide that decisions are made with appropriate approvals” is 0.643. This equally shows a fairly strong direct relationship between the variables which mean that the more appropriate approvals are made in line with policies and procedure that exist in the bank. This will likely translate to the enhancement of organisational performance, in a way money is not lost or the bank is not put at a risk.

The relationship is observed to be statistically significant Sig. (2-tailed) value of 0.000 which is less than the significant level at which the correlation test was ran.

|                |   |  |  |   |
|----------------|---|--|--|---|
|                |   |  | Your organization's performance can be improved by effective risk management | Policies and procedures exist in the organization to provide that decisions are made with appropriate approvals |
| Spearman's rho | Your organization's performance can be improved by effective risk management                                    | Correlation Coefficient<br>Sig. (2-tailed) | 1.000  | 0.543**<br>0.000  |
|                | Policies and procedures exist in the organization to provide that decisions are made with appropriate approvals | Correlation Coefficient<br>Sig. (2-tailed) | 0.643**<br>0.000   | 1.000   |

**Table 4.10: Decision approvals guided by policies and procedure and Organisational performance**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### **4.10.3 The board's approval of the banks internal control systems and organisational performance**

The relationship between the board's approval of the internal control systems and the performance of the bank in the face of risk appears to be a very strong one. This is highlighted by the Spearman's correlation figure of 0.788 that is obtained from the correlation analysis. The response "The board approves the company's systems of internal controls" seems to confirm that all the structures that have been put in place by the company to address risk and internal control are strong and trusted by the staff of the bank. This may also be an indication that the board as a supervisory body over internal controls is doing their job very well.

The correlation is statistically significant at 0.05 significant level with a Sig. (2-tailed) value of 0.044.

|                |  |  |  |  |
|----------------|--|--|--|--|
|                |  |  | Your organization's performance can be improved by effective risk management | The board approves the company's systems of internal controls. |
| Spearman's rho | Your organization's performance can be improved by effective risk management | Correlation Coefficient<br>Sig. (2-tailed) | 1.000<br>.   | 0.788*<br>0.044  |
|                | The board approves the company's systems of internal controls.               | Correlation Coefficient<br>Sig. (2-tailed) | 0.788*<br>0.044  | 1.000<br>.   |

**Table 4.11: The board's approval of the banks internal control systems and organisational performance**

\*. Correlation is significant at the 0.05 level (2-tailed).

#### 4.10.4 Accounting systems and organisational performance

The relationship between “The organization's accounting systems are properly managed and report company transactions in accordance with the proper accounting standards” and “Your organization's performance can be improved by effective risk management” is a weak one that would not be reliable as far as improving the organisation's performance is concerned. This is shown by the weak value of the Spearman's correlation, 0.439. Accounting and information systems play an important role in managing risk. The company must therefore take a second look at the status quo to enhance meeting performance objectives from that perspective. The statistical significance of the test (Sig. (2-tailed) is 0.002 which is less than 0.01) means that the results is not by chance by statistically reliable.



|                |  |                         |  |   |
|----------------|--|-------------------------|--|---|
|                |  |                         | Your organization's performance can be improved by effective risk management | The organization's accounting systems are properly managed and report company transactions in accordance with the proper accounting standards |
| Spearman's rho | Your organization's performance can be improved by effective risk management   | Correlation Coefficient | 1.000  | 0.439**   |
|                |  | Sig. (2-tailed)         | .  | 0.002   |
|                | The organization's accounting systems are properly manage and report company transactions in accordance with the proper accounting standards | Correlation Coefficient | 0.439**  | 1.000   |
|                |  | Sig. (2-tailed)         | 0.002  | .   |

**Table 4.12: Accounting systems and organisational performance**

\*\* . Correlation is significant at the 0.01 level (2-tailed).

