

**Risk Management, Internal Control Systems and Performance of Selected
Deposit Money Banks in Lagos State, Nigeria**

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**Presented to the Department of Management and Accounting, Faculty of
Management and Social Sciences, Lead City University, Ibadan, Oyo State
In Partial Fulfillment of the Requirements for the Award of Master of Science
(M.Sc.) Degree in Business Administration**

2023

Certification

This is to certify that Lukman Oluremi Oyebisi with the matriculation number LCU/PG/001393 carried out this research work titled “Risk Management, Internal Control System and Performance of Selected Banks” in the Department of Management and Accounting, Faculty of Management and Social Sciences, Lead City University Ibadan, Oyo State, Nigeria for the award of Masters of Science Degree in Business Administration and has not been previously submitted.

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Dedication

This project work is dedicated to the memory of my late father.

Acknowledgement

All thanks and adorations belong to the Almighty Allah for His infinite mercy and kindness for successful completion of this research work.

It is equally worthy of note that this thesis appear in this form due to the blend of assistance, guidance, resilience, inspiration, concerted efforts and tips from some people. It is for this reason that I would like to offer my sincere appreciation to them for all the support and guidance provided and as such, they deserve worthy of mention.

I must deeply appreciate my mentor and brother, Prof. K.A Adeyemo(Vice Chancellor, Lead City University) for igniting my passion to move on to higher level.

My special appreciation goes to my meticulous supervisor Dr. J.A Adejuwon for his thoroughness and painstaking efforts. His criticism, advice and experience really add value to the final output. I am equally indebted to all the lecturers in the department of Management and Accounting, whose knowledge, advice and support has been considerably impactful in my academic sojourn at Lead City University, most especially the head of department, Dr T.M Akinbo, Prof. Godwin Oyedokun, Dr L.A Balogun, Dr. J.A Adejuwon, Dr O.T Oreagba, Dr. Friday Igbadumhe and others.

Specially, I appreciate my friend of many years in person of Mrs Odunayo Adebayo. She has been very encouraging from day one that I obtained the form throughout my academic stay at Lead City University. I am immensely thankful for your solid support and encouragement even when I almost chicken out.

To my loving and supportive wife and the children, the success of this academic feat belong to you. Your continuous prayer, patience, sacrifices, encouragement and support are well noted. Mrs Saidat Oyebisi, thank you for showing me the real definition of love. You are the real star of this success.

Last, my appreciation cannot complete without the mention of my loving mother, Mrs Falilat who despite not educated, gave me all the support to keep getting better. Your moral, spiritual and even financial support is appreciated.

Finally, to all classmates and fiends who contributed positively in one way or the other to the success, I say thank you

Abstract

The study assessed the risk management and internal control systems in the Nigerian banking industry; determined the variables that influences risk management and internal control systems in the selected deposit money banks, appraises the variables that influence the banks performance, and identified the risk exposed to in their operations. This was with a view to add to existing body of knowledge and further studies.

The study relied mainly on primary data. A self-administered questionnaire was used to gather relevant data from respondents across the selected banks in Lagos. The questionnaire was used in collecting information about variables of risk management and internal control systems. A sample of 122 respondents was selected from the total population using a simple random sampling technique. The data collected were then analysed using multiple regression techniques using SPSS.

It was discovered from the study that risk monitoring and risk management policy are important variables in ensuring effective risk management and internal control systems in the Nigerian banking space. By the result obtained from the multiple regression analysis, it was observed that there is a positive and direct relationship between Risk Management and Internal Control system and eventual performance of selected banks (coefficient of 0.351). Risk management policy gave positive (coefficient of 0.643) results when measured against RMIC that exist within the organization and it proves to be efficient by a low margin. Other factors such as organization objectives, control activities and overall objectives also contribute to effective risk management and internal control systems in the banking industry.

The study concluded that risk management and internal control systems variables have significant effect on the performance and operations of Nigerian bank. The major findings of the researcher shows how the combination of the two independent variables(risk management and internal control system) have influenced bank performance in Nigeria. This is a major contribution to the body of knowledge different to the focus of previous researchers who have only dealt with each of the independent variables as a factor for bank performance in Nigeria

Key words: Risk, Risk Management, Internal control, variables, bank performance and deposit money banks

Word Counts: 325

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Chapter One

Introduction

1.1 Background to the Study

The evaluation of organizational performance plays a crucial role in deciding the ultimate success or failure of a corporation. Performance refers to the successful attainment of objectives established by employers, the delivery of services or the sale of products to consumers in exchange for payment, and ultimately contributes to the sustenance, advancement, expansion, and financial gain of the organization. Performance is a strategic element that is linked to every action within an organization, and its execution is contingent upon the specific characteristics of the organization, industry, and environment¹. The assessment of organizational performance enables firms to discover areas of concern that are crucial and afterwards make improvements in those areas².

Organizational performance refers to the collective performance of several divisions within an organization. It involves the adherence to specified schedules designed to attain the overall objective at different phases. Organizational effectiveness refers to the capacity of an entity to successfully accomplish its objectives through the optimal utilization of resources. The evaluation of an organization's performance encompasses a thorough analysis of all its departments, aiming to identify the variables that contribute to both success and failure. Organizations place a high emphasis on the prioritization of production, quality, and general consistency³. Regarding non-financial elements, the conduct of employees within the workplace stands as a significant driver of an organization's performance. The performance of employees has a direct impact on the overall outcomes and achievements of an organization ².

Therefore, the inclusion of employees in this context is warranted as they serve as the primary respondents for the administered questionnaire.

The performance of an organization is contingent upon the implementation of a high-performance business system within the organization. The ability of a company to generate economic success is crucial for its survival and expansion. As a result, the significance of "economic performance and profit creation" has been widely recognized in numerous studies as a fundamental measure for assessing sustainability of business enterprises⁴. The quantification of a business's financial success has been extensively employed in academic study due to its potential for monetary valuation. Considering both financial and non-financial aspects is crucial in assessing the performance of a company. Non-financial performance indicators encompass metrics such as customer satisfaction, corporate reputation, and product adoption rate⁵. However, as business enterprises are profit oriented entities, the focus of organizational performance research has mainly be on the financial aspect of performance measured mostly by result on assets, return on equity, and return on investment among others⁶.

Scholars have highlighted the significance of performance as a determinant of a firm's survival, since it serves as an indicator of profitability or loss⁷. However, the aftermath of the global financial crisis of 2008 has shown that organizational performance maybe jeopardised by many factors such financial mismanagement, fraud and ineffective risk management proces⁸. Indeed, various factors have been identified as exerting an influence on the performance of financial institutions. Several variables contribute to the occurrence of banking crises, such as poor economic conditions, political interventions, instances of fraud and forgery,

inadequate corporate governance practices, and the deregulation of banks⁹. It has been suggested that the performance of banks is significantly affected by fraud and the notable participation of bank personnel. The Nigerian banking industry is confronted with significant issues in the form of fraud and forgeries. In addition to this, lack of risk management may also hinder organizational performance, especially in money deposit banks. The concept of enterprise risk management, which encompasses a comprehensive approach to managing risks in businesses, has garnered significant attention in recent years as organizations strive to enhance their ability to withstand and recover from future crises.

The implementation of a robust risk management system, such as Enterprise Risk Management (ERM) systems, can enhance a firm's performance. These systems contribute to the success of the organization by mitigating uncertainties and enhancing customer satisfaction. The implementation of monitoring and regulatory measures is employed with the aim of mitigating risks, while the establishment of standard policies is undertaken to ensure the minimizing of risk⁸. It has been argued that the implementation of risk reduction strategies has a favorable impact on an organization's financial performance. This is achieved through the practices of loss control, risk mitigation, and the transfer of risk to insurance businesses. The authors elucidated that the implementation of risk mitigation strategies leads to a substantial enhancement in the firm's return on assets.

The evaluation of risks related to a dynamic business environment and the long-term sustainability of a company is limited due to the absence of contextual information beyond financial outcomes. Hence, it is imperative to evaluate achievements in domains outside monetary aspects. Moreover, a significant body of research argues

that the non-financial outcomes of a firm's endeavors exert a direct influence on its financial performance⁹.

Numerous studies have demonstrated a robust association between organizational performance and the adoption and utilization of risk management practices. Hence, the implementation and successful execution of risk management methods can lead to enhanced organizational performance. Through the establishment and promotion of a risk management culture inside a company, managers have the potential to enhance the overall performance of their firm. The foundation of corporate success lies in the presence of highly competent employees, whose effectiveness plays a pivotal role. This is particularly crucial in light of the prevailing deficiencies in worker organization culture.

The notion of credit risk management holds a pivotal position within the realm of commercial banking. The assessment of the borrower's solvency is a crucial factor in determining the performance of financial institutions. Non-payment of loans diminishes the financial gains and legal entitlements of banks, and in the event of banks' failure to fulfill their responsibilities, it might precipitate bankruptcy. This article examines the extant theoretical and empirical literature to identify suitable frameworks and methodologies for assessing credit risk management.

There is no gain saying that the success of any business enterprise is largely dependent on how effective, proactive, and efficient its risk management strategy is. All forms of economic activities are confronted with risks. The banking business especially, is a sensitive business that is highly induced with several risks. They occupy a significant place in the economy of every nation as the prime movers of its economic life. The efficient and effective performance of the banking industry over

time is an index of financial stability in any nation. Both macroeconomic and microeconomic environment where the business operates are confronted with seemingly damaging risks¹¹.

At macroeconomic environment level, Nigeria, and other Sub-Saharan African countries no doubt, are vulnerable to the effects of global recession. These risk changes a lot. They pose a great threat to the survival of the business enterprise. The presence of risk portends danger or a higher chance of loss to the business. In essence, the symbolic nature of the risk and the business environment makes it expedient to properly evaluate what constitute a risk and how to control its inherent damage in a business enterprise. Corporate organization especially banks must therefore continually encourage a sound risk management practice and effective internal control system that will help to achieve its corporate goals and objectives.

The incessant risk management failures of major financial institutions across the world have uncovered some lapses in risk management governance in which many financial and non-financial institutions were badly affected in terms of performance¹². Risk management and internal control are therefore vital requirements for favorable business performance and serve as the best defense against potential business failure. Successful business firms take absolute advantage of opportunities, counter threats, and ensure that they continue to improve their overall performance. Risk-taking is part of everyday business and any organization that refuses to take risks might end up making losses. Organizations or individuals are risk taker working towards achieving a goal. Every organization inevitably faces a wide range of uncertainty due to internal and external factors that can affect the organization's objectives, which could either be

positive or representing a threat¹. Risk becomes popular by being the fourth dimension of business after people, processes, and technology¹³.

Researchers around the world have indicated that companies that succeed in turning risk into result can create competitive advantage for itself¹². Thus, risk management is the process of managing the potential business risks by identifying, analysing, and addressing them while internal control is a management tool that brings solutions to managerial problems, increases efficiency and effectiveness in its operations, abuse prevention and institutionalization of sharp practices in the organizations and integrates management functions in a holistic way.

Risk management is the process that aims at helping organizations to understand and act on all their risks with a view to increasing the probability of success and reducing the likelihood of failure. Risk management is also the process whereby management identifies the organization's vulnerabilities and develops strategies to reduce them. All systems of internal control involve trade-offs between cost and benefit. For this reason, no system of internal control can be said to be 100 percent effective. Organizations accept the fact that risk can only be mitigated, not eliminated. Due to its role in corporate governance and even the large number of corporate failures in recent past, the effectiveness of risk management is extremely important, and the continuous improvement of its effectiveness is one way to improve the effectiveness of corporate governance of the organization¹³.

Risk management backed by internal control has currently assumed greater importance and has been attributed to the inability of boards to recognize the risks faced by their companies and their failure to take suitable mitigation measures in time. In the light of this, Anthony opined that Commercial banks are in the risk business

because in the process of providing financial services, they assume various kinds of financial risks. The internal control system possesses vital importance for the institution to attain its ultimate objectives. The internal control system allows banks to foresee potential problems that may cause financial losses and thereby prevent or minimize any future losses¹⁴.

According to COSO integrated framework internal controls pay attention to five components which effectively determines the performance of a business organizations: control environment, risk assessment, control activities, information and communication and monitoring. Control environment is the foundation for all other elements of internal control; it provides discipline and structure for the company. This includes integrity, ethical values and competence of the managements and board of directors provide direction for the company¹³. The risk assessment is seen as a process of detecting, analysing, and responding to threats from both external and internal sources that will jeopardize the attainment of firm objectives¹⁵.

To most people, risk implies some form of uncertainty about an outcome in each situation. To the business world especially financial sector, risk could be used to mean the cause of an outcome; object that could result in loss; taking risk itself e.g. financing a project etc¹⁶. Each of these understanding shows that effective management of inherent risk in a business environment is very crucial to our daily existence. Risk is a fact of life that requires management in evading its adverse effect in banking operations and practises in Nigeria. Therefore, risk management and internal control system is taken seriously in the Nigerian banking space, especially in the top money deposit banks in Nigeria. Some of the top money deposit banks the

research focuses on includes United Bank for Africa, First Bank Plc, Zenith Bank, Ecobank Plc, Sterling Bank.

The bad failure of some Deposit Money Banks (DMBs) prior to bank consolidation in 2005 was traceable to massive insider abuse by their owners and officials orchestrated through poor or inadequate risk management practice, lack of effective internal control system among others. The high-profile fraud in the defunct Intercontinental bank, Oceanic Bank, Afri Bank et al led to the eventual death of those banks and create public distrust in the Nigerian Banking system. This sharp practise was carried out successfully because of the failure to incorporate risk management practice and avoidance of internal control system in their operations¹⁷.

Failures of banks resulted in unemployment, slow financial development, reduction in consumer confidence and other associated economic interests¹⁶. The cost of banks failure is usually very high, and most times, leaves devastating effect on the nations growth rate. As a result of these corporate disasters and operational risks, the regulatory body thereby directed that a systematic inculcation of risk management practise and sound internal control system in the banking operation is effectively sustained to protect the shareholders interest and enhance public confidence so as to reduce the chance of bank failures to the barest minimum. Thus, UBA, Sterling Bank, Zenith Bank, First Bank and Ecobank as a leading Deposit Money Bank have since effectively deploy holistic approach to risk management and internal control system as a viable tool to protect the interest of all stakeholders in their organization.

United Bank for Africa is a leading Multinational Pan African Financial Institution that drives money related establishment offering comprehensive managing an account with a record more than 7 million customers across more than 20 African countries. It

also spread its tentacle to New York, London, Paris, and now in Dubai. Its group headquarters is in Lagos, Nigeria. UBA has provided uninterrupted banking operations for more than 70 years. In a quest for expansion and the need to become largest bank, UBA merged with Standard Trust Bank Plc in the year 2005. Their merger resulted in take-off of the first mega bank in Nigeria.

From then, UBA commenced its pan-African expansion strategy. The Strength of UBA includes Strong liquidity, large balance sheet size, multicultural and multilingual staff, diverse customer base, strong IT platform, proven capacity in key sectors of the economies across Africa, experience management staff, strong risk management, strong profitability, strong corporate social responsibility. In view of extensive nature of the bank's operation, UBA religiously adhere to the best risks management practices. Currently, the bank has the lowest non-performing loan (NPL) in the Nigerian banking industry. This is a testimony to the bank's rigorous credit risk management process. The bank also put in place a strong enterprise management process that ensures all risk are adequately covered in the bank's operations and internal control system is entrenched for strong regular profits performance¹⁸.

Also, First Bank of Nigeria Limited is the premier bank in West Africa. The bank, as a leading banking service, has made tremendous contribution to Nigeria and West Africa's economy for One Hundred and Twenty-Eight years. First bank is one of the national and international financial services brands in Africa with international authorization in Nigeria. They have their footprints across the world through subsidiaries like FBN Bank (UK) Limited in London and Parris, FBN Bank in Republic of Congo, Ghana, Gambia, Sierra-Leone and Senegal, as well as representative office in Beijing. The bank is regarded as one the banks with highest

customer base in Nigeria. First Bank is respected in financial industry across African countries because of its consistent good corporate governance, strong liquidity, optimised risk management and effective internal control system, customers focus and leadership. All these are testaments to the bank sound risk management policy¹⁹.

Zenith Bank Plc, another deposit money bank in Nigeria worthy of our focus in this research, was established in May 1990 as a commercial bank with its headquarters in Lagos and presence in countries like United Kingdom, Ghana, Sierra Leone, Gambia, and China. Due to the strong liquidity of the bank, it was listed on the Nigerian Stock Exchange (NSE) on October 21, 2004, following a highly successful Initial Public Offering (IPO). Zenith Bank Plc currently has a shareholder base of more than half a million and is Nigeria's biggest bank by tier-1 capital. In 2013, the Bank listed \$850 million worth of its shares at \$6.80 each on the London Stock Exchange (LSE).

Zenith Bank Plc blazed the trail in digital banking in Nigeria; scoring several firsts in the deployment of Information and Communication Technology (ICT) infrastructure to create innovative products that meet the needs of its teeming customers. The bank is verifiably a leader in the deployment of various channels of banking technology. Driven by a culture of excellence and strict adherence to global best practices, the Bank has combined vision, skilful banking expertise, disciplined risk management strategies that enable businesses to thrive and grow wealth for customers. The risk appetite of the bank is reviewed periodically by the Board of Directors.

The bank's risk appetite acts as a leveler for better strategic and tactical decisions. Thus, Zenith Bank Plc has been generally adjudged as a corporate governance compliant bank by the Nigerian Stock Exchange (NSE) hence its listing on the Premium Board of the Exchange. The bank equally won the award of "Best Corporate

Governance Financial Services Africa 2021 for a second consecutive year by the Ethical Boardroom. These recognitions were not unconnected to the bank effective risk governance management and internal control culture¹⁹.

Ecobank Nigeria is a pan-African banking group established in the year 1985. It is one of the businesses under the holding company, Ecobank Transnational Incorporated (ETI). Ecobank is also a major player in the distribution of financial services in Nigeria. Ecobank consistently demonstrates its commitment to responsible banking through its proven strict adherence to internationally recognized standards such as framework for risk reduction. The bank recently adopted enhanced risk-based assessment method as part of its granular risk tolerance limits to be monitored by senior management, with zero tolerance to non-compliance of strict adherence to risk management processes. This has manifested in the performance of the bank over the years and inform our decision to consider it for our study²³.

Risk, therefore, is a disturbance variable in banking business across the world and incidentally cannot be avoided for as long as operators (bankers) remain in business wherein the challenge is not taking risk without calculation, as the returns from such risks will usually be outstanding if successful but devastating if unsuccessful but taking a proactive steps towards mitigating it if thus happen. Upon this note, the Chartered Institute of Bankers of Nigeria (CIBN), through the office of the directors of consultancy, training and research urged bankers to always identify risks, assess risks and draw up a comprehensive framework to mitigate them²⁴.

This research work therefore critically examined the various risks faced by banks in Nigeria, how these risks are managed, and the systems of control used to mitigate them using the selected banks as our focus in this study. It was discovered that these

banks have a very low tolerance for risk. They see risk as a dangerous phenomenon that could threaten the existence of the bank or jeopardize the interest of their shareholder. Hence, the response to risk (risk appetite) is very effective.

1.2 Statement of the Problem

Risk is inherent in every economic activity and every organization must manage it according to its size and nature of operation because without risk management and proper internal control system, no organization can survive in the long run. This is because businesses today are faced with far greater challenges than before since economic, technology and legal interdependent constraints are becoming more prevalent and pronounced. The environment where a business operates is now volatile, uncertain, complex, and ambiguous. This situation is now what we called in managerial acronym as VUCA world. This in effect means a workable approach needs to be developed to respond to the challenging situation of volatile, uncertain, complex, and ambiguous environment for business to thrive profitably.

The emerging trend of VUCA induce the need for proper understanding of how business environment got to its current state and the consequences its actions or inactions may be. This new normal of constant, unpredictable changes has led business organizations to take risk management and internal control system very seriously. It would then be assumed that risk management and internal control systems will vary from organization to organization based on their size or industry sector. Banks, being a critical sector of the economy is face with several risks that could jeopardize its intention to fund business expansion and development. It is therefore logical to deduce that every business organization has put in place a strong

risk management structure and internal control systems to help achieve its goals. These management strategies are fundamental to the successful operation and day-to-day running of a business and assist a company in achieving its objectives¹⁸.

Risk may affect many areas of activity, such as strategy, operation, finance, technology, and environment. In terms of specifics, it may include, for example, loss of key staff, substantial reductions in financial and other resources, severe disruptions to the flow of information and communication, cyber-attack, fires, or other physical disasters, leading to interruptions of business and or loss of records. More generally, risk also encompasses issues such as fraud, waste, abuse, and mismanagement. The establishment of well-designed and dependable internal control system is therefore essential as it will improve performance, prevent, and detect fraud and errors. As a result, a successful system of internal control is much more than just an instrument for preventing fraud and dictating accounting mistakes, but also a whole management strategy. An effective internal control system incorporates checks and balances put in place by the management²⁴.