#### 4.11 Responses from the Interview

The interview revealed that the Bank's policies and procedures are periodically reviewed by the board to ensure that appropriate internal controls are established. There are monitoring systems meant to determine whether noncompliance with internal controls exists. Instances of noncompliance were reported to the board and appropriate follow up actions to correct such noncompliance initiated. Furthermore, it was discovered that the Board of Directors take

decisions by consensus and that no individual or group of individuals dominates the board's decision making. Interviewees emphasized that appropriate and current information on accounting and communication systems and risk assessment are also made available to the board on timely basis.

These controls are good and it will keep management on their feet. However, too many operational details seem to be reaching the board. This derails the oversight responsibility the board is supposed to perform and could render the board ineffective. The management team should be able to address such internal issues so that a more compressed information gets to the board on less regular basis.

## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMEDATION**

### **5.1 Introduction**

This section of the research work, which is the final chapter, brings out the salient points or results from the analyses and discussions in the summary of findings. The conclusions based on the objectives are drawn from those findings are also briefly stated and discussed and then finally recommendations that would be useful for considerations are brought to the fore.

### **5.2 Summary of Findings**

In the set of questions that sought to explore the organizational culture of the bank in relation to risk management, the bank is realized to focus and show a lot of commitment to the development, documentation and communication of risk management related policies to guide the way things are run in the company. This is a good strength. Meanwhile a little weakness is observed by taking this commitment further by committing full resources to operationalize the policies that have been developed to establish the culture that seeks to protect the organisation from fraud, danger or losing money.

Intercontinental Bank Ghana does very well with setting out clearly defined objectives. The bank is as well able to document and communicate the objectives to all the various units and departments of the bank to enable them align their activities and programs in accordance to the objectives. Objectives here have become the framework within which ideas and concepts are developed and where policies and programs are implemented.

The bank seems to have a very strong risk assessment and identification mechanism. This is demonstrated in 1)its systematic approach to determining the risks that comes with every objective or aim of the organisation, 2) and the involvement of the internal control team in determining the risk levels for new products and services as well as the entire risk assessment process. However, it can do better with the allocation of the appropriate resources to enhance the risk assessment process and the management of organizational activities.

The control environment of the bank is observed to be strong in terms of the way internal control and external control perform their role in ensuring the organisation does not run into any risk. The responses showed a lot of detailed work is always done by internal control to protect the bank. Nonetheless, a loophole may be created in the organisation's control mechanism in the lack of consistency that surrounds the existence of policies on staff ethics or codes of conduct for employees. The absence of a code of conduct or behaviour is a very great way of exposing the organisation to danger from customer services, accounts, corporate services and the entire department that may exist in the bank. It means that staff members could do anything they please and walk away with it.

Accounting, information and communication systems of the bank appear to be very strong. Accounting reporting is timely, purposeful and follows accepted accounting standards. Also, internal control staff knows very well their roles in relation to the different aspects of the organisation. A little lapse is seen in the ability of the accounting, information and communication systems to be able to find out whether all risk taking activities within the company are within the company's policy guidelines. This means that there may be some communication gap between the company's information hub and the rest of the other departments/units of the bank.

Most of the control activities of the bank are organized in a way that prevents one staff member taking advantage of a position or role for the company to lose money. There is segregation of duties that does not allow one person to begin a transaction process and be the one to see to the finish of it, the ending falls into someone else's domain. Authority approvals ensure that the right approval is given to a transaction by an authority (supervisor or manager) before and after completion.

The board of the company as sole committee in charge of instituting, monitoring and evaluating the performance of internal controls systems are doing their work well to ensure that the bank is in control of its future.

Positive correlations are observed between “Your organization’s performance can be improved by effective risk management” and number of selected variables described as internal control tools. All correlations were strong with the exception of the one with accounting, information and communication systems of the bank.

## **5.3 Conclusion**

### **5.3.1 Risk associated with IBG’s banking services.**

The risk identified in the provision of banking services include

- 1) Not having a set of organizational objectives or having organisational objectives that are not clear and that which members of staff are not able to relate with: Organisational objectives serve as a framework within which the bank conducts its activities in a purposeful manner. When they are not present or cannot be linked to the smallest task performed by a staff in the organisation, it sets the tone for haphazardness and disorder which are not healthy for the bank.
- 2) Availability of competent staff: Having clearly defined goals, targets and objectives are themselves not enough to get results for the organisation without losses. The bank must have experienced members of staff who are able to understand these objectives, accept the internalization of them and willing to run with them. Sufficient and Competent staffs are always needed to run systems effectively to reduce turnaround time and minimise losses.
- 3) Provision of resources: Resources are the tools, whether physical or mental that are employed by the employees to do the job. Also. Resources include clearly defined roles of staff to enable them implement ideas, programs and policies.
- 4) Risk management policies: The absence of a risk management policy is a huge risk matter for any banking institution in the provision of its services. Certain common and sometimes uncommon sources of risk must be identified beforehand and documented by the bank. These must be taught employees to guide them in the execution of their duties. Risk management policies must include employee code of ethics and behavioural conduct.

- 5) Technology: The appropriate technology employed will help members of staff to do their work well. Lack of the right technology to aid the flow of information can lead to uninformed decisions that could affect the company.

### **5.3.2 Viability of Intercontinental Bank's internal control systems as a risk management tool**

The internal control systems of Intercontinental Bank Ghana is strong is able to provide sustainable risk management solutions for the bank. The reason for this assertion is given below;

- 1) The bank's internal control systems are able to meet adequately all the risk associated with the provision of banking services mentioned and described above.
- 2) The board and management, whose main duty is to perform supervisory role over the internal control system development and ensure its performance have been up to the task and doing their job well.

### **5.3.3 The impact of internal control as risk management tool on IBG's performance**

The correlations in Chapter4 show that, generally the internal control tools (used as risk management tools) do have impact on the performance of the bank. A positive correlations is noted to exist between all the internal control tools variables and "Your organization's performance can be improved by effective risk management". This means that those internal control tools do have a positive impact on the performance variable.

With the exception of "The organization's accounting, information and communication systems are able to identify whether all risk taking activities within the company are within the company's policy guidelines" , all the other variables have a strong relationship with the performance variable. This suggests that they have a greater ability of influencing the performance outcome performance of the organisation than the one which has a weak relationship with it.

Essentially, all these mean that dual controls over organization's assets and separation of duties provided for in the company's organisational structure, the existence of policies and procedures in the organization to provide that decisions are made with appropriate approvals and the fact

that the board approves the company's systems of internal controls (because they believe its strong and sustainable) can result in a significant performance of the bank.

The nature of the accounting, information and communication system can also result in some performance but that performance is not strong enough.

## **5.4 Recommendation**

Risk management policies of the bank must be updated regularly to avoid they getting outdated and irrelevant with time.

The bank must make the effort to resource all departments/units of the bank effectively for them to be able to carry out their task in a manner that avoids unnecessary risk

The bank must come out with a clearly described code of conduct for employees and members of staff subject to regular review.

The performance of the accounting, information and communications systems must be evaluated. Based on its performance the bank must ensure that it does its job of communicating information timely and promptly as required by all members of staff for any duty or task.

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**APPENDIX 1 – QUESTIONNAIRE**

The researchers are undertaking a project titled “ Risk Control Systems in Banking Sector : A Case Study of Intercontinental Bank” in partial fulfilment of the award of Master Business Administration(MBA) degree awarded by Blekinge Institute of Technology, Sweden.

This questionnaire is design to provide feedback on how controls systems in the bank ensure that risk that emerge from the Bank’s activities are managed. You are assured that any information given will be handled confidentially. Thank you for your co-operation.

**SECTION ONE**

**(Background Information)**

- 1. Educational background.....
- 2. Division.....
- 3. Position held.....