Internal control systems should not be deliberately planned as an end itself, but as a means to ensuring that set goals and objectives are achieved¹⁹. In the light of this, it is expedient to find out more about the risks that could threaten the operations of United Bank for Africa (UBA), Zenith Bank, First Bank, Sterling Bank and Eco Banks, and the risk management and internal control systems that are put in place, how the control measures put in place facilitate the smooth running of the company in achieving its objectives and goals, the impact of risk management and internal control systems on the profitability and sustainability of the selected banks etc.

1.3 Aim and Objectives of the Study

The aim of the study is to examine the effects of risk management and internal control system on the performance of Nigerian banking system. However, the specific objectives are to;

- i. determine the effect of risk management practices on performance of selected Deposit Money Banks (DMBs) in Nigeria.
- ii. examine the influence of internal control systems dimensions on performance of selected Deposit Money Banks (DMBs) in Nigeria.
- iii. identify the internal control systems of selected Deposit Money Banks in Nigeria.

1.4 Research Questions

Based on the identified problems, the study would examine the following questions:

1. What is the level of organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry?
2. What is the prevalent risk management practices of selected deposit money banks (DMBs) in Nigerian banking industry.
3. What internal control systems are available in selected deposit money banks in Nigeria banking space?

1.5 Hypotheses

To confirm the possible symbiotic relationship between risk management and internal control in banks performance, the study will test the following hypotheses. The hypotheses are stated in Null (H_0) forms.

- H_{01} There is no significant relationship between risk management practices and performance of selected Deposit Money Banks (DMBs) in Nigeria.

H₀₂ There is no significant relationship between internal control systems and performance of selected Deposit Money Banks (DMBs) in Nigeria.

1.6 Scope of the Study

The study focuses on the influence of risk management and internal control systems have on the financial performance of selected banks in Nigeria. The dependent variable is financial performance while the independent variables are risk management and internal control systems. This research is limited to the study of some branches of United Bank for Africa, Zenith Bank, First Bank, Ecobank and Sterling Bank in commercial city of Lagos, Nigeria. The study is concentrated on risk management structure and internal control system of each of the banks focusing on their administrative unit, internal control unit, human resources, and operation, audit, and finance departments. Notably, top management staffs of each branches were interviewed during the data collection. The reason for this is that they are more knowledgeable and responsible for risk management and internal controls implementation in these selected banks. Their hands-on experience proven to be vital for our data analysis.

1.7 Significance of the Study

Risk management and internal control are important tools for managing business activities in financial institutions. Risk management in financial institution has greater impact not only on the financial institution but also on the economic growth and sustainable development of a nation. Thus, risk management is used as a management tool to be identifying, assessing, and controlling threats to achieving the organization's goals and protects its assets while internal control system is used to

manage inherent risk and, to mitigate against business losses and liquidation of business. They are very important, effective, and sine qua non to providing adequate checks and balances in the selected banks. The experience from the study thus revealed that the strong risk management, internal control systems put in place by the board of these banks contributed significantly to the consistent growth in profit after tax, high liquidity, and expansion of the banks and, has assisted them to gained large market in Nigeria financial institution and across Africa.

The underpinning need for concerned parties in the Nigerian banking industry to identify, assess and mitigate risk inherent in banking business and operations was also discussed in a study on risk management which highlights the following:

- i. The differing natures of bank risks
- ii. The variant degrees of bank risks
- iii. Measurability of bank risk through adequate assessment procedures.
- iv. Measures of mitigating bank risks effects on national and global economics respectively.
- v. The best practical of banks risks: its indulgence, safety nets optioning as is obtainable.

From this study, the significance of strong and vibrant risk management and effective internal control system cannot be overemphasised most especially now that the business enterprise operates is in a VUCA world (volatile, uncertain, complex, and ambiguous) environments. The surroundings of business world are unpredictably changing regularly. Organization therefore needs to be constantly prepared for eventualities. Thus, this research topic is significant in the following ways:

The study appraised the direct relationship of risk management and internal control system on the performance of selected deposit money banks in Nigerian banks.

This study will provide new perspectives to deposit money banks in Nigerian on effective risk management and internal control policies.

The study will also broaden our knowledge of risk management and internal control system as a potent mechanism to enhance performance of banks, thus achieving business continuity.

The study will also serve as a useful information to assist relevant stakeholders like government, banking industry, corporate organisations, investors, employees, communities etc to appreciate the benefit derivable from managing risk and controlling internal systems.

It is also believed that the study will prove useful intellectual information to students, researchers, and other interested individuals who might wish to undertake study work on the topic or its related area.

1.8 Operational Definition of Terms

Control activities: Refers to the policies and procedures designed and implemented by a company to ensure that management directives or plans are carried out.

Control environment: This is the business environment that determines the effectiveness and efficiency of management of a business.

Consolidation: This is regarded as the reduction in the number of banks and other deposit-taking institutions with corresponding increase in the size and the aim is to make the organization stronger, bigger and highly liquid. Consolidation can be in form of merger and acquisition

Corporate Governance: This can be described as the process, methods and approach adopted towards directing and overseeing the affairs of an organization to protect the interests of relevant stakeholders.

Deposit Money Bank: This connotes financial institution licensed to accept deposits from customers, and offer basic financial services such as savings, certificate deposits, loans etc to the customers

Enterprise Risk Management: This is a comprehensive risk management approach of an organization that aims to identify, assess, and prepare for potential losses, hazards that

Internal Control: Internal control is a management tool or holistic approach that brings solutions to managerial problems in a way that will lead increasingly lead to efficiency and effectiveness in its operation, prevent abuse and institutionalization of good internal financial control in the organizations.

Internal Environment: The internal environment has to do with the tone of an organization, which sets the basis for how risk is viewed and addressed by an organization's personnel, including risk management philosophy, risk appetite, ethical values, integrity, and the environment within which an organization operates.

Macroeconomic Environment: This is the environment where a business or firm operates which influences the performance of the business. Any sudden changes to economic indices like inflation, unemployment rate, government budget, forex etc

Microeconomic Environment: These are variables or factors within the immediate environment of the business that can influence the decision-making process and eventual performance of a business.

Profit: Profit is the reward of a successful business enterprise. It is the most important objectives of a business.

Risk: Risk has been defined as uncertain future events that could influence the achievement of the organization's strategic, operational, and financial objectives.

Risk Assessment: Risk assessment is regarded as the process of detecting, analysing, and responding to threats from both external and internal environments of the business that could jeopardize the attainment of firm objectives or threaten its assets or earning capacity.

Risk Appetite: This is the level of risk that an organization is willing to accept while pursuing its overall objectives.

Risk Management: Risk management is the process of managing the potential business risks by identifying, analysing, and addressing those risks that may threaten the earning capacity or assets of the organization.

Risk Taker: is someone who will risk everything in the hope of achieving their goals.

VUCA: VUCA is an acronym that defines today's business landscape. It means volatility, uncertainty, complexity, and ambiguity.

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Chapter Two

Literature Review

This chapter presents the review of relevant literatures on risk management and control systems. The work is grouped into the review of relevant concepts, theoretical review and review of past studies. It also examines risk and risk management; internal control, internal control systems, internal audit, audit committee and corporate governance are discussed. It also includes the discussion of the relationship between the independent variables e.g. risk management and internal control systems and the dependent variable i.e. bank performance. These would be used later to analyse and interpret information gathered. The chapter is organised under the following headings and subheadings

2.1 Conceptual Review

2.1.1 Concept of Firm Performance

2.1.2 Concept of Risk and Risk Management

2.1.3 Internal Control and Internal Control Function

2.3 Empirical Review

2.3.1 Risk Management and Performance of Commercial Banks

2.3.2 Internal Control Systems and Banks Performance

2.2 Theoretical Review.

2.2.1 Agency Theory

2.2.2 Stewardship Theory

2.2.3 Contingency Theory

2.2.4 Utility Theory

2.2.5 Diversification Theory

2.1. Conceptual Review

This section reviews the relevant concepts of the study which includes risk management,

2.1.1 Concept of Firm Performance

Many organisations are actively striving to enhance their performance through various means. This is because the success and achievement of organisations is tied to individual and organizational performance. The winning strategy is attainable by individuals who actively strive to engage in innovation and effectively achieve and maintain high levels of performance. Therefore, it is imperative to engage in competition within a dynamic and evolving context in order to fully understand and assess performance.

This is why the evaluation of organizational performance has consistently garnered attention from both management teams and scholars. Furthermore, the evaluation of company performance in the contemporary economic landscape is a matter of utmost importance for scholars in academia as well as for managers in the fieldⁱ. Scholars have made further endeavours to provide metrics for the notion of performance. There exists a body of literature that is not yet fully developed and an ongoing discourse on the topic of firms' performance. Thriving business organisations are key factors in the advancement of developing countries which means that when business enterprises in a country do well, the country is the ultimate beneficiaryⁱⁱ. Numerous economists perceive them as analogous to a driving force in shaping their economic, social, and

political progress. In order to thrive in a highly competitive business landscape, it is imperative for every organization to function within an atmosphere that prioritises and fosters optimal performanceⁱⁱⁱ.

In contemporary times, the notion of firm performance has gained significance within the realm of strategic management research and is commonly employed as a dependent variable. The definition and measurement of this concept are subjects of ongoing debate and lack clarity within the academic literature. Nevertheless, the lack of a universally agreed-upon operational definition of firm performance among scholars leads to a range of interpretations based on individual perspectives. The definitions of this topic may exhibit varying degrees of abstraction, generality, and clarity.

During the 1950s, there was a prevailing belief that firm performance could be equated with organizational efficiency. This concept refers to the extent to which an organization, functioning as a social system with finite resources and capabilities, successfully accomplishes its objectives without placing an undue burden on its members. The performance evaluation is based on certain criteria, including productivity, adaptability, and interorganizational tensions^{iv}.

During the later decades of the 1960s and 1970s, various organisations embarked on an exploration of novel methodologies for assessing their operational effectiveness. During this period, performance was conceptualised as the capacity of an organization to effectively leverage its external environment in order to acquire and utilise scarce resources^v. According to Price (1968), the concept of performance can be equated with organizational effectiveness. Price further outlines three criteria for evaluating performance, including productivity, conformity, and institutionalisation.

According to a scholar, the criteria for assessing performance encompass productivity, flexibility, and adaptability^{vi}. Another scholar operationalized the concept of performance can be defined as the result of assessing one's exerted effort. Another perspective approached the concept of organizational performance with meticulousness and clarity, distinguishing their work from that of other academics at the same era^{vii}. Lupton argues that within a well-functioning organization, there is a notable correlation between high levels of production, motivation, and contentment among its members, while rates of turnover, costs, and labour unrest are minimal or non-existent. The efficacy and productivity of an organization were comparable and both played vital roles in overall organizational performance on a worldwide scale^{viii}. This performance may be evaluated by maximising the overall returns across several domains.

During the 1980s, the performance of a corporation was contingent upon its capacity to provide value for its clientele^{ix}. According to another scholar, performance can be defined as the degree to which an organization, functioning as a social system, effectively considers and achieves its objectives and resources^x. In his seminal work, an expert examined the notion of performance within the context of organizational success and effectiveness. He posited that performance serves as a metric for evaluating an organization's ability to effectively pursue and attain its objectives^{xi}.

In the subsequent decade, a scholar posited that the performance of an organization is intricately linked to the level of performance exhibited by its personnel. The individual held the belief that ensuring a superior level of organizational performance necessitates the consistent exposure of company employees to contemporary knowledge and skills. This exposure would enable them to stay abreast of market

developments and, consequently, enhance the overall quality of organizational performance^{xii}.

Experts have also highlighted the correlation between performance and efficiency, as determined by the outcomes achieved by an organization in relation to the resources it has utilised^{xiii}. Scholars also equate performance with an "action," characterised by a specific "behaviour" that encompasses a dynamic perspective, emphasising the act of performing rather than solely focusing on the outcome from a static standpoint^{xiv}. According to the findings of a study, an organization can be deemed effective and achieve a high degree of performance by ensuring the satisfaction of its stakeholders' demands^{xv}.

During the initial ten years of the twenty-first century, the primary emphasis in defining organizational performance was on the organization's capacity and proficiency in effectively utilising its available resources to accomplish objectives aligned with the company's established goals, while also taking into account their significance to its stakeholders^{xvi}. It is also important to acknowledge that performance in the fields of management, economics, and marketing encompasses several attributes such as competitiveness, efficiency, and effectiveness, which contribute to the overall functioning and structure of an organization^{xvii}.

Another scholar presented a comprehensive collection of terminology to elucidate the notion of organizational performance. The definition posits performance as a collection of financial and nonfinancial metrics that provide insights into the degree of achievement of goals and outcomes. Performance is commonly perceived as a dynamic process that necessitates the exercise of judgement and interpretation. Performance can be elucidated through the utilisation of a causal model, which

delineates the manner in which present actions can impact future outcomes. The interpretation of performance can vary based on the individual responsible for evaluating the performance of the organization^{xviii}.

In order to establish a comprehensive understanding of the notion of performance, it is important to familiarise oneself with its key characteristics within each respective area of responsibility. In order to assess the performance level of a company, it is important to possess the ability to quantify the outcomes. Firm's performance can also be measured by both efficiency and effectiveness. Hence, the performance can be expressed as a mathematical function comprising two variables, namely efficiency and efficacy^{xix}.

The term "performance" can also be regarded as a broad and encompassing concept, often referred to as a "bag-word." This is due to its ability to encompass a range of diverse conceptions, including but not limited to growth, profitability, return, productivity, efficiency, and competitiveness^{xx}. The determination of performance should be established by means of various indicators, including piloting, evaluation, efficiency, effectiveness, and quality.

The establishment of a metric to evaluate the efficacy of a company facilitates the assessment of its performance across varying timeframes. Research on Performance Measurement (PM) has had significant development since its emergence in the 1980s. In the conventional setting, operations of small enterprises were characterised by simplicity, with primary emphasis placed on cash flow management by project managers. Certain researchers, redirected their focus towards the performance management (PM) of the entire business unit, often at the plant and division levels.

They sought to examine the standards, criteria, and metrics used to evaluate performance^{xxi}.

Several significant transformations have taken place in the corporate sphere over the past several decades. These changes encompass the implementation of both national and worldwide awards, efforts aimed at improvement, the evolution of organizational roles, the maturation of work practises, external demands, heightened competitiveness, and the integration of modern technology.

The aforementioned modifications have led to organisations facing formidable competition as a consequence of enhancements in product quality, increased flexibility and reliability, the diversification of product offerings, and the emphasis placed on innovation. Various approaches to project management have resulted in divergent definitions and a lack of consensus regarding its fundamental elements and attributes^{xxii}.

The process of measurement enables individuals to develop simplified numerical conceptions that facilitate the communication and execution of actions in response to complicated realities. The process of simplifying this intricate reality is achieved by assessing the criteria for effective management^{xxiii}. A performance assessment system is required to fulfil four fundamental functions:

1. Facilitate the evaluation of the company's attainment of anticipated input from employees and suppliers;
2. Aid in the evaluation of the extent to which each stakeholder group is assisting the company in attaining its primary objectives;
3. Support the company in the development and implementation of processes that contribute to the realisation of strategic objectives;
4. Assist in the evaluation and

monitoring of strategic planning in alignment with negotiated agreements with key stakeholders^{xxiv}.

The phenomenon of globalisation has brought about a paradigm shift in strategic orientation, moving away from a conventional emphasis on low manufacturing costs towards a greater emphasis on quality, flexibility, and delivery. This finding demonstrated that conventional notions were highly constrained and amenable to novel frameworks^{xxv}. The measurement of performance can provide vital insights for management in terms of monitoring performance, reporting progress, enhancing motivation and communication, and identifying issues^{xxvi}.

The identification of an optimal framework for the management and evaluation of corporate performance is a multifaceted challenge. Furthermore, there have been several talks on the subject led by specialists from consulting organisations, corporate managers, and academia. Furthermore, a contradiction arises between the utilisation of conventional performance indicators and contemporary indicators.

One issue that arises is the absence of alignment between measurements and strategy. One of the primary difficulties faced by organisations is determining the non-financial indicators that they should adopt.

2. Verification of Measurements: It is observed that companies often neglect the validation of their models, resulting in the measurement of several factors, many of which are deemed unnecessary.

One challenge that individuals may face is the inability to establish appropriate goals and measures.

4. Inaccurate Measurements: Numerous companies employ measurements that lack statistical validity.

A significant number of organisations continue to depend on conventional quantitative financial performance monitoring tools. It has been found that performance metrics may be classified into four distinct categories, namely financial, non-financial, tangible, and intangible^{xxvii}. Experts believe that a performance measurement system refers to a succinct and well-defined collection of measurements, whether financial or non-financial, that aids in the decision-making process of an organization. This system accomplishes this by gathering, processing, and analysing quantified data pertaining to performance information^{xxviii}. Based on the aforementioned information, it becomes apparent that the primary purpose of performance measurement is to assess the extent to which the organizational strategy has been achieved.

2.1.2 Concept of Risk and Risk Management

Every human activity involves risk, for example crossing the road, engaging in sporting activities, taking the bus, starting a new business et cetera. These are normal daily life activities and yet involve risks. Risk exists because of the inability of the decision maker to make perfect forecasts^{xxix}. Forecasts cannot be made with perfection or certainty since the future events on which they depend are uncertain. An investment is not risky if we can specify a unique sequence of cash flows for it. But the greatest challenge is that cash flows cannot be forecast accurately. Thus, risk arises in investment evaluation because we cannot make correct prediction about the cash flow sequence^{xxx}.

It is however, organisations often try to minimize such risks by following recommended guidelines or try to avoid partaking in such activities that are considered risky. What then is risk? Even though there is no single generally accepted definition for risk because it is a common word used in connection with insurance, finance, banking, business and can be defined in many ways depending on the person defining it^{xxx1}.

Risk has today assumed different connotations in the everyday usage. Risk can be the possibility of an unfortunate occurrence. Risk can also be referred to as the possibility of financial loss. It can also mean the combination of hazard or a combination of the likelihood of an event and the severity should the event occur. Another school of thought also see risk as the variation in outcomes that could occur over a specified period³. The lack of predictability of an outcome can also be termed as risk^{xxxii}.

Risk has been defined as “uncertain future events that could influence the achievement of the organization’s strategic, operational and financial objectives”². It was further defined as the combination of the probability of an event and its consequences”³. In the insurance industry, the term risk refers to the exposure to loss. Risk is equally 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”³. Simply put, risk can imply the outcome of an event which is not favourable to the expectation. The outcome could lead a business in a worse situation than it was before the occurrence of an event.

The reality of the existence of risk and the need to effectively manage it was emphasised by an author in this book. He alluded to the fact that risk is the main issue in the business of banking. He classified risk confronting banking into two categories.

The include fraud risk and market risk. Fraud Risk: Fraud is a deliberate deception or unlawful gain by stealing, deceitful way, and embezzlement. This type of risk is responsible for corporate failure of many banks in Nigeria^{xxxiii}. There is also market risk which is the transactional risk which usually occur in form of interest rate risk, credit risk, earning risk, liquidity risk, foreign exchange risk etc^{xxxiv}. In summation, the Commission of Insurance Terminology of the American Risk and Insurance Association (ARIA) approved the definition of risk as, 'Uncertainty as to the outcome of an event when two or more possibilities exist^{xxxv}.

The above position has shown to us that risk is very crucial to our daily existence especially in business. It therefore behoves on business managers to device effective and efficient means of managing inherent risk in its operations. For this reason, Risk Management is regarded as a solution to the problem posed by the existence of risk. The rise in prominence of risk management in Nigerian banks has been largely related to increase in the frequency and severity of both natural and man-made disasters, stringent regulatory framework, volatility, and complexity of modern-day business environment, etc. Some of these risks, both internal and external, involve huge losses that could deprive a firm from its continuity if the proper management is not put in place. These days, managing risk has become a matter of necessity⁵.

The aim of every profit-making organization, like deposit money banks (DMB), is to earn profit, stay in business for a long time, meet customers' demand and expectations, pay their debts when they fall due and satisfy the aims of stakeholders. Profit making is essentially the most important objective to deposit money banks (DMB). It will inevitably affect the survival, growth, and ability of any organizations to meet its obligation as they fall due.

These objectives are easily achieved if the owner and manager of the company is the same person. However, as the business grows and expands, the need for additional employees arises and the owner employs more and more people to help manage the company^{xxxvi}. This gradually results in what is called in business terms “separation of ownership and control”^{xxxvii}. At this point, the owner realizes that precautions must be taken to protect the company as well as the interest of the owner. The issue of ownership and control becomes more complicated if a company is big and listed on a recognized stock exchange. That is, a company with much more capital investment both in cash, assets, and personnel. Thus, the owners need an assurance that the intended objectives of the company would be achieved, assets of the company would be protected from theft and mismanagement, the accounting information would be received on time and that they would be accurate and reliable.

The weaknesses of many companies’ control systems have been highlighted due to the big financial scandals of recent years especially between 2001 and 2003, and as a result, increased attention on risk management, internal controls, internal audit, corporate governance, and their role in modern organizations has been pragmatically intensified⁷.

Due to incessant financial scandals in the financial services firms, global economic crisis, and prevalent failure of corporate organizations in Nigeria occasioned by corruption, mismanagement, fraudulent practises, lack of internal control system et al the federal government initiated the process to combat the menace.

The resolve to fight and win the war against corruption in Nigeria led to the enactment of the Independent Corrupt Practices and other Related Offences Act 2000. The Act was the first bill presented by Olusegun Obasanjo to the National Assembly

for consideration at the inception of the present democratic administration in 1999. It was passed and signed into law on the 13th of June 2000. The Act establishes ICPC, which is the apex body saddled with the responsibility of fighting corruption and related offences. The Federal Government of Nigeria under Former President Olusegun Obasanjo together with the National Assembly again initiated (EFCC Establishment Act 2004) the Economic and Financial Crimes Commission (EFCC)^{xxxviii}. The EFCC was established in 2003, partially in response to pressure from the Financial Action Task Force on Money Laundering (FATF), which named Nigeria as one of 23 countries non-cooperative in the international community's efforts to fight money laundering^{xxxix}.

These Acts are to direct attention on identifying measures that could secure or improve stakeholders' access to vital information, as well as making it easier for companies and financial houses to comply with existing legislation. This in a way highlights the need to review the Nigerian financial system for controlling the Banking industry activities. Following some high-profile corporate fraud and accounting scandals in Nigerian Banks, greater demands have been created on companies to account for their corporate governance statements, what risk factors they are exposed to, and the internal control systems put in place to mitigate them. This was done to protect shareholders and depositors fund and instil confidence and sound financial reputation in the Nigerian Financial system. Risk Management was therefore encouraged as one of the effective ways to management organization effectively^{xl}.

Conceptually, Risk management is “a process of understanding and managing the risks that the entity is inevitably faced in its operation to achieve its corporate

objectives. Risk management can also mean, the process that aims at helping organizations to understand, and take steps on all their risks with a view to increasing the probability of success and reducing the likelihood of failure. It is sometimes called Enterprise Risk Management (ERM), Organizational Risk Management (ORM) or Corporate Risk Management^{xli}. Due to the large numbers of corporate failure, risk management backed by internal control has currently assumed greater importance and has been attributed to the inability of boards to recognize the risks faced by their companies and their failure to take suitable mitigation measures in time.

Risk management has steadily contributed to the possibility of success and reducing both, the probability of failures and the uncertainty of achieving the organizations overall objectives. Considering this, Anthony opined that Commercial banks are in the risk business because in the process of providing financial services, they assume various kinds of financial risks. Effective internal control system is therefore vital to attain the ultimate objectives of the banks. The internal control system allows banks to foresee potential problems that may cause financial losses and thereby prevent minimize any future losses^{xlii}.

For management purposes, risks are usually divided into categories such as operational, financial, legal compliance, information, and personnel. One example of an integrated solution to risk management is enterprise risk management^{xliii}. 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 to prevent vibrant organizations from catastrophic losses and help them achieve their goals and objectives.

An organization needs to understand its mission and articulate it clearly. This makes it easier to recognize the risks associated with the mission of the organization. Once an organization identifies its mission, it can begin its risk assessment by listing the possible risks that could threaten the business with the aim of identifying high priority risks and focusing on eliminating those risks first.

Internal control on the other hand, is “the whole system of controls, financial and otherwise, established to provide reasonable assurance of^{xliv}:

- (a) an effective and efficient operation.
- (b) Internal financial control.
- (c) compliance with laws and regulations”¹¹

Good internal control systems should make accounting records more reliable and the occurrence of fraud and error more difficult¹¹.

The formality, structure, and nature of a company’s system of internal control will generally vary with the type of sector or industry, size of the company and the level of public interest in it. Since profits are in essence the reward for successful risk-taking, the purpose of an internal control system is to help manage and control risk appropriately rather than to eliminate it as indicated in the Turnbull report²⁵. Thus, control mechanisms should be incorporated into the business plan and embedded in the day-to-day activities of the bank^{xlv}.

The perception of risk management is fundamentally changing within today's institutions. It is no longer purely used as a control mechanism but as a critical input into the basic business question that what if the revenues out of this transaction will compensate me for the additional risks i am taking on? Risk management is seen as an

essential part of helping the bank grow while keeping an eye on the potential consequences if something goes wrong^{xlvi}. This could be external factors such as a recession or a stock market crash or internal factors such as IT failure. In simpler terms Risk Management takes two things into consideration: The likelihood of something bad happening or the severity of loss i.e likely cost of something happening. Once the associated risk has been identified, say with a business deal or a transaction, it will decide whether if the risk is too high to deal with or not. If the risk factor is high for a particular business venture or investment opportunity the bank is basically not allowed to proceed with that piece of business. Risk management is therefore a sine qua non to the success of banking business; it has a controlling role in the business and the business activities.

Risk can be defined as the combination of the probability of an event and its consequences. Risk was also defined as real or potential events which can reduce the likelihood of achieving business objectives²⁷. Risk has also been defined as: “uncertain future events which could influence the achievement of the organization’s strategic, operational and financial objectives”³. Risk is all about events and their consequences which can happen in the future. As at now, we do not know what event will occur in the next hour, tomorrow or next year and if it does occur what its consequences will be. In order words, how likely it is that an event will happen and how bad it will be if it happens.

These risks could be estimated quantitatively or qualitatively in terms of the probability of the occurrence and the consequences. Figure 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 of occurrence of risk lies between just above 0% and

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.

However, the degree and size of the impact or consequences will vary in terms of costs and other critical factors. The impact/probability figure allows an organization to determine which priority to give to each risk and how to manage them.

Since April 2010, the need to differentiate between risk and uncertainty has gained heightened relevance and importance because of the ash cloud from a volcanic eruption in Iceland causing chaos across Europe. Flights were cancelled causing major airline companies to lose billions of dollars and caused lots of loss in the lives of so many people and companies.

These two words are closely related to each other but totally different in meaning. Risk is when future events occur with measurable probability whereas uncertainty involves things that are completely unknown, for example the ash cloud case. This distinction denotes risk as a positive probability of something bad happening, while uncertainty does not necessarily imply a ranking of the possible outcomes²⁶. The problems that risk and uncertainty pose are very serious and not easily overcome especially when the risk and uncertainty involve things that people are deeply concern about. This is where risk management helps to choose among alternative causes of actions to reduce the effects of risks. Risk management and internal controls are means by which businesses' opportunities are maximized and potential and material losses are reduced. Effective risk management in an organization will lead to functional internal control system which will lead to improved performance in the organization.

Recent years have seen heightened concern and focus on risk management, as a result of series of business scandals and failures where investors, company personnel and other stakeholders suffered tremendous loss. This resulted in the publication of books, journals, articles, and a series of government documents that draw attention of the stakeholders to the need for better risk management approach, and how to set up a sound risk management system. The Sarbanes-Oxley Act in the US, the Basel II Capital Accord and the revised Combined Code (2003) in the UK are all examples of governance reforms with the intention of minimizing the risk of future major corporate failures through tighter regulation of internal control systems.

Risk management is the cornerstone of good corporate governance and therefore results in better service delivery, more efficient and effective use of scarce resources and better management. It has to do with identification, analysis and economic control of such risks that could threaten resources, assets, personnel and the earning capacity of a company or an enterprise.

Risk management is the logical development and implementation of a plan to deal with potential losses. It is important for an organization to put in place risk management programmes to manage its exposure to risks as well as protect its assets. The essence is to prepare ahead of time on how to control and finance losses before they occur. Dorfman continues to say that risk management is a strategy of pre-loss planning for pre-loss resources²⁷.

The Institute of Risk Management also provided a more detailed definition of risk management as: the processes by which organizations methodologically address the risks to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of all activities¹⁹

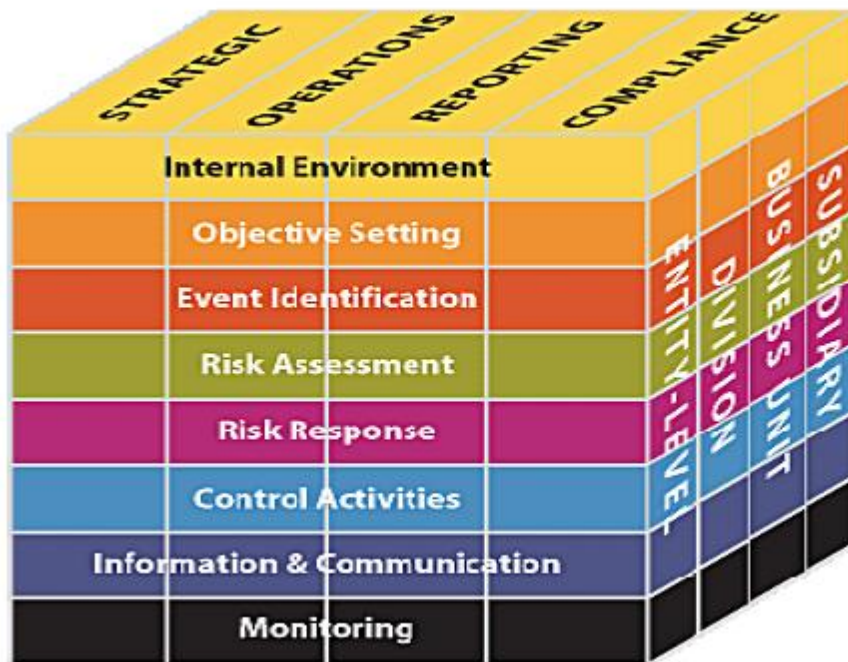
All these prognosis presents us with the following understandings of the concept of risk management.

- I. Risk must be identified before being measured so that they could effectively be controlled.
- II. The control of risk must be economic i.e you don't use #20 to control a risk of #50. Doing so will amount to waste of resources which could impaired the business profitability?
- III. The risk to be managed must be the one that could affect the assets and earning capacity of the business if not well managed.
- IV. Every conceivable enterprise, either profit or non-profit making bodies must manage risk for sustainability hence the use of the word, 'Business Enterprise'.

In 1992, COSO issued the Internal Control – Integrated Framework with the intention of helping businesses and other entities assess and enhance their internal control systems and control their activities toward the achievement of their established objectives. It however became clear that there is the need for a stronger framework to effectively identify, assess and manage risks. Therefore, in 2004, COSO again issued Enterprise Risk Management – Integrated Framework, which expands on internal control, providing a more robust and extensive focus on the broader subject of enterprise risk management.

This Enterprise Risk Management – Integrated Framework provides key principles, concepts, a common language, clear direction, and guidance for all organizations. According to COSO again, Enterprise Risk Management deals with risks and opportunities affecting value creation or preservation, defined as “a process, effected

by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect



the entity and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives”

Fig. 2.1: Enterprise Risk Management-(ERM)

Source: 2004 COSO integrated framework

As shown in figure 2.2, the definition captures key concepts fundamental to how companies and organizations manage risks, providing a basis for application across organizations, industries and sectors. It focuses directly on achievement of objectives established by a particular entity and provides a basis for defining enterprise risk management’s effectiveness. Among the components effective enterprise risk management are:

Internal Environment: The internal environment has to do with the tone of an organization, which sets the basis for how risk is viewed and addressed by an

organization's personnel, including risk management philosophy, risk appetite, ethical values, integrity and the environment within which an organization operates.

Objective Setting: Before management can identify potential events that could affect the achievements of the organization, it must first set objectives for the firm. Enterprise risk management makes sure that management has put in place a process to set objectives and that the chosen objectives support and align with the entity's mission and are consistent with its risk appetite.

Event Identification: It is important that internal and external events capable of affecting the achievement of the organization's objectives are identified, distinguishing between risks and opportunities. Opportunities are channelled back to management's strategy or objective setting process.

Risk Assessment: Risk assessment is the determination of quantitative or qualitative value of risk related to a particular event if it happens. This involves analysis and evaluation. Quantitative risk analysis requires the calculation of two elements: the probability that the event will occur and the consequences of the event. It must therefore be analysed, taking into consideration likelihood and impact, as a basis for determining how they should be managed. It is assessed on an inherent and a residual basis. Those risks that exist and affect the organization before they are addressed and managed are known as inherent risks, while those risks that remain after an organization attempted mitigating inherent risks are called residual risks.

Risk Response: This is where management needs to decide on which risks to avoid, accept, reduce or transfer and develop a set of actions to align risks with the entity's risk tolerance and risk appetite.

Control activities: Control activities such as operating review and reporting, authorization, verifications, approvals and division of duties should be implemented in order to try and avoid risks materializing.

Information and communication: Important and relevant information should be communicated in an appropriate and timely manner in order to enable employees to properly carry out their duties and responsibilities. The communication system should ensure that all information, positive and negative, reaches senior management without any delay.

Monitoring: The monitoring process involves assessing the quality of control systems over time. This may be accomplished through monitoring activities, separate evaluation or both. From these definitions and discussions, it can be seen that risk management is an ongoing process for dealing with the possibility of loss. It aims to create a disciplined, structured and a controlled environment within which risks to the organization can be anticipated and maintained within predetermined and acceptable limits. Risk assessment is a continuous process requiring regular review as internal and external changes influence the company's strategies and objectives. Circumstances demanding close attention include substantive changes to the operating environment, new personnel, new or revamped information systems, rapid growth, new technology, products or activities, corporate restructuring, acquisitions, disposals and foreign operations. A framework for managing risks aims to assist an organization to manage its risks effectively through the application of the risk management process at varying levels and within specific contexts of the organization.



Fig. 2.2: The Risk Management Process

Source: IRM et al., (2002)

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 3. 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 and so on. 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 in Nigerian Banks.

Literature review revealed that trying to envisage, predict and prevent every single risk associated with a business activity can be difficult and exhausting. 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.

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.

The issue of risk management strategy is also very crucial and fundamental to effective risk management. This is because it provides barriers against an accumulation of exposures inherent in on-going business activities¹³. Companies need effective risk management strategies in order to continuously actualize the

organizational objectives. 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.

In view of the wider scope of operations in the selected deposit money banks (DMB) as well as diversity of the Nigeria territorial space within which it operates, most banks have adopted an enterprise-wide integrated approach to risk management. The key objectives of the bank to risk management are:

- i. To Meet and exceed best practise global standard as defines by local and international regulatory bodies.
- ii. To achieve sustainable profitability and enterprise value protection by maintaining growth.
- iii. To enhance corporate governance by involving the Board and Senior Management staff in drafting and implementing risk management agenda for the organization.

Achieving the above objectives, the bank risk management strategy is based on an embedded risk management process which begins with strategy formulation level to the business unit decision making. This is aims at:

- Evaluating strategic risks faced by the bank in the rapidly changing environment.
- Allocate resources in line with strategic objectives and inherent risks.

- Determine the tolerable risk profile and formulate the tolerable risk appetite.
- Establish adequate risk management and internal control systems to support the business and the risk appetite.
- Establish an effective feedback mechanism to monitor the risk management process.

The bank has succeeded in establishing a culture of constant risk profile and apply prompt risk mitigation action where required. This is evident in the bank's firm commitment to proper dissemination of information and policies to all relevant stakeholders, constant staff training, clearly defined risk appetite, culture of ownership of risk management at all levels, central oversight of corporate governance across the enterprise etc.

Risks Affecting the Deposit Money Banks

Most countries, even those which have experienced rapid success have suffered from financial crisis, interrupting the growth process of their economies, and sometimes setting them back. In addition, heightened risks at the level of the individual firm and households have reinforced the role of financial instruments and markets for the hedging and management of risk at the micro level. Therefore risk management, including crisis prevention, remains a central part of the financial agenda of most countries, hence my research in this sector.

In the financial institution, enterprise risk management is the combination of credit risk, interest rate risk or asset liability management, market risk and operational risk. While according to RBICRMS (2001), banks are to consider the following risks within the framework of the regulation, although not totally limited to these fourteen:

- **Credit risk-** this risk arises from lending activities as counter-party defaults or fails in fulfilling his obligation wholly or partially.
- **Market risk-** this is the risk financial institutions face as a result of the volatility of income or market value due to fluctuations in underlying market factors such as currency and interest rates.
- **Liquidity risk-** an institution's failure to meet its commitments results in liquidity risk. That is, when an institution fails to have cash amount or cash inflows at a certain level and quality that enables it to meet its cash outflows fully and timely because of imbalances in the cash flow.
- **Operational risk-** this is the risk that arises from errors and omissions caused by breakdown in the internal controls of a bank. Risks arising from the failure on the part of a bank's management and personnel to perform on time, or mistakes made by an institution's management, or breakdowns and failures in information technology system, fire breakouts and major earthquakes.
- **Interest rate risk-** the risk of loss that a bank is exposed to due to changes in interest rates.
- **Legal risk-**risks arising due to the situation where obligations are higher or rights are lower than what is thought of and assumed due to insufficient or incorrect legal knowledge of operations.
- **Reputation or Business risk-** this is the risk an organization faces if it fails to comply with prevailing rules and regulations, diminished creditworthiness and impaired reputation resulting from failures in business practices.

- **Country risk-** this risk is a cross-border transaction risk where a borrower is unable to fulfil his obligations due to adverse economic, social or political situations in his country.
- **Settlement risk-** an institution faces this risk where underlying financial instruments or funds are not delivered on time by the counter party.
- **Regulatory risk-** an institution faces this risk arising from violation and noncompliance with laws and regulations and legal obligations.
- **Pre-settlement risk-** this is the result of failure on the part of a counter party to complete a future or an outstanding transaction.
- **Transfer risk-** the inability of a borrower to fulfill his obligation on payment of his foreign currency denominated debt in the original currency or in another convertible currency due to legal and adverse economic situation of his country.
- **Market liquidity risk-** this is the risk that occurs when a generalized disruption in asset markets make normally-liquid assets illiquid.
- **Funding liquidity risk-** this risk is as a result of failure to meet funding requirements at a reasonable cost, due to cash flow mismatches and maturity mismatches.

Risk appetite vs. risk tolerance

If risk appetite represents the official speed limit of 70, risk tolerance is how much faster you can go before likely getting a ticket.



The risk appetite deals with the level of exposure that the organization is prepared to accept i.e the risk tolerated by the organization while the risk tolerance represents the level an organization is ready to accept the outcomes of the outcomes of a risk should they occur.

Because of the increasing complexities of risks, functional risk management within an organization will helps to analyze regularly the risk related to the organization's activities and develop appropriate tolerance limit for every risk. From the above diagram, we can see that the organization was willing to accept speed limit up to 70MPH. However, they are still willing to tolerate to any limit slightly above the risk appetite of the organization. Any major increase represents unacceptable level of risk within the organization.

Objective of Risk Management

The overall objective of risk management is to take all observable risk very seriously and implement all strategies to combat it. The specific objectives are:

- a) Risk Prevention and loss reduction: The focus here is to prevent the occurrence of risk and minimize the loss or likely loss where the risk has already occur and would probably occur as the case may be.
- b) Risk Transfer: This is a mechanism use to transfer the likely effect of the occurrence of risk to the risk carrier.
- c) Risk Retention: This is the type of risk that the buy will choose to keep or finance with its working capital. This type of risks are usually small in effect, and may not really affect the profit and loss position of the bank as such.

2.1.3 Internal Control and Internal Control Function

Internal Control is a process initiated by the board of directors, senior management, and all levels of personnel. It is not a policy that is implemented at a certain point in time, but rather continually operating at all levels within the bank. The board of directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis.

Internal control system is central to the operational performance of any business organization that aims to make profit and survive in business for a long time because it encompasses all efforts put in place by management to achieve efficiency, effectiveness, compliance and reliability of business transaction and communication¹⁵.

Internal control is simply the whole system of internal controls, financial and otherwise, established in order to provide reasonable assurance of: (a) effective and efficient operation; (b) internal financial control and (c) compliance with laws and regulations.

While internal control systems include all the policies and procedures (internal controls) adopted by the directors and management of an entity to assist in achieving their objectives of ensuring, as far as practicable, the orderly and efficient conduct of a business, including adherence to internal policies, the safeguarding of assets, the prevention and detection of fraud and error, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information¹⁶.