**SECTION TWO**

**RISK MANAGEMENT**

**PART 1**

**(Organizational Culture and Risk Management)**

| NO | Statement  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
| 1  | Effective risk management is important to the achievement of your organization’s Objectives                        |                   |          |         |       |                |
| 2  | Your organization’s performance can be improved by effective risk management.                                      |                   |          |         |       |                |
| 3  | The responsibility for risk management within your organization is well documented and communicated and understood |                   |          |         |       |                |

|   |   |  |  |  |  |  |
|---|---|--|--|--|--|--|
|   |   |  |  |  |  |  |
| 4 | Your organization is able to allocate appropriate resources in support of risk management policy and practice.                          |  |  |  |  |  |
| 5 | Your organization encourages and provides resources to staff to undertake relevant training to improve their skills in risk management. |  |  |  |  |  |
| 6 | Risk issue is reported to the Board or a board committee  |  |  |  |  |  |

7) Who is responsible for risk management within your organization: **Circle all** that Apply

- the Chief Executive Officer? 1
- another senior executive? 2
- Head of Finance? 3
- a committee? 4
- the Risk Manager? 5
- the Internal Auditor? 6
- other? (Please specify below) 7

.....  
 .....

**Part 2**

**Risk Management Policy**

| NO | Statement   | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|---|-------------------|----------|---------|-------|----------------|
| 1  | Your organization has a documented risk management policy |                   |          |         |       |                |



|   |   |  |  |  |  |  |
|---|---|--|--|--|--|--|
| 2 | Your organization's risk management policy is made known to all staff |  |  |  |  |  |
|---|---|--|--|--|--|--|

3) Who approves the Risk Management policy: **Circle all that Apply**

- Chief Executive Officer? 1
- Board/Executive Management Team? 2
- Financial Controller? 3
- Audit Committee? 4
- Risk Manager? 5
- other? (please specify below) 7

.....  
 .....

**Part 3  
 Organizational Objectives**

| NO | Statement  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
| 1  | The aims and objectives of your organization are contained in a documented statement and communicated to management and staff.                   |                   |          |         |       |                |
| 2  | The priorities of your organization's business objectives are documented, communicated and understood by management and staff                    |                   |          |         |       |                |
| 3  | The organization's staff understands how the aims and objectives of the organization are linked to the objectives in their individual unit/area. |                   |          |         |       |                |

|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|
|  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|

**Part 4**

Risk Identification

| NO | Statement  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
| 1  | Your organization carries out a comprehensive and systematic identification of its risks relating to each of its declared aims and objectives. |                   |          |         |       |                |

2) Who is responsible for identifying the risks facing your organization: Circle all **that apply**

- Chief Executive Officer? 1
- Board/Executive Management Team? 2
- Financial Controller? 3
- Internal Auditor? 4
- Risk Manager? 5
- All Divisional Managers? 6
- all Staff? 7
- other? (please specify below) 8

.....  
 .....

3) What tools and techniques are used by your organization for identifying risks: **Circle all that Apply**

- audits or physical inspection? 1
  - brainstorming? 2
  - examination of local/overseas experience? 3
  - others (specify below) 4
- .....
- .....

**Part 5  
(Effective Risk Management)**

Overall, at what stage of risk management practice development does your organization

Considers itself to being in line with best practice or non-existence?

|                  |                   |                              |       |                  |
|------------------|-------------------|------------------------------|-------|------------------|
| 1                | 2                 | 3                            | 4     | 5                |
| Best<br>Practice | Well<br>Developed | Reasonably<br>Well Developed | Basic | Non<br>Existence |

**SECTION THREE**

**INTERNAL CONTROLS**

**Part 1**

**Control Environment**

| No | Statement   | Strongly disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|---|-------------------|----------|---------|-------|----------------|
|    | <b>CONTROL ENVIRONMENT</b>  |                   |          |         |       |                |
| 1  | The organization's internal auditors report their findings directly to the board or to a board committee              |                   |          |         |       |                |
| 2  | The organization's internal auditors periodically assess the adequacy of the organization's internal control systems. |                   |          |         |       |                |

|   |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
| 3 | The organization's external auditors periodically assess the adequacy of the organization's internal control systems |  |  |  |  |  |
| 4 | Internal control policies are communicated to all of the organization's employees.                                   |  |  |  |  |  |
| 5 | Policies on Staff conduct are communicated to all of the organization's employees                                    |  |  |  |  |  |
| 6 | Policies on staff ethics or codes of conduct exist   |  |  |  |  |  |
| 7 | All Staff always adhere to all controls  |  |  |  |  |  |

**Part 2**  
Risk Assessment

| No | Statement   | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|---|-------------------|----------|---------|-------|----------------|
|    |   |                   |          |         |       |                |
| 1  | Internal audit staffs, or other internal control staff, are involved in discussions about appropriate controls when the organization is developing new products and activities. |                   |          |         |       |                |
| 2  | There are sufficient personnel who are competent and knowledgeable to manage current and proposed organizational activities in all areas.                                       |                   |          |         |       |                |

**Part 3  
Control Activities**

| No | Statement  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
|    |  | %                 | %        | %       | %     | %              |
| 1  | Policies and procedures exist in the organization to provide that decisions are made with appropriate approvals.       |                   |          |         |       |                |
| 2  | There are provisions in the personnel policies of the organization to provide for periodic rotation of staff duties.   |                   |          |         |       |                |
| 3  | Dual controls over organization assets and separation of duties provided for in the company's organizational structure |                   |          |         |       |                |

**Part 4  
Accounting, Information and Communication Systems**

| No | Statement  | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|--|-------------------|----------|---------|-------|----------------|
| 1  | The organization's accounting systems are properly managed and report company transactions in accordance with the proper accounting standards. |                   |          |         |       |                |
| 2  | Appropriate and sufficient reports are produced by the company for the proper management and control of the company                            |                   |          |         |       |                |
| 3  | The organization's accounting, information and communication systems are able to identify whether all risk taking                              |                   |          |         |       |                |

|   |   |  |  |  |  |  |
|---|---|--|--|--|--|--|
|   | activities within the company are within the company's policy guidelines                            |  |  |  |  |  |
| 4 | All company personnel in the areas of control understand their roles                                |  |  |  |  |  |
| 5 | All company personnel in the areas of control understand how their activities relate to others.     |  |  |  |  |  |
| 6 | All company personnel in the areas of control understand their accountability for their activities. |  |  |  |  |  |

## Part 5

### Monitoring or Self-Assessment

| No | Statement   | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree |
|----|---|-------------------|----------|---------|-------|----------------|
|    |   |                   |          |         |       |                |
| 1  | The board approves the company's systems of internal controls.  |                   |          |         |       |                |
| 2  | The board reviews management's actions in dealing with control weaknesses and verify that the actions taken by company's management are appropriate and adequate? |                   |          |         |       |                |
| 3  | There is sufficient detail in audit reports, or other control assessment reports, for the company's board and management to understand the situation as regards   |                   |          |         |       |                |

|   |  |  |  |  |  |  |
|---|--|--|--|--|--|--|
|   | internal controls.   |  |  |  |  |  |
| 4 | Audit reports, or other control assessment are reported, timely enough so that the company's board and management are able to take appropriate action. |  |  |  |  |  |
| 5 | The board, or a board committee, approves the appointment of the company's internal audit personnel.   |  |  |  |  |  |
| 6 | The board, or a board committee, approves the scope of all internal activities that Review internal controls   |  |  |  |  |  |
| 7 | The board, or a board committee, reviews the results of all internal and external Audits.  |  |  |  |  |  |

## **Appendix 2: QUESTIONNAIRE FOR INTERVIEW**

### **INTERVIEW GUIDE**

The researchers are undertaking a project titled “ Risk Control Systems in Banking Sector : A Case Study of Intercontinental Bank” in partial fulfilment of the award of Master Business Administration(MBA) degree awarded by Blekinge Institute of Technology, Sweden.