The survival of any business entity is connected to the quality of internal control system¹⁷. The quality of the internal control system of any enterprise reflects the sensibility of management to the role played by the control environment, control activities, risk assessment, information communication as well as operation monitoring in the discourse of operational performance¹⁸. A strong internal control is then one of the best defences against business failures and an important driver of business performance. Whatever the size of a business organization, big or small, the role of internal control system in achieving operational efficiency cannot be underestimated. However, the usual question that is asked when a vibrant organization suddenly goes bankrupt is “what went wrong”? The usual answer relates to weak internal controls system.

After assessing key risk areas in an organization, these risks would need to be managed in line with a defined risk management strategy. One major component of this strategy is appropriately derived from internal control system that seek to mitigate unacceptable levels of risks. Each control will address a defined risk or be part of a regulatory requirement that in turn addresses the risk related to breaching of regulatory framework, procedures, and rules.

Specifically, the well-known definition for internal control all over the world is given by COSO and it says thus: “Internal control is broadly defined as a process, effected by an entity’s board of directors, managers, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives. The objectives includes:

- Effectiveness and efficiency of operations i.e ability to maximize available resources to achieve company’s objectives.
- Reliability of financial reporting. A proper internal control mechanism ensures that financial report of the organization reflects true and fair view of its financial position.
- Compliance with applicable laws and regulations. The use of internal control facilitates strict adherence to the rules and regulations to avoid fines and penalty for default.

According to the COSO framework, internal controls are put in place not only to help companies reach profitability goals and achieve their missions, but also to minimize surprises along the way. An internal control system enables management to deal with quickly changing economic and competitive environments, market changes such as shifting customer demands and priorities and restructuring. So what then is internal control? There seems to be no distinct answer to this question. It could mean different things to different people, which could be a factor of confusion among businesspeople, legislators, regulators and others stakeholders.

Misunderstandings and different expectations could easily lead to problems within organizations, and these problems could get even more apparent when the term, if not clearly defined, is written into laws, regulations and or other official documents. The COSO report deals with the needs and expectations of managers and others and describes internal control in order to establish a common definition that serves the

needs of different parties and to provide a standard against which organizations can assess their control systems and determine how they can be improved. According to the report everyone in the organization is responsible for the internal control, yet in different ways. Management is responsible for the establishment of internal control policies and procedures. Management is again accountable to the board of directors, who is responsible for providing governance, guidance and oversight and all personnel are responsible for reporting problems, such as policy violations or illegal actions.

Traditionally, the accounting profession's definition of internal control was focused on financial reporting and compliance aspects of control. However, the definition provided by AICPA in 1949 includes operational, financial reporting and compliance aspects of internal control¹⁹. This definition was amended in 1958 and 1972 successively and then separated these controls into accounting controls and administrative controls. AICPA directs accountants and auditors' attention on traditional accounting controls such as authorization, segregation of duties, cross-checking, in order to minimize litigation risks. This narrows the focus of control. The reason(s) for restricting accountants and auditors' responsibility to accounting and administrative controls is much of a debate. As a result of technological advancements and changing management techniques, organizations employ less people and are therefore less able to perform many internal accounting controls, for example, layers of authorization, cross-checking, segregation of duties, supervision et cetera. A range of control elements are therefore required in order for internal controls to be effective. The COSO framework shows three objectives: Operations (which has to do with how effective and efficient an entity uses its resources), Financial Reporting (which deals with the preparation of reliable financial statements) and

Compliance (which relates to an organization's compliance with applicable laws and regulations)²⁰.

The framework also identifies five basic control components: Control Environment, Control Activities, Risk Assessment, Information and Communication, Monitoring and the different units of application. The objectives show what an organization strives to achieve and the components show what is needed to achieve these objectives at different levels of the organization. All the components are related to each objective. For example, when talking about the reliability of financial reporting, all the five components must be present and functioning effectively in order to conclude that an organization's internal control over reliable financial information is effective.

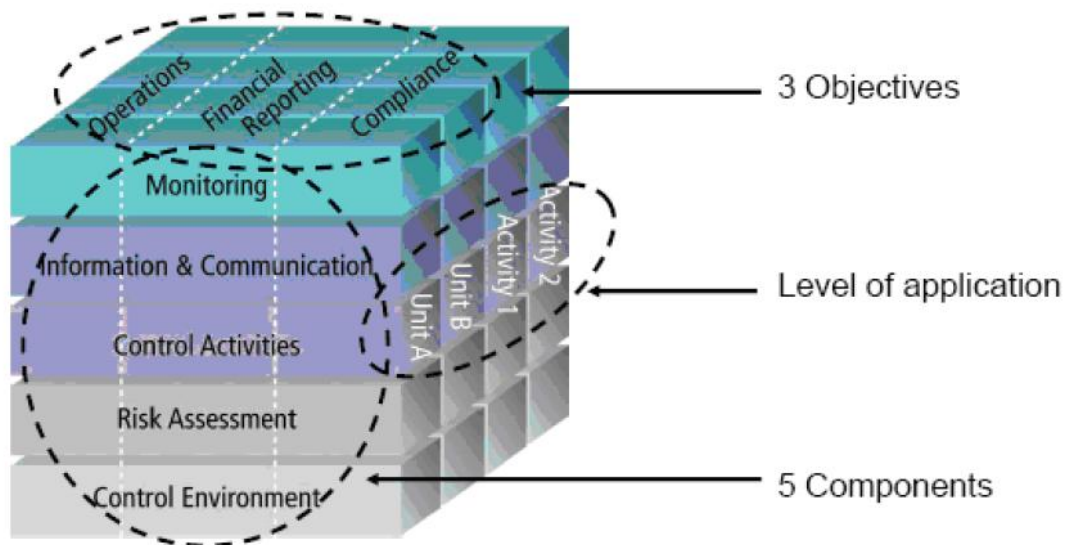


Fig. 2.3: The COSO Internal Control

Source: Adapted from the 2004 COSO

Effective internal control requires a strong control environment under which the other components are implemented. The principles underlying good control and

commitment to sound control compliance must be present so as to ensure healthy interactive control structure.

Risk assessment forms the basis for determining where internal control activities are needed. This enables the organization to focus on those risks that will impact on the overall success of the firm. Communicating information resulting from the exercise of internal controls keeps key personnel and management informed of potential problems. An effective monitoring system is an ongoing assessment programme that oversees the design, implementation, and effectiveness of controls in mitigating risks.

Internal control must also be tailored to meet the needs of the individual business. This is because the more elaborate an organization control system, the greater the cost¹⁹. The scandals of recent years emphasized the need to evaluate, scrutinize and reformulate control systems of checks and balances to guide corporate executives and persons in decision-making. Therefore, as much as an organization would like to implement appropriately derived control measures; it must also consider the amount of money involved in implementing such measures.

The internal control system shall cover all financial, operational and other control systems established within the bank, and regulate control activities preventing undesired events or investigative control activities aimed at proving and remedying undesired events which have occurred, and leading control activities aimed at encouraging occurrence of a desired event.

Such controls shall include administrative controls and managerial, financial and accounting controls, operational controls, quality controls related to financial products and services, and other controls. The internal process in internal control includes everything from financial reporting to operational efficiency and effectiveness to

compliance with all applicable laws and regulations according to the Committee of Sponsoring Organizations (COSO) definition of internal control, which is extensive. It also helps to ensure that financial reporting information is reliable.

Finally, there is the need for companies to have a risk protection strategy (Chorafas, 2008). Insurance is known to be one of the methods used by companies as risk financing in order to obtain financial protection against the impact of risks. However, it must be noted that losses such as organizational reputation and employee morale are uninsurable and difficult to regain once they are lost. Therefore, organizations must put in effort to maintain their reputation and goodwill.

There are some essential factors determining the effectiveness of the internal control function. Internal control function in banks is derived through actionable preparation and implementation of its own manuals, concerning at least the following areas:

- a) Principles/rules and procedures related to the decision-making process.
- b) Scope and implementation of risk management.
- c) The process of setting and implementing limits and standards concerning risks
- d) Controls over the data processing infrastructure.
- e) Financial and managerial reporting.
- f) Personnel policy.
- g) Identification of responsibilities.
- h) Audit and compliance
- i) Prevention of fraud transactions

Units responsible for performing internal control function

Operations within the scope of internal control function shall be carried out by the board of directors, senior management, the bank staff at all levels, the audit (inspection) unit, the internal control unit and the risk management group. The board of directors is responsible for taking or ensuring all measures to be taken required that these units carry out their tasks impartially and independent of the bank's primary activities.

In house regulations on internal audit (inspection) and risk management shall be designed so that these units are administratively independent of each other and accountable to the bank's board of directors and senior management individually within the scope of the internal control function.

The board of directors shall determine the authority and responsibility of the audit (inspection) unit, the internal control unit, and the risk management group, together with the number of the staff and the principles governing the cooperation between these units.

Each bank shall improve their organizational structure and cooperation procedures for their internal audit (inspection) system and risk control and management system provided that they are not in conflict with provisions of this Regulation by considering the scope and structural nature of its own operations.

1. Board of Directors function in Internal Control

The board of directors shall develop and approve significant strategies and policies concerning the control activities of the bank, and periodically review their implementation, and take measures to establish and maintain an efficient internal

supervision (audit/control) system and risk management system in accord with the institutional structure within the bank. In compliance with provisions set out in this Regulation, the board of directors shall ensure that the bank's organizational structure will explicitly embody the internal supervision (audit/control) system and risk management system and define principles and procedures concerning the administrative structure, personnel and quality of these systems.

The board of directors shall regularly review assessments of internal control function made by senior management, internal audit (inspection) unit, the internal control unit, and the risk management group, and by the external auditors; and verify whether or not the recommendations made by the external auditors for improvement of internal supervision (control/audit) systems are being acted upon; and periodically assess the compliance with bank's strategies policies with the current risk exposure limits.

2. Senior Management

In coordination with the units defined in this Regulation to perform internal control function, the senior management shall be responsible to the Board of Directors with an in-house regulation, for the followings.

- (a)** Formulation, execution and on-going review of internal control strategies, policies and process approved by the Board of Directors, and revision thereof so as to include new risks, if necessary and verification of its efficiency.
- (b)** Development of necessary methods, instruments, and implementation procedures to identify, measure, monitor and control the risks the bank is exposed to.
- (c)** Explicitly defining authorities and responsibilities and monitoring whether the duties and responsibilities are effectively carried out.

Any person who has been allocated to senior management cannot be employed in any committee in the risk management group, the auditing committee or the internal control unit, except for the executive risk committee.

3. Formation of Executive Risk Committee

The Executive Risk Committee shall be responsible for preparing the risk management strategies and policies of the bank on a consolidated and unconsolidated basis, for submitting them to the board of directors for approval, and for monitoring their implementation.

The Executive Risk Committee chaired by the member of board of directors responsible for maintaining the internal supervision (control/audit) system shall consist of the head of the bank's risk committee, which is set up pursuant to Article 33 of this Regulation, the head of the assets/liabilities management committee, the head of the credit committee, if any, and head of executive risk committees or similar units of consolidated subsidiaries.

In case the bank has no "assets/liabilities management committee" and this function has been assigned to another unit, then the person in charge of such unit shall be appointed to the Executive Risk Committee.

4. Responsibilities of other personnel

To ensure an efficient internal control, authority and responsibilities of all personnel concerning carrying out their duties and within this framework, to report activities which are inconsistent with professional ethics, contradict bank's policies or are illegal, to the senior management, shall be set out in written form and notified to related personnel.

Any policy and implementation shall be avoided encouraging operations inconsistent with professional ethics of the bank and imprudent transactions; neglecting risks which could be realized over the long run through putting the emphasis on short term performance and operational results, leading to inefficient use of the bank's funds as a result of an improper allocation of duties and authority, implementing incentives for short-term targets or not running a proper sanction mechanism for misconducts.

The Major Elements of an Internal Control Process

The internal control process, which historically has been a mechanism for reducing instances of fraud, mismanagement, and errors, addressing various risks faced by corporate organisations. Internal control in bank is carried out as an ongoing process at all levels of their operations which includes the board of directors, the senior managements cadre, and other personnel of the bank.

It is now recognised that a sound internal control process is critical to a bank's ability to meet its established goals, and to maintain its financial viability.

Internal control consists of five interrelated elements⁹:

1. Management oversight and the control culture;
2. Risk recognition and assessment;
3. Control activities and segregation of duties;
4. Information and communication; and
5. Monitoring activities and correcting deficiencies.

1. Management Oversight and the Control Culture

The board of directors shall have responsibility for approving and periodically reviewing the bank's overall business strategies and policies; understanding the major risks encounter by the bank in their operations, setting acceptable levels for these risks to be managed, and ensuring that senior management staffs takes the steps necessary to identify, assess, measure, monitor and control these risks; approving the organizational structure; and ensuring that senior management is monitoring the effectiveness of the internal control system.

The board of directors is ultimately responsible for ensuring that an adequate and effective system of internal controls is established and maintained.

The Board members should be objective, capable, and inquisitive, with deep knowledge or expertise of the activities of, and risks run by the bank. As a matter of regulation in Nigeria, the board should consist of some members who are independent from the daily management of the bank. Most of the selected banks have an independent audit committee that works with the board to fulfil its duties. With audit committee, information and reports is thoroughly examined without involving all directors. Audit committee is usually responsible for supervision of the operations of banks internal audit department and also act as a major point of contact for the company's external auditors.

Risk Recognition and Assessment

An effective and efficient internal control system requires that the material risks that could adversely affect the achievement of the bank's goals are being recognised and continually treated. With this deliberate internal control system in place, the bank will

fulfil its objectives without running into any problems. Risk assessment is meant to determine the exact kind of risk a company face, the kind of internal control system that should be put in place to address the risks identified and also to manage the risks that have been identified¹⁴ .

Risk assessment forms the foundation for defining how risks will be managed and implemented by the company. This assessment should cover all manner of risks facing the bank and the consolidated banking organization (that is, credit risk, transfer risk, market risk, interest rate risk, liquidity risk, operational risk, legal risk and reputational risk). Internal controls may need to be regularly revised to appropriately address any new or previously uncontrolled risks.

Since banks are in the business of risk-taking, it is imperative that, as part of an internal control system, these risks are being recognised and continually assessed. From an internal control perspective, a risk assessment unit should identify and evaluate the internal and external factors that could adversely affect the achievement of the banking organisation's performance, information, and compliance objectives. This process should cover all forceable risks faced by the bank and operate at all levels within the bank. This differs from the risk management process which typically focuses more on the review of business strategies developed to maximise the risk/reward trade-off within the different areas of the bank.

Effective risk assessment identifies and considers internal factors (such as the complexity of the organisation's structure, the nature of the bank's activities, the quality of personnel, organizational changes and employee turnover) as well as external factors (such as fluctuating economic conditions, changes in the industry and technological advances) that could adversely affect the achievement of the bank's

goals. This risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated banking organization. This can be accomplished through various methods.

Effective risk assessment therefore addresses both measurable and non-measurable aspects of risks and weighs costs of controls against the benefits they provide. Such risk assessment must involve identification of potential and evaluation of economic consequence of such risk. Risk that can be controlled require the bank to weigh the benefit of accepting those risk against the costs of controlling or reducing the risks and its severity. Most of the selected banks rather therefore continually evaluated the risks.

The risk assessment process also includes evaluating the risks to determine which are controllable by the bank and which are not. For those risks that cannot be controlled, the bank must decide whether to accept these risks or to withdraw from or reduce the level of business activity concerned. In assessing the risk, risk identification alone is no longer enough in effective risk management. This is the more reason the selected banks choose to treat risk register as a living document to respond to the likelihood and impact of various risks in their day-to-day decision-making process. Hence, the risk management system is tailored to carry out its function operationally independent. Risk identification and assessment function shall be mainly executed by the risk management group operating as a part of the risk management system. Staff of the internal control and risk management group shall cooperate during the process of identification, detection and evaluation of risks in an efficient manner within the flow of business in the bank in accordance with the principals and procedures to be

established by the Board of Directors. Where deemed necessary, inspectors shall also assess risks on specified areas most particularly legal and operational risks.

In the process of recognition and assessment of risks, all risks the bank and its participations are exposed to, shall be taken into consideration in a consolidated basis. In order to be able to perform fully the function of risk identification and evaluation, necessary precautions shall be taken by considering the changes in the operating environment, recruitment of new personnel, renewal of information systems, activities towards rapid growth, use of new technology, offering new products and services, mergers and takeovers, effect of changes in the economic structure and legal arrangements and enlargement of international activities.

For risk assessment, and the system of internal control to remain effective, senior management staff of banks need to continually evaluate the risks affecting the achievement of its goals and react to changing circumstances and conditions. Internal controls may need to be revised to appropriately address any new or previously uncontrolled risks. For example, as financial innovation occurs, a bank needs to evaluate new financial instruments and market transactions and consider the risks associated with these activities.

Often these risks can be best understood when considering how various scenarios (economic and otherwise) affect the cash flows and earnings of financial instruments and transactions. Thoughtful consideration of the full range of possible problems, from customer misunderstanding to operational failure, will point to important control consideration.

Control Activities and Segregation of Duties

Control activities should be an integral part of the daily activities of a bank. An effective internal control system requires that an appropriate control structure is set up, with control activities defined at every business level¹⁰. These should include top level reviews; appropriate activity controls for different departments or divisions; physical controls; checking for compliance with exposure limits and follow-up on noncompliance; a system of approvals and authorisations; and a system of verification and reconciliation.

Management defined guidelines will help to guarantee that important actions are put in place to handle the risks associated in achieving the organization's objectives through control activities such as policies and processes. The better the coordination of processes and policies of the organization, the greater the chance of achieving the organization's objectives.

A sound process and policy in an organization will ultimately lead to intelligent cooperation within the organization, ensures consistency of action, facilitate proper coordinated action, encourages creativity etc. A good blend of policies and processes will enhance the accomplishment of an organization's goals or mission. This will be made possible through control activities such as manual and automated instruments for mitigating hazards. It is therefore instructive to note that, to achieve the corporate objectives effectively and efficiently, management must set up control activities as stated above.

Control activities are designed and implemented to address the risks that the bank identified through the risk assessment process described above. Control activities involve two steps:

- (1) The establishment of control policies and procedures

(2) Verification that the control policies and procedures are being complied with. Control activities involve all levels of personnel in the bank, including senior management as well as front line personnel. It is an integral part of daily activities of all staffs. This in effect will ultimately lead to effective internal control system.

Examples of control activities in the Nigerian banks include:

Top level reviews. Boards of directors and senior management often request presentations and performance reports that enable them to review the bank's progress toward its goals. For example, senior management may review reports showing actual financial results to date against the budget. Questions that senior management generates as a result of this review and the ensuing responses of lower levels of management represent a control activity which may detect problems such as control weaknesses, errors in financial reporting or fraudulent activities.

Activity controls. Department or division level management receives and reviews standard performance and exception reports on a daily, weekly or monthly basis. Functional reviews occur more frequently than top-level reviews and usually are more detailed. For instance, a manager of commercial lending may review weekly reports on delinquencies, payments received, and interest income earned on the portfolio, while the senior credit officer may review similar reports monthly and in a more summarised form that includes all lending areas. As with the top-level review, the questions that are generated as a result of reviewing the reports and the responses to those questions represent the control activity.

- (a) Physical controls - Physical controls generally focus on restricting access to tangible assets, including cash and securities. Control activities include physical limitations, dual custody, and periodic inventories.
- (b) Compliance with exposure limits - The establishment of prudent limits on risk exposures are an important aspect of risk management. For example, compliance with limits for borrowers and other counterparties reduces the bank's concentration of credit risk and helps to diversify its risk profile. Consequently, an important aspect of internal controls is a process for reviewing compliance with such limits and follow-up on instances of non-compliance.
- (c) Approvals and authorisations - Requiring approval and authorisation for transactions over certain limits ensures that an appropriate level of management is aware of the transaction or situation and helps to establish accountability.
- (d) Verifications and reconciliations - Verifications of transaction details and activities and the output of risk management models used by the bank are important control activities. Periodic reconciliations, such as those comparing cash flows to account records and statements, may identify activities and records that need correction. Consequently, the results of these verifications should be reported to the appropriate levels of management whenever problems or potential problems are detected.

Control activities are most effective when they are viewed by management and all other personnel as an integral part of, rather than an addition to, the daily activities of the bank. When controls are viewed as an addition to the day-to-day activities, they are often seen as less important and may not be performed in situations where individuals feel pressured to complete activities in a limited amount of time. It is

therefore important to see internal control as a culture that all levels of staffs must be adopted in their daily operations. To establish the internal control process in an efficient manner and to achieve objectives of the internal audit:

- (a) for setting up a detailed application procedures related to internal control.

Within the scope of internal control, organizational structure encompassing efficient information and communication channels, which precisely indicate the segregation of authority and responsibilities regarding the reporting, shall be set up. Ensure that the segregation of authority and responsibilities does not cause a delay in reporting process and all units and operations are under the control of the management.

Necessary precautions shall be taken to ensure that activities pertaining to the internal control process are carried out by personnel with adequate technical capabilities and the incentive criteria, which all personnel will be subjected to related to their activities shall be established.

Internal Control Activities

The internal control activities shall be designed and implemented as an integral part of daily operations enabling to monitor the risks identified within the framework of risk assessment function. The internal control process shall include the following activities:

- a) Board of directors and the bank's senior management reviews: The bank's board of directors shall review the bank's process towards its goals and compliance with the budget and performance targets and makes the internal control process functional by way of questioning for the detected problems

b) Activity controls: These controls include the department and division managers' reviews and assessments on general performance reports together with daily, weekly and monthly reports concerning the unexpected situations.

c) Physical controls: Generally, physical controls focus on verification of compliance with the restriction procedures concerning accessibility, use and secure assets such as cash, securities and including similar financial assets, periodic inventories and controlling records.

d) Review of compliance with limits: This review focuses on the compliance with the general and specific risk limits and following-up non-compliance with risk limits.

e) Approval and authorization system: Functional segregation of duties shall be assigned within the organizational structure; dual and cross verification and signature procedures shall be established; authorizations and responsibilities shall be clearly defined and an approval or authorization for the transactions over certain limits shall be required.

f) Verification and reconciliation system: The internal control system shall be efficiently functioned through verifying the transaction details and the output of risk management models used by the bank, comparing cash flows to account records and statements, preparing control lists and periodic reconciliation. The results of these verifications shall be reported to authorized-senior managers whenever problems or potential problems are detected.

Functional Segregation of Duties and Assignment of Responsibilities

In order to establish and operate a sound and efficient internal control mechanism, the bank's operations shall be functionally separated from each other. In this context,

- a) Related to the bank's core business operations, trading securities and derivatives and lending and other banking transactions (separation of banking and trading books);
- b) Related to lending process, assessing the adequacy of loan documentation and monitoring the borrower after loan origination; and review of creditworthiness of the applicant and activities related to loan marketing;
- c) Related to payments, confirmation and settlement of payment;
- d) Related to securities trading, settlement and recording of the transaction; Requires ensuring that authorizations and responsibilities granted for various functions shall be separated and shall not conflict.

Activities, which could create risks for the bank, shall be identified and separated from other functions to a maximum extent and the responsibility of them shall be assigned to different personnel. Responsibilities and authorizations assigned to personnel with executive powers shall be periodically reviewed and necessary precautions shall be taken to ensure that they are not able to carry potential risk against the bank.

Establishment of Reliable Information Systems in Banks

To ensure proper functioning of internal control functions and satisfying information needs a reliable and efficient management information systems that enables the data and other information are stored and used in electronic form, must be established. It is crucial to ensure that information should be reliable, timely, accessible, and provided in a consistent format. All precautions shall be taken to ensure that the information are only accessible by authorized personnel and ensure compliance with current rules and regulations on secrecy.

Control of Information Systems and Technologies

Risks concerning information system and technology shall be effectively controlled in order to avoid disruptions to banking business, banks' activities and to prevent potential losses. General controls include in-house back-up and recovery procedures, software development policies, and physical/logical access security controls.

Application controls covers computerized steps within software applications and other manual procedures that control the processing of transactions and business activities. Application controls and reviews include logical access controls and specific software controls and other similar specific controls and reviews. Verifications and controls related to applications shall cover special controls on logical accesses and software and other similar special controls and reviews.

In order to prevent jeopardizing their ability to conduct key-business activities banks shall establish business resumption and contingency plans using an alternate off-site facility including the recovery of critical systems supported by an external service provider and must test them periodically.

Establishment of effective channels of communication

Banks shall establish an effective and adequate communication system to ensure an efficient functioning of internal control system. The organizational structure of the bank should facilitate an adequate flow of information-upward, downward and across the organization that facilitates this flow ensures that information flows upward so that the board of directors and senior management are aware of the business risks and the operating performance of the bank and information flowing down ensures that the bank's objectives, strategies, application procedures, and expectations are communicated to lower management and operations personnel. Information flowing

to personnel shall include operational policies and procedures of the bank as well as information regarding the actual operational performance of the organization. It shall be ensured that bank personnel fully understand the policies and procedures regarding their duties and responsibilities and that relevant information is reaching the appropriate personnel promptly.

The Board of directors shall assess the operational performance and the risks that the bank is exposed to. The senior management shall establish and maintain effective paths of communication within the bank in order to ensure that the bank's employees report the problems they face and suspicious matters and behaviors to the respective management levels and control units. Through communication across the organization it shall be necessary to ensure that information one division or department has, can be shared with other affected divisions or departments.

Monitoring Activities for Internal Control Process and Correction of Deficiencies

Personnel responsible for monitoring the internal control process shall be appointed by the board of directors upon the proposal of senior management and opinions of the internal control unit and the risk management group.

The frequency of monitoring the bank's different activities shall be determined by considering the risks involved and the frequency and nature of changes occurring in the operating environment.

In order to eliminate weaknesses in the internal control system and to correct errors and deficiencies rapidly, the efficiency of the internal control process and control mechanisms on various transactions shall be reviewed through an ongoing monitoring activity.

Efficiency of the internal control process shall be evaluated periodically. Such evaluation shall be done by authorized personnel through self-assessments when personnel responsible for a particular function determine the effectiveness of controls for their activities. The senior management, the internal control unit and the internal audit (inspection) unit shall review these evaluations. All levels of review shall be adequately documented and reported on a timely basis to the appropriate level of management.

Assessment of the adequacy of the internal control process and its compliance with established policies and procedures shall be performed by the internal audit (inspection) unit.

Benefits of Internal Control

Internal Control system is relevant to many organizations especially financial institutions. The benefits of internal controls are¹⁰:

1. It helps to protect the earning capacity and asset of the organization, and reduce the occurrence of fraud, mismanagement, and corporate failure in the organizations
2. It deepens the effectiveness and efficiency of operations within the organization
3. It leads to increasing financial reliability and integrity in the system.
4. It promotes strict compliance with relevant laws and statutory regulations
5. Internal control system also brings about monitoring procedures and policies.

6. With effective internal control, errors and frauds are easily detected or prevented.
7. It ensures that all recorded transactions are real and properly classified and posted.
8. It gives assurance to management that goals and objectives will be met

Limitations of Internal Controls.

Despite the implementations of internal control system in any organization, cases of fraud, inaccurate information and human errors still occurs. This is so because of some factors that restrict internal control systems effectiveness in managing the finances of an organization. They include:

- i. Fraud committed by someone who have adequate information about the system within the organization.
- ii. Abusing duties by exploiting the position held to do unlawful activities.
- iii. Excessive exercise of controls by management especially when it does not satisfy their personal interest.
- iv. Chances of potential human errors of employees of an organization caused by excess alcohol, carelessness and/or distractions can lead to ineffective internal control system.
- v. Changing situation within the organization could make processes or procedures ineffective or deteriorate over time.

Risk management is an important tool for managing business activities in financial institutions and it is widely use in the corporate world to manage business crisis. Risk management in financial institution has greater impact not only on the financial

institution but also on the economic growth and sustainable development. Thus, internal control system is use to manage risk and to mitigate against business losses and liquidation of business.

Risk Management versus Internal Control

There is a misunderstanding as to whether risk management is a sub-division of internal control or vice versa or they go together. The management of risks is very important and significant to the achievement of business objectives and therefore plays a key role in a company's system of internal control and corporate governance. A scholar 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^{xlvi}.

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

Internal Audit and Audit Committee

Under the principles of good corporate governance, internal audit and audit committee are very important to the operations of an organization, as they ensure the management of regular and adequate performance of internal control, seeking deficiencies, weaknesses and enhancing more efficient operations. Internal control office reports directly to the Audit Committee for the purpose of complete system of checks and balances. For the time being audit committees are not compulsory in Norway^{xlvi}.

Ordinarily, the internal auditor does not get involved in any decision making process on risk management. It is felt that in the case of risk management it would be prudent for the internal auditor to have a say. The internal auditor only ensures that risk management practices adopted by the concerned departments are adequate, considering the nature of various risks and their likely impact on the business operations of the company. In a large company, different departments, depending on the nature of risk involved, may handle the risk management function.

It would therefore be necessary for the internal auditor to first get a fair idea of the various categories of risks and action to be taken to confirm that enough safeguards are put in place for managing these risks. In the case of other risks like environmental and technological risks, the internal auditor may not have an expert knowledge of the severity of the risks and would have to get help from the concerned departmental heads to critically examine the process of the risk management. It would also be necessary for the internal auditor to weigh the impact of all these risks on the financial performance of the company and make a suitable report to the board of the company^{xlix}.

Corporate Governance in relation to Risk Management and Internal Control

There is the need to talk about corporate governance; this is because risk management is a key element of corporate governance and overall internal control of a company^l. Corporate governance is the umbrella concept that drives a control and reporting framework, which in turn depends on risk management and an efficient system of internal control. Although corporate governance can be defined in a variety of ways, it generally involves the mechanisms by which a company is directed and controlled^{li}.

Globally, demand for improved corporate governance has been a feature of the last decade, as a result of several and prominent bankruptcies resulting from non-compliance with rules and internal controls.

Companies whose securities are admitted to trading on a regulated market, for example United Bank for Africa, are obliged to disclose an annual corporate governance statement as a special and clearly identifiable section of the annual report. Same applied to Zenith bank and other selected banks. In this statement, key information about governance practices, including the description of the main features of any existing risk managements and internal controls in relation to the financial reporting processes are to be mentioned. That is to say that information concerning the company's risk management systems and internal control systems should be presented and commented on while reading the annual reports of the company under this research, United Bank for Africa and Zenith Bank, for the years ended 2017, 2018,2019 and 2020, the researcher observed that the company has disclosed their risks. However, the level of disclosure and contents differ mainly because of changes in operations, so also the associated risks and their control measures

Listed companies manage a significant proportion of a country's assets and generate a major part of value creation. It is therefore in the interest of society that companies are directed and controlled in an appropriate and satisfactory manner. There is international competition to attract the interest of both Nigerian and international investors, and this makes it essential that Nigerian companies and the Nigerian stock markets are seen to maintain high standards in corporate governance.

For investors' confidence to be increased there must be good corporate governance in place. It increases trust and provides an accountability structure for management. The

standards for risk management makes it clear that good corporate governance requires organizations to adopt a methodical approach in their risk management which will in turn ensure management controls, monitor performance and protect the interests of stakeholders.

How Risk Management and Internal Control Systems work in Nigeria

Good governance is dependent on management that understands the risks it faces and is able to keep control of the business. CAMA which was launched in 1990 and has subsequently been updated recently in 2004 makes clear the responsibilities of board of directors and management. According to the Code, corporate governance regulates the division of roles between shareholders, board of directors and executive management beyond the requirements of the legislation. The regulation cover the board of directors' responsibilities for determining risk profile, approving the organization's operations, delegating responsibilities, assigning authority and also stipulating reporting and internal control requirement^{lii}.

Importance of Risk Management and Internal Control Systems

Risk Management and Internal Control concept is designed to ensure that the company's operations are effective, and that company's complies with the relevant regulatory framework and policies. The Board of Directors is responsible for monitoring and assessing effectiveness of the company's internal control and risk management systems.

Risk is defined as the combination of the probability of an event and its consequences.

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^{liii}.

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 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.

Problems Related to Risk Management and Internal Control Systems

Despite the modern business planning models and methods adopted by many organizations, risk assessment is performed non-systematically and intuitively, and the risk management plan is not prepared at all^{liv}. Due to this, problems are solved once they arise, usually rather too late. Notwithstanding the notion of risk as an event having a potential negative impact on business objectives, an integrated risk

management system is to assess positive outcomes as well. In view of risks exposed to in achieving business goals, organizations develop and implement systems of internal controls and proactive risk management measures, which act as preventive measures.

It is therefore important to assess whether internal controls that are put in place and the related risks are adequately linked. Companies face lots of challenges when it comes to risk management and the implementation of internal control systems. Among the problems are lack of technical knowledge; the process of risk management lacks a clear definition and has a low level of formalization, managers and individual units of the organization have different understanding of what constitute risks and their assessment criteria, high cost of information and high costs attributed to internal controls which in turn exceed the impact of a respective risk, processes of achieving compliance with external requirements (namely, those set by supervisory bodies, a controlling company, et cetera) are expensive and sometimes ineffective.

2.2 Theoretical Review

This study is anchored on five theories utilized to explain the relationship between the variables (dependent and independent). The theories are

2.2.1 Agency Theory

The theoretical framework for this study was anchored on agency theory. This theory which was developed by Jensen and Meckling in 1976 was predicated on principal-agent relationship^{lv}. The researcher observation of the literature review shows that theory is now among the reference theories in finance, management, and accounting research.

The agency theory flows from the disparity in relationships between agents and principals. This happens because agent and principal have different primary and final aims. The agents may behave selfishly because they are not risky; try to make less effort that it is required having great capabilities. This conflict of interest between the principal and agents precipitates the need for implementation of internal control systems to checkmate the activities of the agents which has manifests in the company's efficiency thereby affecting the performance of the organization.

In fact, the proponent of this theory was of the view that there is persisting conflicts of interest between the principals and managers of resources (bank management in this case). To resolve this conundrum created by principal-agent relationship in an organization, internal management in form of risk management policy and internal control system should be used as a safety net^{lvi}.

Agency theory bases on solving two problems. The first one is linked with monitoring when principal cannot check a competence of agent's behavior while making decision. The second is in risks distribution. Agency theory has separation on two directions. The first direction sets goals on diversification principle according to which participants have opposite opinions on coordination and management mechanisms. These mechanisms selfish behavior. Research in this field stems from positive line and underline that goal' conflicts between owners and managerial personnel occur constantly^{lvii}. The second direction pays attention on belief that agency theory about relationships between principal and agent are the same as between lawyer-main client, supplier-buyer and employer-employee. Meanwhile, agency theory for decades has become more significant than previously only basing on relationships between

principal-agent. Agency theory tries to describe people' behavior in any organizational structures

Agency theory became an important framework to help researchers examine the nature of conflicts between owners and managers of an organization. The theory further gives and analyse the relationship between the managers and the investors in a business. In this case, the principal (investors) engaged the service of and agrees to compensate the manager (agent) for performing a specific function on their behalf. This theory confirm that a firm is a collection of contracts between the owners (principal) and managers(agent) of economic resources who oversee exploiting and controlling those resources for the benefit of the principal^{lviii}.

Agency theory focuses on resolving two problems rising in agency relationship: agency problem and risk sharing problem. An agency problem arises when the interest of the owner and the agent leads to conflict, this will lead to difficulties and increase cost of monitoring. On the other hand, problem of sharing risk arises when the owner and the agent have different risk attitude.

The theory affirms the belief that agents have more knowledge than the principals, which make it difficult to judge if the agents are doing what they are supposed to be doing. As a result, the theory holds the view that it is necessary for firms to keep contracts in place between the principal and the agent, which make it possible to exert some level of control over the behaviours of the agents^{lix}. The theory also posited that the principal could use the services of an expert and/or systems to monitor the agent. This theory then confirms that any information regarding an agent's interest, relationship or work performance that is missing is a potential moral hazard, and such could have negative impact on the organization.

To tackle this problem, banks use internal control and corporate governance policy as viable tools to tackle the problems associated with agency relationship. Internal control also improves the principal' (shareholders) access to more knowledge about the agent's (manager) actions or inactions, eliminate information asymmetry, and lowers investor risk.

2.2.2 Stewardship Theory

The theory of stewardship is traceable to the knowledge in psychology and sociology. The theory states that stewardship is defined as the protection and optimization of the wealth of stakeholders through solid performance since the utility functions of the manager is maximized^{lx}. Rather than given prominence to individualism, stewardship theory emphasizes the role of management as stewards, integrating their goals into the organization. This theory emphasizes that steward get motivated and satisfied when the organization they work for succeeds. Here, personal aspirations are suppressed. Stewardship theory values structure that gives the steward maximum autonomy and are based on mutual trust^{ki}. It emphasizes the importance of empowering employees and executives to act on their own initiative in order to increase the shareholder value.

On the strength of points noted thus far, stewardship theory lay much emphasis on the importance of monitoring.

Stewardship theory is supported in this study because the bank management in Nigeria play the role of a steward to shareholders, creditors, employees, customers, regulatory bodies, and other relevant stakeholders.

2.2.3 Diversification Theory

Diversification Theory, as formulated by Harry Markowitz, is a fundamental concept in finance that explains how investors can optimize their investment portfolios to achieve the best possible risk-return trade-off. Harry Markowitz, an American economist, introduced this theory in his ground breaking paper "Portfolio Selection" in 1952, for which he later received the Nobel Prize in Economic Sciences^{lxii}. Key principles and concepts of Diversification Theory by Harry Markowitz include:

Efficient Frontier: Markowitz introduced the concept of the efficient frontier, which is a graphical representation of the set of optimal portfolios that offer the highest expected return for a given level of risk or the lowest risk for a given level of expected return. The efficient frontier illustrates the trade-off between risk and return.

Risk and Return: Markowitz emphasized the importance of considering both risk and return when constructing an investment portfolio. Investors aim to maximize their expected return for a given level of risk or minimize risk for a given level of expected return.

Diversification: The core idea of Diversification Theory is that by holding a diversified portfolio of assets, investors can reduce the overall risk (volatility) of their portfolio without sacrificing expected return. This risk reduction arises from the fact that different assets have different patterns of returns, and their prices may not move in perfect correlation with each other.

Covariance and Correlation: Markowitz introduced the concepts of covariance and correlation to measure the relationships between the returns of different assets in a portfolio. A diversified portfolio should ideally consist of assets with low or negative correlations, as this reduces the portfolio's overall risk.

Risk-Free Asset: Markowitz also introduced the concept of a risk-free asset, which has a fixed return with no risk. By combining a risk-free asset with a diversified portfolio of risky assets, investors can create portfolios that lie on a line called the Capital Market Line (CML). This line represents portfolios with different levels of risk and return, depending on the mix of risky assets and the risk-free asset.

Optimal Portfolio: The optimal portfolio for an investor depends on their risk tolerance and return objectives. Markowitz's theory provides a mathematical framework for determining the mix of assets that will result in the highest possible expected return for a given level of risk, or conversely, the lowest possible risk for a given level of expected return.

Risk-Return Trade-Off: Markowitz's work underscores the principle that investors must accept higher levels of risk if they seek higher returns. However, the key insight is that this risk can be managed and reduced through diversification.

Diversification Theory laid the foundation for modern portfolio theory (MPT), which is a comprehensive framework for portfolio optimization and risk management. It revolutionized investment management by introducing a systematic approach to constructing diversified portfolios that seek to maximize returns while managing risk. Today, MPT and Diversification Theory remain fundamental concepts in the field of finance and guide the practices of portfolio managers and investors worldwide.

2.3 Empirical Review

2.3.1 Risk Management and Performance of Commercial Banks

There have been several investigations into the workings of risk management and internal control system by several researchers in the past. The objective of the

discussion below is to the direct link of risk management as an independent variable, to the effective internal control system, as a dependent variables, in a financial system in Nigeria, especially banking sector, and identifying the differences in the study. The study was carried out in Lagos among some leading deposit money banks to see the relationship of risk management and internal control system to their improving financial performance over the years. Different branches of the 6 deposit money banks were surveyed using a structured questionnaire and interviews, as well as stratified and random sampling techniques.

Scholars have investigated the determinants of risk-management methods selection by commercial banks globally. In the context of a theoretical framework, two primary factors are identified as influential in the selection of risk management instruments: bank rivalry and sector concentration within the loan market. The predictions of the study model are subjected to empirical testing using a dataset of credit risk management information from 249 German savings institutions, which was obtained manually. The obtained results are consistent with our theoretical framework. Competition serves as a driving force for banks to adopt and apply sophisticated risk management practices. The concentration of sectors in the loan market facilitates the development of credit portfolio modeling, although it hinders the transfer of credit risk^{lxiii}.

Researchers in Turkey examined the influence of credit risk on the financial performance of banks. The dataset comprises 26 commercial banks that were operational in Turkey over the period from 2005 to 2017. The secondary data was obtained from the statistical report published by the Banks Association of Turkey. The financial performance indicators in this study were represented by Return on

Asset (ROA) and Return on Equity (ROE), while credit risk indicators were represented by Non-Performing Loans (NPLs). The findings of the calculation indicate a negative correlation between credit risk and both return on assets (ROA) and return on equity (ROE). The findings of this study indicate a significant correlation between credit risk management and the profitability of Turkish deposit banks throughout the time span of 2005 to 2017^{lxiv}.