This interview guide is designed to provide feedback on your Bank’s control Environment / exposure to risks and how these risks affect the Bank’s performance. You are assured that any information given will be handled confidentially. Thank you for your co-operation

#### **(Background Information)**

- 1. Educational background.....**
- 2. Division.....**
- 3. Position held.....**

#### **Part 1**

##### **(INTERNAL CONTROL)**

- Are policies and procedures periodically reviewed by the board to ensure that appropriate internal controls have been established?
- Is there a monitoring system in the organization to determine compliance with internal controls and are instances of noncompliance reported to the board?
- Does the board take appropriate follow-up action in instances of noncompliance that are reported to it?
- Are board decisions made collectively and not controlled by a dominant individual or group?



- Does the board receive appropriate and current information from the organization's accounting, information and communication systems to make informed and timely decisions?
- Does the board receive sufficient information about the organization's internal risk assessment process?
- Does the board and management appropriately evaluate risks when the organization is planning and approving new products or activities
- Does the board and management appropriately discuss and plan for control systems when the organization is planning and approving new products or activities
- Does your organization's board and management consider and appropriately address technology issues in the risk assessment process

## APPENDIX 3

### A

#### INTERCONTINENTAL BANK (GHANA) LIMITED STATEMENT OF COMPREHENSIVE INCOME

|  | 2010     | 2009     | 2008     | 2007    |
|--|----------|----------|----------|---------|
| Interest income  | 66,359   | 67,826   | 28,520   | 7,332   |
| Interest expense   | (38,973) | (48,585) | (16,858) | (2,275) |
| Net interest income  | 27,386   | 19,241   | 11,662   | 5,057   |
| Fees and commission income                                 | 16,166   | 14,963   | 10,945   | 2,483   |
| Other operating income                                     | 6,593    | 1,109    | 431      | 71      |
| Net trading income   | 11,498   | 17,695   | 15,045   | 1,862   |
| Total operating income                                     | 61,643   | 53,008   | 38,083   | 9,473   |
| Total operating expenses                                   | (50,911) | (44,851) | (24,057) | (9,356) |
| Operating profit before loss of equity                     |          |          |          |         |
| Accounted investee   | 10,732   | 8,157    |          |         |
| Share of losses of equity accounted invest<br>(net of tax) | (1,083)  | -        |          |         |
| Profit before tax  | 9,649    | 8,157    | 14,026   | 117     |
| Tax/National fiscal Stabilisation levy                     | (4,508)  | (1,685)  | ( 3,326) | ( 135)  |
| Profit After tax   | 5,141    | 6,462    | 10,700   | ( 18)   |
| Earnings per share   |          |          |          |         |
| -Basic (GHp)   | 9        | 2 0      | 1.13     | -       |
| Customer Deposit   | 410.60   | 329.40   | 264.40   | 83.30   |
| Assets   | 540.85   | 431.79   | 299.46   | 99.88   |

### B

#### TREND ANALYSIS OF STATEMENT OF COMPREHENSIVE INCOME

| Year                       | 2010    | 2009      | 2008     | 2007 |
|----------------------------|---------|-----------|----------|------|
|                            | %       | %         | %        | %    |
| Interest income            | (2.2)   | 137.82    | 288.98   | -    |
| Interest expense           | 19.78   | ( 188.20) | ( 6.41)  | -    |
| Fees and commission income | 8.00    | 36.71     | 340.79   | -    |
| Other operating income     | 494.50  | 157.30    | 507.04   | -    |
| Net trading income         | (35.02) | 17.61     | 708.00   | -    |
| Operating Expenses         | (13.51) | (86.44)   | (157.13) | -    |

|                   |         |          |           |   |
|-------------------|---------|----------|-----------|---|
| Profit Before tax | 18.29   | ( 41.84) | 11,888.03 | - |
| Profit after tax  | (20.44) | (39.61)  | 59,544.44 | - |
| Customer Deposit  | 24.65   | 24.58    | 68.49     | - |
| Assets growth     | 25.26   | 44.19    | 199.82    | - |