In the same vein, researchers in Jordan assess the degree to which capital adequacy ratio, non-performing loans ratio, cost-income ratio, liquidity ratio, and loans-to-deposits ratio, influence the financial performance of sixteen commercial banks operating in the United Arab Emirates. This analysis will be conducted using panel data spanning the period from 2013 to 2019^{lxv}. The regression results indicate that the profitability of commercial banks in the United Arab Emirates is significantly affected by the non-performing loans ratio and cost-income ratio, both of which have a negative impact. On the other hand, the capital adequacy ratio, liquidity ratio, and loans-to-deposits ratio exhibit a weak positive relationship with the return on assets. However, these factors are not considered determinants of bank profitability as their statistical impact is found to be insignificant.

It was therefore recommended that in order to optimize financial performance and mitigate the likelihood of non-performing loans in the future, banks should exercise diligent monitoring of loan performance and conduct comprehensive analysis of clients' credit history and debt repayment capacity prior to granting loan approvals. In addition, it is imperative for banks to consistently enhance their use of assets, liquidity management, and strategies for controlling operating expenses. They should also strive to enhance the influence of capital adequacy and transform the utilization of

deposits for lending operations from a modestly beneficial effect to a substantially positive effect on their overall profitability. The researchers suggest that future investigations pertaining to the impact of credit risk management on banks' financial performance should use a greater number of independent variables and extend the study duration to encompass periods of twenty or thirty years. This approach would enhance the precision and generalizability of the findings.

In the same vein, Chinese researchers conduct an empirical analysis on the influence of credit risk on the financial performance of banks in China. The study obtained secondary data from the five most prominent commercial banks in the nation during a span of seven years, specifically from 2008 to 2014. The research included nonperforming loans, capital adequacy ratio, impaired loan reserve, and loan impairment charges as indicators of credit risk, while return on asset was utilized as a metric for assessing financial performance. The analysis of data in this study employed a balanced panel data regression model. The results indicate that nonperforming loan and capital adequacy exert a significant influence on the financial performance of Chinese commercial banks. Consequently, it is imperative to exercise control over credit risk in order to enhance bank financial performance^{lxvi}.

Similar findings were recorded in a related study conducted in Nepal. The study investigated the impact of credit risk on the performance of commercial banks in Nepal. The study has incorporated both descriptive and causal comparative research designs. The regression model was employed to examine the aggregated data from 14 commercial banks for the period of 2010 to 2015. The regression analysis yielded findings indicating that the "non-performing loan ratio" has a negative impact on bank performance, while the "cost per loan assets" demonstrates a favorable influence on

bank performance. In conjunction with credit risk indicators, the size of a bank has a favorable impact on its performance. The variables of capital adequacy ratio and cash reserve are not regarded as influential factors on bank performance. This study establishes a statistically significant correlation between bank performance and credit risk indicators^{lxvii}.

Researchers in Nigeria also examined the role of risk management on commercial banks' performance. This research examined the influence of credit risk management on the operational effectiveness of deposit money banks in Nigeria, focusing on a sample of five banks with the largest asset bases. The research design employed in this study was *ex-post facto*, utilizing a dataset spanning from 2000 to 2014. This dataset was compiled from the annual reports and financial statements of a specific group of deposit money banks that were chosen for analysis. Three hypotheses were formulated and afterwards examined through the utilization of an ordinary least square regression model. The results indicate that the management of credit risk had a statistically significant and beneficial influence on the levels of total loans and advances, as well as the financial performance indicators of return on assets and return on equity, within the deposit money banking sector^{lxviii}. The study suggests that bank managers should increase their efforts in managing non-performing loans by conducting a thorough assessment of borrowers' repayment capacity. The regulatory body should enhance its monitoring capabilities in relation to this matter.

Another study was conducted focusing on quoted deposit money banks in Nigeria. This research examined the influence of credit risk management on the financial performance by analyzing the annual reports and financial statements of ten publicly traded deposit money banks in Nigeria over a span of seven years, from 2010 to 2016.

The research employed ex-post facto and longitudinal research designs in its execution. The presentation of data utilized descriptive statistics, while the impact of credit risk management variables such as capital adequacy ratio (CAR), non-performing loans ratio (NPLR), cost-to-income ratio (CIR), return on asset (ROA), liquidity ratio (LR), and loans-to-deposit ratio (LDR) on financial performance, as measured by return on equity (ROE), was assessed using a fixed effects panel estimator.

The findings obtained from the fixed effects model (FEM) regression analysis indicate that the variables CAR, ROA, and LDR have a positive and statistically significant influence on financial performance. Conversely, the variables NPLR, CIR, and LR do not demonstrate a significant impact on financial performance, as assessed by the return on equity (ROE). The study's findings indicate that the amount of regulatory capital maintained by banks in relation to their risk-weighted assets, as measured by the Capital Adequacy Ratio (CAR), is deemed adequate. Based on the aforementioned findings, it is advisable that banks which have not yet complied with the Central Bank of Nigeria's (CBN) recommended minimum capital adequacy ratio (CAR) of 10% for national banks and 15% for international banks should promptly adhere to or exceed the prescribed threshold. This measure is essential for enhancing the value of shareholders' equity, as reflected by the return on equity (ROE). In this context, it is recommended that the Central Bank of Nigeria (CBN) consider raising the Capital Adequacy Ratio (CAR) to a minimum of 13% for domestic banks and 18% for international banks^{lxix}.

Furthermore, researchers also examined examine the influence of credit risk management on the operational effectiveness of commercial banks operating in

Nigeria. The financial reports of seven commercial banking organizations were utilized for a period of seven years, spanning from 2005 to 2011, in order to conduct an analysis. The researchers utilized a panel regression technique to estimate the model. The performance metrics utilized in the model were Return on Equity (ROE) and Return on Asset (ROA), while the credit risk management indicators employed were Non-Performing Loans (NPL) and Capital Adequacy Ratio (CAR). The results of the study indicate that the management of credit risk has a notable influence on the financial performance of commercial banks operating in Nigeria.

Similar to other financial institutions, the primary risk associated with banks pertains to the act of extending loans and the subsequent possibility of non-repayment. The present study aimed to investigate the influence of credit management on the performance of banks in Nigeria. The research employed a cross-sectional survey design. The study's population encompassed the entirety of management staff employed by commercial banks operating within Nigeria. The systematic technique was employed to consider the sample sizes of eleven (11) chosen commercial banks. The study employed the Purposive sampling technique, resulting in the administration of questionnaires to a total of 66 respondents. These respondents consisted of six individuals, including bank managers and senior staff members, from each bank. The study employed multiple regression analysis to assess the effects of credit management factors (Credit Appraisal, Credit Risk Control, and Collection policy) on bank performance. The findings of the study indicate that the management of credit has a crucial role in influencing the performance of banks in Nigeria. The study also found that credit risk control is the most influential factor among the credit management variables in determining the financial performance of banks in Nigeria. It has been suggested that financial institutions should not only prioritize credit

management, but also acknowledge the significance of the credit risk department in order to enhance profitability^{lxx}.

2.3.2 Internal Control Systems and Banks Performance

Another variable that has been linked to the overall performance of banks all over the world the presence of internal control systems. Various studies have been conducted to determine how internal control systems influence banks' performance globally. Researchers in Yemen emphasised the importance of quality internal audit (IA) which they reported as playing a crucial role in accountability, transparency and preserving public properties. This provide a brief background of the IA system in Yemen and xamines its impact with regards to financial performance in Yemeni commercial banks based on five factors: (i) independence of IAs, (ii) adherence to IA standards, (iii) governance principles implementation, (iv) size of the IA, and (v) frequency of internal audits committees' meetings.

The primary data for the study were collected through a questionnaire prepared for this purpose. Fifty questionnaires were distributed out of which forty-two were retrieved and valid in the analysis process. For the empirical analysis, descriptive analysis and T-test were used for verification of the research hypotheses. Results revealed that sticking to standards internal audit, internal auditors' independence and quality governance have significant impact on banks' financial performance, while the size of internal audits committees, as well as their meeting, frequently has insignificant positive impact on banks' performance. Moreover, the country results show that the use of automated internal audit in banks has an impact on improving financial performance^{lxxi}.

In Indonesia, research also examined the role of internal control systems on banks performance. The motivation for this study stemmed from the regulations set forth by the Financial Services Authority (FSA) in Indonesia, which emphasize the importance of implementing effective corporate governance practices inside rural banks (RBs). To date, regulatory frameworks pertaining to corporate governance have exclusively applied to commercial banks. However, as rural banks have experienced growth in services, expanded operations, and increased business volume, the associated risks have also escalated. Consequently, there is a growing impetus to establish robust corporate governance practices within rural banks.

In order to attain the implementation of effective corporate governance, it is important to have a management accounting information system (MAIS) of high quality, complemented by the efficacy of internal controls and the competence of managers. The employed methodology is the explanatory survey method. The sampling technique employed in this study involves the use of random sampling from the target population, which consists of 54 rural banks located in the North Sumatra Province of Indonesia. The overall sample size for this study is comprised of 45 rural banks.

The individuals who are the focus of this study are the respondents associated with management accounting information systems, specifically the board of directors or operational managers. The data collected from study questionnaires was analyzed using the Statistical Product and Service Solutions (SPSS) software. The present study has discovered that the skills exhibited by managers have a significant impact on the quality of Management Information Systems (MAIS) in rural banks. Conversely, the effectiveness of internal controls was found to have no discernible effect on the aforementioned quality. This study additionally discovered that the competence of

managers and the efficacy of internal controls had an impact on the implementation of good corporate governance principles in rural banks, when mediated by the quality of Management Accounting Information Systems (MAIS)^{lxxii}.

Researchers in Ghana also investigate the lived experiences of bank employees in Ghana who possess expertise in internal control strategies. The study aimed to examine the decision-making processes employed by these individuals in order to mitigate financial losses and optimize profit margins for their respective banks. The investigation was guided by the conceptual framework of Principal Agent Theory (PAT). The data for this study was obtained through the utilization of semi-structured interviews conducted with bank executives and internal control experts who operate throughout the southern-central region of Ghana. The data analysis was performed utilizing a theme approach as a guiding framework and employing methodological triangulation of data sources. The study identified five significant themes pertaining to the strategies utilized by bank executives in Ghana.

These themes include the importance of ongoing education regarding policies that impact internal controls, the implementation of effective monitoring and reporting mechanisms, the identification and mitigation of operating risks and inefficiencies, the influence and role of leadership in relation to internal controls, and the establishment of an autonomous audit function and a culture that supports it. The study has significant implications for promoting positive social change. It can offer valuable insights to bank executives, enabling them to improve their internal control procedures, reduce the occurrence of banks insolvency and closure, and act as a valuable resource for academic and research purposes^{lxxiii}.

A similar study was conducted in Nigeria. The objective of this study was to examine the factors that influence the effectiveness of internal control systems in Nigerian banks, as well as the resulting consequences of these determinants. To get the requisite data for the research, a modified Likert-scale questionnaire was provided to a sample of twenty-one (21) chief internal auditors from a selection of recapitalized banks currently functioning in Port Harcourt. The results obtained from the study indicate that several factors significantly influence the effectiveness of the internal control system in Nigerian banks. These factors include the timely presentation of early reports, the demonstration of respect for authority, a willingness to implement changes, the absence of collusion among workers, the competence of workers, the independence of internal control staff, the adherence of management to control measures, the provision of adequate remuneration for internal control staff, the consideration of the cost associated with implementing internal control measures, a commitment to enforcing controls, the implementation of control measures for unusual transactions, and the presence of a well-designed organizational structure.

The study's findings led to the formulation of several recommendations. Firstly, it is suggested that internal control staff should be held accountable to external authorities rather than management in order to enhance their independence. Secondly, granting internal control staff the autonomy to conduct thorough investigations of executive members' activities is recommended. Lastly, it is proposed that Nigerian banks should establish and uphold high ethical standards to enhance the effectiveness of internal control measures. The determinants of internal control in Nigerian banks are of significant academic interest^{lxxiv}.

Another researcher from Nigeria investigated the impact of the control environment on the efficacy of the internal control systems in listed deposit money banks in Nigeria. The researchers gathered primary data by administering a structured questionnaire based on the 5-point Likert scale. This questionnaire was adapted from the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 1992). The data underwent diagnostic procedures to assess normality, heteroskedasticity, and reliability (internal consistency). The data underwent analysis utilizing descriptive statistics, including measures such as mean, standard deviation, minimum, and maximum. Additionally, inferential statistics, such as correlation and basic regression analysis, were employed.

The findings indicate that the control environment exerts a favorable and statistically significant impact on the efficacy of the internal control systems implemented by deposit money banks listed in Nigeria. Consequently, the findings of this study indicate that the control environment, as evaluated by the integrity of senior management, exerts a substantial and favourable impact on the internal control system effectiveness (ICSE) of listed deposit money institutions in Nigeria. Based on the aforementioned conclusion, it is recommended that managers of deposit money banks listed on the stock exchange should persist in enhancing integrity within the workplace and uphold a favourable attitude towards the control environment of their respective banks^{lxxv}.

A similar study examined the influence of internal audit function on financial performance of commercial banks in Nigeria. The primary aims of this study are to assess the impact of internal audit control on the financial performance of commercial banks in Nigeria and to evaluate the effectiveness of internal audit procedures in

preventing fraud and enhancing the financial performance of commercial banks in Nigeria. The research design employed in this study was a survey methodology. The study's population contains twenty-six branches from five selected commercial banks in Lagos State, Nigeria. The population includes top managers and internal control officers in the branches visited. The researchers conducted an analysis of the data acquired for the study, employing methods such as frequency counts, mean score calculations, and standard deviation calculations. The two hypotheses were examined using a basic regression statistical analysis conducted with the assistance of SPSS version 20.0, at a significance level of 5%. The investigation found that internal audit control and procedures have positive effect on financial performance of commercial banks in Nigeria and this effect is statistically significant at 5% level of significance. The researchers suggest that the internal audit function within the internal audit department of commercial banks in Nigeria should prioritize the implementation of measures to effectively regulate and minimize instances of financial fraud within their respective institutions.

2.4 Conceptual Framework

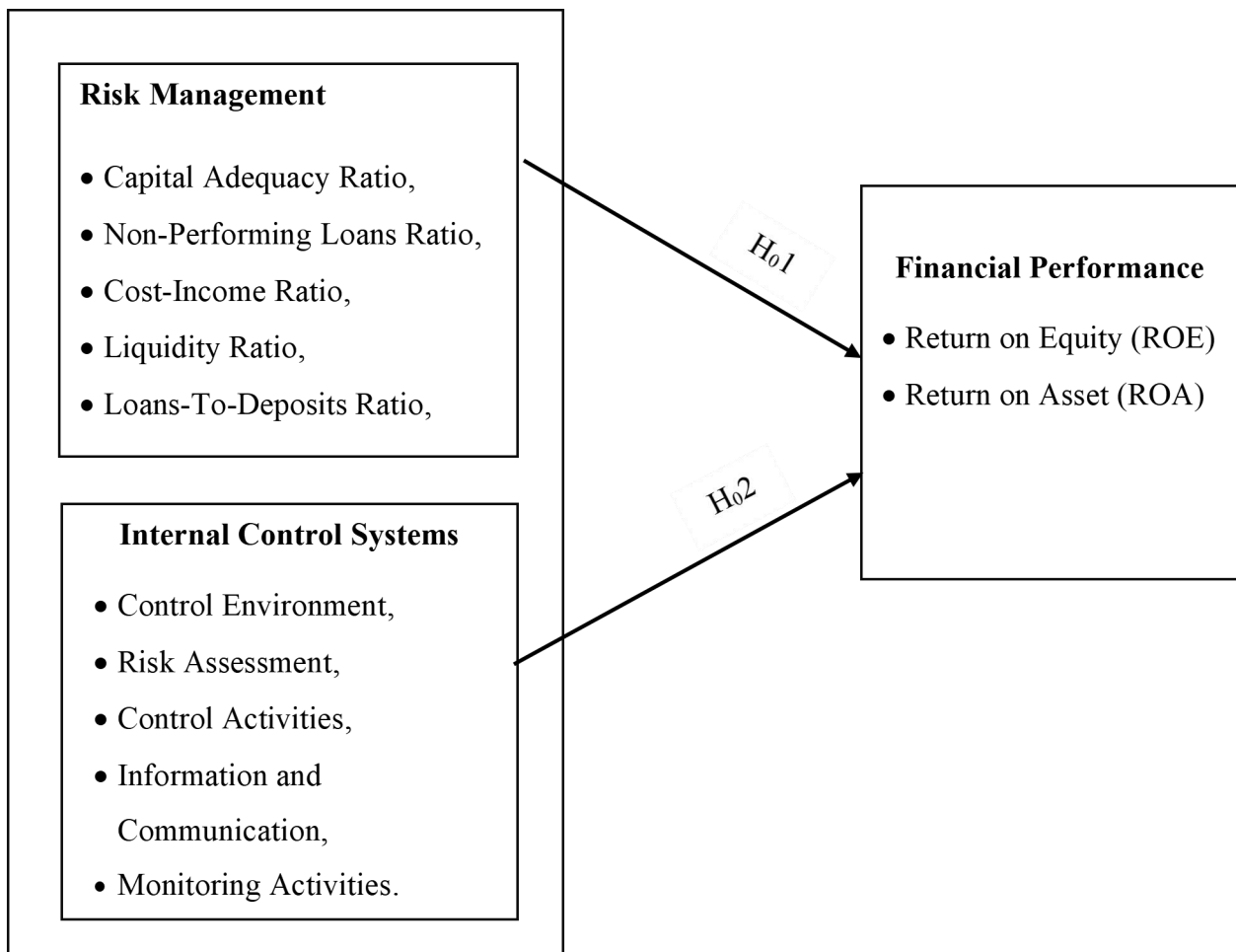


Figure 2.1 Conceptual framework of the influence of risk management and internal control systems on the performance of banks in Nigeria.

2.5 Summary of Identified Gaps in the Literature Reviewed

Review of literature indicates that majority of past empirical studies have analyzed the effect of internal control system on risk management based on different indicators. Others focused on the relationship between internal control and banks performance. To the best of my knowledge, no study focused on relationship of risk management and effective internal control system and performance of deposit money banks in Nigeria. It was also established that most studies conducted are usually narrowed to one independent variable. Therefore, this study attempts to explore the

positive combined relationship that exists between risk management and internal control system as an independent variables and performance of deposit money banks as a dependednt variable

Furthermore, empirical studies in Nigeria and abroad have attempted to address the different components of internal control and risk management, though most studies proxy risk management by fraud and risk prevention, risk analysis, risk identification. For instance, the study of Pang and Li identified proxy risk management by risk prevention²⁹.

Endnotes

Chapter Three

Research Methodology

This section focuses on the research techniques adopted for this study with the aim of achieving the research objectives. It elaborates the research design and provides details regarding the population, sample and sampling techniques and the research instruments to be used in collecting data for the study. It also discusses the data collection methods and data analysis plan.

3.1 Research Design

The study adopted descriptive research design for the study. Descriptive research design was considered appropriate as it aids in describing in details an existing situation or phenomenon by obtaining quantitative information about facts, opinions, and values in order to measure the relationship between variables.

3.2 Population of the Study

The targeted population constitutes the top management staffs of selected deposit money banks (DMBs) registered and operational in Nigeria commercial capital city of Lagos. Specifically, the study focuses on 5 deposit money banks as the population of the respondents. The population size is the twenty-six (26) branches of each of the five (5) Deposit Money Banks with offices in Lagos, Nigeria. The banks are UBA, Zenith Bank, Sterling Bank, Ecobank and First Bank. Therefore, the population is made up of 130 staffs of the selected banks

3.3 Sample and Sampling Procedure

The sample for this study consists of 130 staff from twenty-six (26) branches of the five (5) Deposit Money Banks with offices in the commercial capital of Nigeria. The banks are UBA, Zenith Bank, Sterling Bank, Ecobank and First Bank. Total enumeration was adopted to determine the study sample. This means that all the population of the study are also included in the study sample. Using all the members of the study population is justified on the size of the population

3.4 Description of Research Instrument

The research instrument that was used in this study is structured questionnaire and interview. Structured questionnaires were administered which give the respondents freedom to express their mind and offer suggestion on the topic. The questionnaire has section 1 and 2. Section 1 deals with relevant information on the respondents while section 2 focused on questions on risk management and internal control system in Nigerian banks. The study used primary source of data. The structured questionnaire used the 4-Pont Likert Scale system which requires respondents to choose their answer on a scale of 1-4. The questions had scale responses like Strong Agree 4; Agree 3; Disagree 2; and Strongly Disagree 1.

Structured questionnaire was used as the research instrument because it was cost effective and allow respondents freedom to answer the questions at convenient time. We also reviewed the banks' annual reports, and account, CBN publications, websites of banks, newspapers, and other relevant literatures.

3.5 Validation of The Research Instrument

To ensure validity of the questionnaire, some questions were tested to ensure reliability and sincerity of the respondents. Questions were clear, succinct and unambiguous. The goal was to eliminate the chance that the question will mean different things to different people. The data obtained from the questionnaires administered was edited, as a copy of the questionnaire was checked for consistency, error and completeness.

3.6 Reliability of the Instrument

A reliability test was conducted to verify the reliability of level of the variables used in the study. The reliability could be confirmed through correlation between the scores on the two independent instruments.

3.8 Data Analysis Techniques

Data collected from the questionnaire was analysed, using descriptive and inferential statistics. Descriptive statistics such as frequency and percentage was used for the research questions while inferential statistics, regression analysis was used for the hypotheses.

Chapter Four

Results and Discussion of Findings

This chapter presents the results and interpretation of the analysis of data collected from the field survey that was carried out in this study to know the impact of risk management, internal control systems and performance of selected deposit money banks in the Nigerian banking industry. This chapter is divided into two major sections, Descriptive and Inferential analysis. The descriptive analysis presents the socio-demographic information and the summary statistics of the variables using statistical tools such as frequency, percentage, minimum, maximum, mean and standard deviation while Inferential analysis addresses the objectives and test the hypothesis stated in this study, regression analysis was used for the purpose of testing all the hypothesis.

4.1: Demographic Data Analysis

The section shows the respondents' profile used in this study. These demographics of respondents considered in this study include gender, age, and years of working experience, potion, educational qualifications and marital status.

Table 4.1.1 Gender Distribution of Respondents

| Gender | Frequency | Percentage |
|--------|-----------|------------|
| Male | 47 | 38.5 |
| Female | 75 | 61.5 |

| | | |
|-------|-----|-------|
| Total | 122 | 100.0 |
|-------|-----|-------|

Source: Researcher Fieldwork, 2023

Table 4.1.1 shows the distribution of respondents according to gender. The table shows that male respondents were 47 (38.5%) while the female were 75 (61.5%). This means that the female respondents in the study was more than their male counterparts.

Table 4.1.2: Respondents Educational Attainment

| Education Level | Frequency | Percentage |
|---------------------------|-----------|------------|
| Graduate | 69 | 56.6 |
| Postgraduate | 40 | 32.8 |
| Professional Certificates | 13 | 10.7 |
| Total | 122 | 100.0 |

Source: Researcher Fieldwork, 2023

Table 4.1.2 presents a breakdown of the educational attainment of the respondents in the study, categorizing them into three main levels: Graduate, Postgraduate, and Professional Certificates. significant majority of the respondents, constituting 56.6% of the total sample, have attained a graduate-level education. Approximately one-third of the respondents, accounting for 32.8%, have pursued postgraduate education. This category includes individuals with master's degrees or other advanced qualifications. The presence of postgraduate respondents indicates a segment of the sample with a deeper level of academic and potentially specialized knowledge, contributing to the diversity of perspectives within the study. A smaller but noteworthy portion of respondents, comprising 10.7%, holds professional certificates. This category includes individuals who have completed specialized training programs or obtained professional certifications. The

inclusion of professionals with certificates enriches the study by incorporating practical expertise and specialized knowledge relevant to the research focus.

The distribution of respondents' educational attainment reveals a diverse sample with varying levels of academic and professional qualifications. The majority having graduate and postgraduate degrees suggests a high level of formal education within the sample. Additionally, the presence of professionals with professional certificates contributes practical insights to the study. This varied educational background enhances the depth and breadth of perspectives, potentially enriching the study's findings and interpretations.

Table 4.1.3: Work Experience of the respondents

| Working Experience | Frequency | Percentage |
|---------------------------|------------------|-------------------|
| 1 – 5 years | 32 | 26.2 |
| 6 – 10 years | 42 | 34.4 |
| 11 – 15 years | 28 | 23.0 |
| Above 16 years | 20 | 16.4 |
| Total | 122 | 100.0 |

Table 4.1.3 presents the work Experience of the respondents the table Approximately a quarter of the respondents (26.2%) have a work experience ranging from 1 to 5 years. however, the largest proportion of respondents, accounting for 34.4%, falls within the 6 to 10 years of work experience category. This signals a significant representation of mid-career professionals in the study. In addition, 23% of the respondents possess a work experience spanning 11 to 15 years. This group represents a cohort of seasoned professionals who have accumulated a considerable amount of experience in their

respective fields. 16.4% of the respondents have a work experience exceeding 16 years. This category includes individuals with extensive professional backgrounds, likely holding senior positions and bringing substantial expertise to the study.

4.2 Research Questions

Research Question 1: What is the level of organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry

Table 4.2: Level Of Organizational Performance of Selected Deposit Money Banks (DMBS) In Nigerian Banking Industry

| Items | Strongly Agree | Agree | Disagree | Strongly Disagree | Mean |
|--|----------------|---------------|--------------|-------------------|-------------|
| We rarely experience decrease market response times in the bank where I work | 66 (54.1%) | 56 (45.9%) | -- | -- | 3.54 |
| The bank I work for is able to anticipate surprises and crises | 73 (59.8%) | 42 (34.4%) | 7 (5.7%) | -- | 3.54 |
| The bank I work for easily identify new business opportunities | 68 (55.7%) | 48 (39.3%) | 5 (4.1%) | 1 (0.8%) | 3.50 |
| The bank I work for can quickly adapt to unanticipated developments | 54 (44.6%) | 55 (45.5%) | 11 (9.1%) | 1 (0.8%) | 3.34 |
| The management of the bank I work for organize and coordinate the development efforts of various units | 60 (49.6%) | 53 (43.8%) | 7 (5.8%) | 1 (0.8%) | 3.42 |
| Aggregate mean | | | | | 3.47 |

Decision rule: low mean is < 2.5, moderate mean is = 2.5 and high mean is > 2.5

Table 4.2 presents the result of the responses on the level of organizational performance in the selected banks. The results showed that major of the respondents (54.1%) strongly

agree, and 45.9% agree that they rarely experience a decrease in market response times in the bank where they work. The mean score is 3.54, suggesting a moderate level of agreement. Also, a majority (59.8%) strongly agrees, 34.4% agree, and a small percentage (5.7%) disagree that the bank they work for is able to anticipate surprises and crises. The mean score is 3.54, indicating a relatively high level of agreement. Furthermore, a significant majority of the respondents (55.7%) strongly agrees, 39.3% agree, and a smaller percentage (4.9%) disagree that their bank easily identifies new business opportunities. The mean score is 3.50, suggesting a positive sentiment overall.

The responses the table also showed that majority of the respondents (44.6%) strongly agrees, 45.5% agree, and a smaller percentage (9.9%) disagree that their bank can quickly adapt to unanticipated developments. The mean score is 3.34, indicating a moderately positive sentiment. In the same vein, almost half of the respondents (49.6%) strongly agree, 43.8% agree, and a smaller percentage (5.8%) disagree that the management of their bank effectively organizes and coordinates development efforts. The mean score is 3.42, suggesting a relatively positive perception. Overall, the aggregate mean score across all items is 3.47, indicating a generally positive average perception of organizational performance.

In line with the decision rule, it is clear that organizational performance of the banks is rated high by the respondents. In summary, the table suggests that, according to the surveyed employees, the selected Deposit Money Banks in the Nigerian banking industry

generally perform well in terms of market response times, anticipation of surprises and crises, identification of new business opportunities, adaptation to unanticipated developments, and organization and coordination of development efforts.

Research Question Two: What are the of risk management practices of selected deposit money banks (DMBs) in Nigerian banking industry

Table 4.3 Risk Management Practices of Selected Deposit Money Banks (DMBS) In Nigerian Banking Industry

| Risk Management | Strongly Agree | Agree | Disagree | Strongly Disagree | Mean |
|---|-----------------------|---------------|-----------------|--------------------------|-------------|
| There are effective mechanisms in place for identifying potential risks within your department or branch? | 89 (73.0%) | 33 (27.0%) | -- | -- | 3.73 |
| The bank's accounting system provides timely and accurate financial information for risk assessment? | 87 (71.9%) | 33 (27.3%) | 1 (0.8%) | -- | 3.71 |
| The bank is able to detect and prevent fraudulent activities within your department? | 67 (55.4%) | 52 (43.0%) | 2 (1.7%) | -- | 3.54 |
| My branch achieved its profit targets in the last fiscal year | 99 (81.1%) | 23 (18.9%) | -- | -- | 3.81 |
| Staff have received training in risk management practices in the last 12 months | 66 (54.1%) | 56 (45.9%) | -- | -- | 3.54 |
| Aggregate Mean | | | | | 3.67 |

Table 4.3 provides insights into the risk management practices of selected Deposit Money Banks (DMBs) in the Nigerian banking industry. The responses show that 73.0%

of the respondents strongly agree, while 27.0% of them agree that there are effective mechanisms in place for identifying potential risks within the department or branch. The mean score is 3.73, indicating a relatively high level of agreement. This suggests a positive perception that the banks have effective risk identification mechanisms. In the same vein, 71.9% strongly agree, 27.3% agree that the bank's accounting system provides timely and accurate financial information for risk assessment. The mean score is 3.71, suggesting a positive sentiment. This indicates that respondents believe the financial information provided is effective for assessing risks.

The results also showed that 55.4% of the respondents strongly agree, while 43.0% agree that the bank is able to detect and prevent fraudulent activities within the department. The mean score is 3.54, indicating a moderate level of agreement. While the majority agrees, there is a slightly lower consensus compared to the first two items. Similarly, 81.1% strongly agree, 18.9% agree that their branch achieved its profit targets in the last fiscal year. The mean score is 3.81, suggesting a high level of agreement. This indicates a strong belief that the branches have successfully met their profit targets. It was also shown that the banks prioritise staff training in risk management practices. This is shown in the results as 54.1% of the respondents strongly agree, and 45.9% agree that staff have received training in risk management practices in the last 12 months. The mean score is 3.54, indicating a moderate level of agreement. While a majority agrees, there is some variability in the perception of staff training effectiveness. Overall, the aggregate mean for all sections is 3.67, indicating a high level of the risk management practices within the selected Deposit Money Banks in the Nigerian banking industry.

generally, the table suggests that, based on the responses, the selected banks generally have effective risk management practices. There is a high level of agreement regarding the identification of potential risks, the provision of financial information for risk assessment, the achievement of profit targets, and a moderate level of agreement regarding the detection and prevention of fraudulent activities and staff training in risk management practices. The aggregate mean of 3.67 reinforces the positive perception of risk management practices across these banks.

Research Question Three: What internal control systems are available in selected deposit money banks in Nigeria banking space?

1.9 Table 4.4: Internal Control Systems Are Available In Selected Deposit Money Banks In Nigeria Banking Space?

| Control Environment | Strongly Agree | Agree | Disagree | Strongly Disagree | Mean |
|---|-----------------------|---------------|-----------------|--------------------------|-------------|
| The manage always promptly handle violations to existing rules | 56 (46.7%) | 54 (45.0%) | 6 (5.0%) | 4 (3.3%) | 3.35 |
| Competency & integrity checks are performed during staff recruitment & remuneration | 67 (55.4%) | 43 (35.5%) | 7 (5.8%) | 4 (3.3%) | 3.43 |
| A clear chain of command is reflected in firm structure | 62 (50.8%) | 53 (43.4%) | 7 (5.7%) | -- | 3.45 |
| Management & employee support integrity & ethical values | 66 (56.4%) | 42 (35.9%) | 8 (6.8%) | 1 (0.9%) | 3.48 |

| | | | | | |
|--|---------------|---------------|---------------|-------------|-------------|
| Average mean | | | | | 3.43 |
| Risk Assessment | | | | | |
| There are mechanisms of classifying potential risks | 51 (41.8%) | 51 (41.8%) | 14 (11.5%) | 6 (4.9%) | 3.20 |
| The bank is capable of response to potential risk | 70 (57.9%) | 45 (37.2%) | 6 (5.0%) | -- | 3.53 |
| There are periodic reconciliation for transactions | 55 (45.1%) | 59 (48.4%) | 7 (5.7%) | 1 (0.8%) | 3.38 |
| There are mechanisms for mitigation of risk | 68 (55.7%) | 46 (37.7%) | 7 (5.7%) | 1 (0.8%) | 3.48 |
| Average mean | | | | | 3.40 |
| Control Activities | | | | | |
| The bank is effective in controlling its activities | 46 (37.7%) | 62 (50.8%) | 13 (10.7%) | 1 (0.8%) | 3.25 |
| The bank always verifies and reconciles claims of resource application | 68 (55.7%) | 46 (37.7%) | 8 (6.6%) | -- | 3.49 |
| Policies & procedure are implemented as outlined by the management | 68 (55.7%) | 47 (38.5%) | 7 (5.7%) | -- | 3.50 |
| The bank clearly defined duties that are assigned to each staff | 68 (55.7%) | 38 (31.1%) | 14 (11.5%) | 2 (1.6%) | 3.41 |
| Average mean | | | | | 3.41 |
| Information & Communication | | | | | |
| There is effective & quality dissemination of information | 78 (64%) | 42 (34.4%) | -- | 2 (1.6%) | 3.61 |
| The bank has effective reporting procedures in communicating to public | 68 (55.7%) | 53 (43.4%) | -- | 1 (0.8%) | 3.54 |
| Regular follow-ups are done on | 69 | 46 | 6 | 1 | 3.50 |

| | | | | | |
|--|---------------|---------------|---------------|-------------|-------------|
| delegated responsibilities | (56.6%) | (37.7%) | (4.9%) | (0.8%) | |
| All work computers are locked with password & authorization such as signature | 53 (43.8%) | 61 (50.4%) | 6 (5.0%) | 1 (0.8%) | 3.37 |
| Average mean | | | | | 3.50 |
| Monitoring | | | | | |
| Management has a strict supervisory role over operations | 84 (69.4%) | 31 (25.6%) | 6 (5.0%) | | 3.64 |
| Effective internal audit systems to aid monitoring | 63 (51.6%) | 43 (35.2%) | 15 (12.3%) | 1 (0.8%) | 3.38 |
| Periodic evaluation mechanisms reflect properly employee's productivity | 81 (66.4%) | 34 (27.9%) | 7 (5.7%) | -- | 3.61 |
| Physical inventory counts reflect accurately the recorded in books of accounts | 60 (50.4%) | 61 (49.6%) | -- | -- | 3.50 |
| Average mean | | | | | 3.53 |
| Aggregate Mean | | | | | 3.45 |

Table 4.4 provides insights into the internal control systems within selected deposit money banks (DMBs) in the Nigerian banking sector. The internal control system is examined under five headings, namely; control environment, risk assessment, control activities, information and communication, and monitoring. Under control environment, 46.7% of the respondents strongly agree, 45.0% agree that management promptly handles violations to existing rules. The mean score is 3.35, indicating a moderate level of agreement. Also, 55.4% of the respondents strongly agree, while 35.5% agree that

competency and integrity checks are performed during staff recruitment and remuneration. The mean score is 3.43, suggesting the practice is highly common.

In term of clear chain of command, 50.8% of the respondents strongly agree and 43.4% agree that a clear chain of command is reflected in the firm structure. The mean score is 3.45, indicating a relatively positive perception. Similarly, 56.4% strongly agree, 35.9% agree that management and employees support integrity and ethical values. The mean score is 3.48, suggesting a positive overall sentiment. On average, the mean score for the control environment is 3.43. This shows that the banks are rated high in control environment.

In the section focussing on risk assessment, 41.8% of the respondents strongly agree, 41.8% agree that there are mechanisms for classifying potential risks. The mean score is 3.20, indicating a high level of agreement. In addition, 57.9% strongly agree, 37.2% agree that the bank is capable of responding to potential risks. The mean score is 3.53, suggesting a positive sentiment. In term of periodic reconciliation for transactions, 45.1% strongly agree, 48.4% agree that there are periodic reconciliations for transactions. The mean score is 3.38, indicating a moderate level of agreement. In the same vein, 55.7% of the respondents strongly agree and 37.7% agree that there are mechanisms for the mitigation of risk. The mean score is 3.48, suggesting a positive overall sentiment.

The overall mean score for risk assessment is 3.40. which means that the practice of risk assessment as a means of reducing fraud is high among the banks.

The next section is control activities. Under this section, 37.7% of the respondents strongly agree while 50.8% agree that the bank is effective in controlling its activities.

The mean score is 3.25, indicating a high level of agreement. Similarly, 55.7% of the respondents strongly agree and 37.7% agree that the bank always verifies and reconciles claims of resource application. The mean score is 3.49, suggesting a positive sentiment. In term of implementation of policies & procedures, 55.7% of the respondents strongly agree, 38.5% agree that policies and procedures are implemented as outlined by the management. The mean score is 3.50, indicating a relatively positive perception.

It was also found that there is a clearly defined duties for staff; 55.7% strongly agree, 31.1% agree that the bank has clearly defined duties for each staff. The mean score is 3.41, suggesting a positive overall sentiment. The overall mean score for control activities is 3.41.

The next section is information & communication. Under this section, 64% of the respondents strongly agree, and 34.4% agree that there is effective and quality dissemination of information. The mean score is 3.61, indicating a positive sentiment. There is also effective reporting procedures as 55.7% of the respondents strongly agree and 43.4% agree that the bank has effective reporting procedures in communicating to the public. The mean score is 3.54, suggesting a positive overall sentiment. In the same vein, 56.6% of the respondents strongly agree, and 37.7% agree that regular follow-ups are done on delegated responsibilities. The mean score is 3.50, indicating a relatively positive perception.

Furthermore, 43.8% of the respondents strongly agree and 50.4% agree that all work computers in the banks are locked with password and authorization. The mean score is

3.37, suggesting a positive sentiment. The overall mean score for information and communication is 3.50 indicating a high level of this practice.

In the last section which is monitoring, 69.4% strongly agree and 25.6% agree that management has a strict supervisory role over operations. The mean score is 3.64, indicating a relatively high level of agreement. Furthermore, 51.6% of the respondents strongly agree, and 35.2% agree that there are effective internal audit systems to aid monitoring. The mean score is 3.38, suggesting a positive sentiment. In addition, 66.4% strongly agree, 27.9% agree that periodic evaluation mechanisms reflect properly on employee productivity. The mean score is 3.61, indicating a relatively high level of agreement. Similarly, 50.4% of the respondents strongly agree while 49.6% agree that physical inventory counts reflect accurately in the recorded books of accounts. The mean score is 3.50, suggesting a positive sentiment. The overall mean score for monitoring is 3.53.

The aggregate mean for all sections is 3.45, suggesting an overall positive perception of the internal control systems within the selected Deposit Money Banks in the Nigerian banking space. Generally, the table indicates that, based on the responses, the internal control systems within these banks are generally perceived as highly present across various aspects of control environment, risk assessment, control activities, information and communication, and monitoring.

4.2 Presentation of Study Hypotheses

4.3.1: Hypothesis One: Ho1: There is no significant relationship between risk management practices and performance of selected deposit money banks (DMBs) in Nigeria.

1.10 Table 4.5 a-c: Summary of Regression Analysis on Relationship Between Risk Management Practices and Performance of Selected Deposit Money Banks (DMBS) In Nigerian Banking Industry.

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .651 ^a | .424 | .419 | .26146 |

a. Predictors: (Constant), Risk Management Practices

Source: Researcher Fieldwork, 2023

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|--------|-------------------|
| 1 | Regression | 6.034 | 1 | 6.034 | 88.272 | .000 ^b |
| | Residual | 8.203 | 120 | .068 | | |
| | Total | 14.238 | 121 | | | |

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Risk Management Practices

Source: Researcher Fieldwork, 2023

Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|-----------------------------|------------|---------------------------|---|------|
| | B | Std. Error | Beta | | |

| | | | | | |
|----------------------------------|-------|------|------|-------|------|
| (Constant) | 1.361 | .232 | | 5.869 | .000 |
| Risk Management Practices | .618 | .066 | .651 | 9.395 | .000 |

Dependent Variable: Financial Performance

Source: Researcher Fieldwork, 2023

Table 4.5a-c presents the results of the regression analysis for the relationship between risk management practices and performance of selected deposit money banks (DMBs) in Nigerian banking industry. Table 4.5a presents a model summary which establishes how the model equation fits into the data. The R was used to establish the predictive power of the study's model. From the results, risk management practices has a significant relationship with organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry ($R = 0,651$, $p < 0.05$). The coefficient of determination (R^2) of 0.424 indicates that risk management practices explained 42% of the variation in organizational performance while the remaining 48% variation in organizational performance is explained by other exogenous variable different from risk management practices examined.

Table 4.5b presents the results of ANOVA (overall model significance) of regression test which discovered that the risk management practices have a significant influence on organizational performance of deposit money banks (DMBs) in Nigerian banking industry. This can be explained by the F-value (88.272) and p value of 0.000 which is statistically significant at 95% confidence interval.

Furthermore, the results of regression coefficients in table 4.5c, revealed that at 95% confidence level, a unit change in risk management practices will lead to a 0.618 rise in

organizational performance of deposit money banks (DMBs) in Nigeria banking industry, given that all other factors are held constant. On the strength of this result ($R = 0.651$, $F(88.272) 1,120$, $p 0.000$). This study therefore rejected the null hypothesis one (H_01) which state that there will be no significant relationship between risk management practices and performance of selected deposit money banks (DMBs) in Nigerian banking industry.

Hypothesis Two: H_02 There is no significant relationship between internal control systems and performance of selected deposit money banks (DMBs) in Nigeria banking industry.

1.11 Table 4.6 a-c: Summary of Regression Analysis on Relationship Between Internal Control Systems and Performance of Selected Deposit Money Banks (DMBS) In Nigerian Banking Industry.

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .805 ^a | .649 | .646 | .20421 |

a. Predictors: (Constant), Internal Control Systems

b. Source: Researcher Fieldwork, 2023

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|-----|-------------|---------|-------------------|
| 1 | Regression | 9.233 | 1 | 9.233 | 221.404 | .000 ^b |
| | Residual | 5.004 | 120 | .042 | | |

| | | |
|-------|--------|-----|
| Total | 14.238 | 121 |
|-------|--------|-----|

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Internal Control Systems

Source: Researcher Fieldwork, 202

Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|--------------------------|-----------------------------|------------|---------------------------|--------|------|
| | B | Std. Error | Beta | | |
| (Constant) | 1.255 | .154 | | 8.151 | .000 |
| Internal Control Systems | .655 | .044 | .805 | 14.880 | .000 |

a. Dependent Variable: Financial Performance

Source: Researcher Fieldwork, 2023

Table 4.6a-c presents the results of the regression analysis for the relationship between internal control systems and performance of selected deposit money banks (DMBs) in Nigerian banking industry. Table 4.6a presents a model summary which establishes how the model equation fits into the data. The R value was used to establish the predictive power of the study's model. From the results, internal control system has a significant relationship with organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry ($R = 0.805$, $p < 0.05$). The coefficient of determination (R^2) of 0.649 indicates that internal control systems explained almost 65% of the variation in organizational performance while the remaining 35% variation in organizational performance is explained by other exogenous variable different from internal control systems examined.

In addition, Table 4.6b presents the results of ANOVA (overall model significance) of regression test which discovered that the internal control systems have a significant influence on organizational performance of deposit money banks (DMBs) in Nigerian banking industry. This can be explained by the F-value (221.404) and p value of 0.000 which is statistically significant at 95% confidence interval.

Furthermore, the results of regression coefficients in table 4.6c, revealed that at 95% confidence level, a unit change in internal control systems will lead to a 0.655 rise in organizational performance of deposit money banks (DMBs) in Nigeria banking industry, given that all other factors are held constant. On the strength of this result ($R = 0.805$, $F(221.404) 1,120$, $p 0.000$). This study therefore rejected the null hypothesis one (H_0) which state that there will be no significant relationship between internal control systems and performance of selected deposit money banks (DMBs) in Nigerian banking industry.

4.3 Discussion of Findings

The study set out to determine the influence of risk management practices and internal control systems on organizational performance in selected money deposit banks in Nigeria. Research questions and hypotheses were tested to achieve the study's specific objectives.

The result of research question one revealed a high level of perceived organizational performance in the banks. The findings from the study on the organizational performance of selected Deposit Money Banks (DMBs) in the Nigerian banking industry reveal a notably positive perception among respondents. Across various indicators, including market response times, anticipation of surprises and crises, identification of business

opportunities, and adaptation to unanticipated developments, the surveyed employees express a favorable view of their respective banks' performance. The mean scores, ranging from 3.34 to 3.54, suggest a moderate to high level of agreement among respondents, indicating that, overall, the organizational performance of these banks is highly rated.

In the context of the Nigerian banking industry, where stability, adaptability, and efficiency are paramount, the positive perception of organizational performance carries significant implications. It suggests that the surveyed banks are successfully managing key aspects of their operations, contributing to their overall competitiveness and standing within the industry. This positive sentiment is likely to have a ripple effect on various stakeholders, including customers, investors, and regulatory bodies, fostering confidence and trust in the banks' capabilities¹.

Moreover, the high rating of organizational performance may reflect a positive work environment and employee engagement within these banks. Scholars have observed that satisfied and engaged employees are more likely to contribute to the success of the organization, and their positive perceptions can have a positive impact on customer service, innovation, and overall productivity². This aspect emphasizes the importance of a holistic approach to organizational performance that considers both internal and external factors.

While the findings are promising, it is crucial for decision-makers within the banks to use this positive feedback strategically. Continuous monitoring and gathering of feedback will be essential for maintaining and improving organizational effectiveness. Understanding the specific factors that contribute to this positive perception, such as

effective leadership, strategic management, and employee satisfaction, will enable the banks to reinforce successful practices and address any potential areas for improvement³. This ongoing assessment is vital in the dynamic and competitive landscape of the Nigerian banking industry, ensuring that the banks remain agile and responsive to changing market conditions.

In response to the second research question, the study found a high level of the risk management practices within the selected Deposit Money Banks in the Nigerian banking industry. The finding on risk management practices within the selected Deposit Money Banks (DMBs) in the Nigerian banking industry presents a compelling narrative of a high level of effectiveness in managing risks. Across various aspects, the responses from the surveyed employees consistently reflect a positive and robust risk management framework within these banks. The consistent high scores and positive responses across multiple dimensions of risk management practices affirm a robust and effective risk management culture within the selected Deposit Money Banks in the Nigerian banking industry. This not only speaks to the banks' commitment to mitigating potential threats but also positions them favorably in navigating the complex and dynamic landscape of the financial sector^{4,5}.

The study's findings also reveal a strong and positive perception of the internal control systems within the selected Deposit Money Banks (DMBs) in the Nigerian banking space. The data collected from respondents reflects a consensus that the internal control mechanisms in place are effective and robust, contributing to a high level of confidence in the overall control environment of these banks. One notable aspect is the respondents' agreement that violations to existing rules are promptly handled by management, with a

mean score of 3.35. This suggests a proactive approach to addressing deviations from established norms, reinforcing the idea that the internal control systems are responsive and efficient in maintaining compliance.

The acknowledgment that competency and integrity checks are performed during staff recruitment and remuneration, with a mean score of 3.43, indicates a commitment to ensuring that the workforce is not only skilled but also aligned with ethical standards. This contributes to a strong control environment that values both competence and integrity in its personnel.

A clear chain of command, as reflected in the firm's structure, receives positive feedback as well, with a mean score of 3.45. This suggests that the organizational hierarchy is well-defined, contributing to a streamlined and efficient flow of information and decision-making processes within the banks.

The finding that management and employees support integrity and ethical values, with a mean score of 3.48, reinforces the importance placed on ethical conduct throughout the organization. This alignment with ethical principles is essential for building trust among stakeholders and maintaining a positive organizational culture.

In the realm of risk assessment, the study indicates that the banks have effective mechanisms for classifying potential risks, responding to such risks, conducting periodic reconciliations for transactions, and implementing mitigation strategies. These findings, with mean scores ranging from 3.20 to 3.48, underline a comprehensive and proactive approach to risk management within the internal control systems.

The effectiveness of control activities, as reflected in the verification and reconciliation of resource application claims, implementation of policies and procedures, and clear definition of staff duties, is also positively perceived by respondents. Mean scores ranging from 3.25 to 3.50 suggest a high level of agreement regarding the efficacy of control activities within the banks.

In terms of information and communication, the positive perception extends to effective dissemination of information, reporting procedures, regular follow-ups on delegated responsibilities, and security measures for work computers. The mean scores, ranging from 3.37 to 3.61, indicate a strong consensus that these aspects contribute to a well-established and secure information and communication framework. The monitoring aspects of internal control, including strict supervisory roles of management, effective internal audit systems, periodic evaluation mechanisms reflecting employee productivity, and accurate physical inventory counts, are also highly rated. Mean scores ranging from 3.38 to 3.64 emphasize a high level of confidence in the monitoring mechanisms implemented by the banks.

The aggregate mean of 3.45 across all sections further solidifies the overarching positive perception of the internal control systems within the selected Deposit Money Banks in the Nigerian banking space. This suggests that, according to the respondents, the banks have successfully implemented and maintained robust internal control frameworks that encompass various dimensions of organizational operations. Overall, the findings portray a banking sector with a high level of commitment to effective internal controls, reflecting positively on governance, risk management, and compliance within the Nigerian banking industry.

In light of the positive responses to organizational performance in the banks, banks' risk management practices and the internal control system, the hypothesis focused on the influence of risk management on organizational performance of the banks. The finding showed that risk management practices has a significant influence on the organizational performance. The study's finding of a significant effect of risk management practices on the organizational performance of selected Deposit Money Banks (DMBs) in the Nigerian banking industry underscores the critical role that risk management plays in shaping the overall success and sustainability of these financial institutions. The positive correlation between risk management practices and organizational performance is crucial in the context of the dynamic and often unpredictable nature of the banking industry⁶. Effective risk management is essential for mitigating potential threats and capitalizing on opportunities, contributing to the resilience and stability of the banks⁷.

The finding suggests that banks with robust risk management practices are better equipped to identify, assess, and proactively address potential risks, including market volatility, credit risks, operational risks, and other uncertainties inherent in the financial sector. This ability to navigate and manage risks effectively contributes to the banks' overall performance and resilience, enhancing their capacity to achieve strategic objectives and financial goals. It has been suggested that a well-established risk management framework can positively impact various aspects of organizational performance. For instance, it can contribute to sound financial decision-making, ensuring that the banks allocate resources efficiently and make informed investment choices⁸. Additionally, it may enhance the banks' reputation and credibility, fostering trust among stakeholders such as customers, investors, and regulatory authorities. Furthermore, the

study implies that risk management practices go beyond mere risk mitigation; they are integral to achieving and surpassing organizational targets. The positive relationship between risk management practices and the achievement of profit targets in the last fiscal year, as indicated in the study, underscores the strategic importance of managing risks effectively in achieving financial success⁸.

The findings may have implications for strategic planning and decision-making within the Nigerian banking industry. Banks that prioritize and invest in robust risk management practices are likely to be better positioned to adapt to changing market conditions, regulatory requirements, and emerging risks, ultimately influencing their long-term success. This insight also highlights the interconnectedness of risk management and organizational performance, emphasizing the need for a holistic and integrated approach to managing risks within the banking sector. It suggests that banks should continually evaluate and enhance their risk management frameworks to align with the evolving landscape of the financial industry¹⁰.

In the same vein, the study found that internal control systems has a significant influence on the organizational performance of the banks. The study's identification of a significant effect of the internal control system on the organizational performance of selected Deposit Money Banks (DMBs) in the Nigerian banking industry underscores the critical role that a robust internal control framework plays in shaping the overall success and effectiveness of these financial institutions¹¹.

The positive correlation between the internal control system and organizational performance suggests that well-designed and effectively implemented control

mechanisms contribute significantly to the banks' ability to achieve their strategic objectives and maintain operational excellence¹². Internal control systems serve as the backbone of governance, risk management, and compliance within organizations, and their impact on performance extends across various dimensions. One key aspect highlighted by the study is the prompt handling of violations to existing rules. The finding suggests that a timely and efficient response to deviations from established norms contributes positively to the overall organizational performance. This responsiveness not only helps in mitigating risks but also reinforces a culture of accountability and compliance within the banks¹³.

The study's indication that competency and integrity checks during staff recruitment and remuneration have a significant effect on organizational performance aligns with the understanding that the calibre and ethical standards of the workforce directly impact a company's ability to execute its strategies effectively. A competent and ethical workforce is more likely to contribute positively to the organization's overall performance. The presence of a clear chain of command in the firm's structure, as noted in the study, is also identified as a significant factor influencing organizational performance. This suggests that a well-defined organizational structure contributes to streamlined communication, decision-making processes, and overall operational efficiency, positively impacting the banks' performance¹⁴.

These insights may have implications for strategic decision-making within the Nigerian banking industry. Banks that prioritize and invest in robust internal control systems are likely to reap the benefits of enhanced operational efficiency, reduced risks, and improved overall performance. It emphasizes the need for continuous evaluation,

enhancement, and adaptation of internal control frameworks to align with the evolving dynamics of the financial sector¹⁵.

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Chapter five

Conclusion

1.125.1 Summary of Findings

The findings of this study can be summarised as follows

- 1 In line with the decision rule, the study found that organizational performance of the banks is rated high by the respondents
- 2 The study also found a high level of the risk management practices within the selected Deposit Money Banks in the Nigerian banking industry.
- 3 The study found a high perception of the internal control systems within the selected Deposit Money Banks in the Nigerian banking space.
- 4 The study also found that risk management practices has a significant effect on organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry
- 5 Furthermore, it was found that internal control system has a significant effect on organizational performance of selected deposit money banks (DMBs) in Nigerian banking industry

1.135.2 Conclusion

The findings of this study collectively indicate a positive outlook on the organizational performance, risk management practices, and internal control systems within the selected Deposit Money Banks (DMBs) in the Nigerian banking industry. The respondents' high ratings in organizational performance suggest that the banks are effectively managing various aspects of their operations. Additionally, the study highlights a robust perception

of risk management practices and internal control systems, both of which significantly contribute to the overall organizational performance. The positive correlations found emphasize the strategic importance of well-implemented risk management and internal control mechanisms in achieving and sustaining success within the dynamic financial landscape of Nigeria.

1.145.3 Recommendations:

In line with the findings of this study, the following recommendations are considered relevant;

- i. Based on the significant positive effect identified, it is recommended that the DMBs continue to enhance their risk management practices. Regular reviews and updates to risk identification, assessment, and mitigation strategies should be conducted to adapt to evolving market conditions.
- ii. Given the positive correlation between staff training and organizational performance, the banks should invest in ongoing training programs. These programs should focus on risk management practices, ethical conduct, and competency development to ensure that the workforce remains well-equipped to contribute effectively.
- iii. Deposit money banks in Nigeria should conduct periodic assessments of the internal control systems to ensure their continued effectiveness. This includes a review of control mechanisms related to risk management, compliance, and governance. Any identified weaknesses or areas for improvement should be addressed promptly.
- iv. Recognizing the impact of an ethical organizational culture on performance, it is recommended that the banks actively promote and strengthen ethical values

throughout the organization. This can be achieved through awareness campaigns, training programs, and leadership initiatives that emphasize the importance of integrity and ethical behavior.

- v. To maximize the positive effect of risk management on organizational performance, it is recommended that the DMBs integrate risk management considerations into their strategic planning processes. Aligning risk management with strategic objectives will enhance the banks' ability to proactively address challenges and capitalize on opportunities.

1.155.4 Contribution to Knowledge

This study makes a significant contribution to the existing body of knowledge in the following ways: The study provides empirical evidence specific to the Nigerian banking industry, offering insights into the perceptions of organizational performance, risk management practices, and internal control systems. This context-specific information contributes to a more nuanced understanding of the factors influencing the success of banks in Nigeria. The identification of a significant positive effect of risk management practices on organizational performance contributes to the literature on risk management. This finding reinforces the strategic importance of effective risk management in achieving and sustaining high organizational performance.

Notably, the research work proactively combined two independent variables (risk management practices and internal control system) as a factor that influence organizational performance in the selected deposit money banks in Nigeria. No previous study have jointly explored the two independent variables as an indicator of bank performance in Nigeria.

The study contributes to a comprehensive understanding of internal control systems by exploring their impact on organizational performance. The findings emphasize that beyond compliance, internal controls play a pivotal role in shaping the overall effectiveness and success of banks. Practical Recommendations for Banks:

The study offers practical recommendations for Deposit Money Banks in Nigeria based on the identified correlations. These recommendations can guide banks in enhancing their risk management practices, internal control systems, and overall organizational performance, providing actionable insights for industry practitioners.

Validation of Decision Rules:

The study validates decision rules by aligning respondents' perceptions with empirical evidence. This validation reinforces the reliability of decision rules in assessing and interpreting organizational performance, risk management, and internal control systems within the Nigerian banking sector.

5.5 Suggested areas further studies

The limitations of this study offer opportunity and suggestions for future study. Therefore the incoming researcher can also explore the following areas;

1. Internal control measure as predictor of the profitability of money deposit banks in Southwest, Nigeria. This will widen the horizon of future researchers beyond a particular locations.
2. Further studies can be conducted on the impact of risk management practices and internal control system in other sectors like insurance companies, stock houses, financial institutions, manufacturing sectors etc.

3. Inquiry into nexus between the risk management practices and internal control system as an indicator of organization's continuity.

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Appendix

Lead City University Ibadan
Faculty of Management and Social Sciences
Department of Accounting

Questionnaire on the Risk Management, Internal Control Systems and Performance of Selected Deposit Money Banks in the Nigerian Banking Industry.

Dear Respondents,

This questionnaire is designed to collect data on the Influence of Risk Management, Internal Control Systems and Performance of Selected Deposit Money Banks in the Nigerian Banking Industry. Your response to the questions and statements in this questionnaire is high important to the success of the study. I therefore seek your indulgence to fill the questionnaire as accurately as possible. I assure you that your responses will be treated with the utmost confidentiality and used only for research purposes.

Thank you.

Section A: Demographic Data

Name of Bank: _____

Gender: Male []; Female [];

Education Level: Graduate []; Postgraduate []; Professional Certificates [];

Working Experience: 1 – 5 []; 6 – 10 []; 11 – 15 []; Above 16 years [];

Section B: Bank Performance

Instruction: Please respond to the following statements as they apply to you

Key: SA=strongly agree, A=Agree, D=Disagree, SD=strongly disagree).

| S/N | Items | Strongly Agree | Agree | Disagree | Strongly Disagree |
|-----|---|----------------|-------|----------|-------------------|
| 1. | Decrease market response times | | | | |
| 2. | Anticipate surprises and crises | | | | |
| 3. | The bank easily identify new business opportunities | | | | |
| 4. | The bank can quickly adapt to unanticipated developments | | | | |
| 5. | The management organize and coordinate the development efforts of various units | | | | |

Section C: Internal Control Systems

Instruction: Please respond to the following statements as they apply to you

Key: SA=strongly agree, A=Agree, D=Disagree, SD=strongly disagree).

| | Control Environment | Strongly Agree | Agree | Disagree | Strongly Disagree |
|-------|---|----------------|-------|----------|-------------------|
| (CE1) | The manage always promptly handle violations to existing rules | | | | |
| (CE2) | Competency & integrity checks are performed during staff recruitment & remuneration | | | | |
| (CE3) | A clear chain of command is reflected in firm structure | | | | |
| (CE4) | Management & employee support integrity & ethical values | | | | |
| | Risk Assessment | | | | |

| | | | | | |
|-------|---|--|--|--|--|
| (RA1) | There are mechanisms of classifying potential risks | | | | |
| (RA2) | The bank is capable of response to potential risk | | | | |
| (RA3) | There are periodic reconciliation for transactions | | | | |
| (RA4) | There are mechanisms for mitigation of risk | | | | |
| | Control Activities | | | | |
| (CA1) | The bank is effective in controlling its activities | | | | |
| (CA2) | The bank always verifies and reconciles claims of resource application | | | | |
| (CA3) | Policies & procedure are implemented as outlined by the management | | | | |
| (CA4) | The bank clearly defined duties that are assigned to each staff | | | | |
| | Information & Communication | | | | |
| (IC1) | There is effective & quality dissemination of information | | | | |
| (IC2) | The bank has effective reporting procedures in communicating to public | | | | |
| (IC3) | Regular follow-ups are done on delegated responsibilities | | | | |
| (IC4) | All work computers are locked with password & authorization such as signature | | | | |
| | Monitoring | | | | |
| (M1) | Management has a strict supervisory role over operations | | | | |
| (M2) | Effective internal audit systems to aid monitoring | | | | |

| | | | | | |
|------|--|--|--|--|--|
| (M3) | Periodic evaluation mechanisms reflect properly employee's productivity | | | | |
| (M4) | Physical inventory counts reflect accurately the recorded in books of accounts | | | | |

Section D: Risk Management Practice

Key: SA=strongly agree, A=Agree, D=Disagree, SD=strongly disagree).

| | Risk Management | Strongly Agree | Agree | Disagree | Strongly Disagree |
|-------|---|----------------|-------|----------|-------------------|
| (RM1) | There are effective mechanisms in place for identifying potential risks within your department or branch? | | | | |
| (RM2) | The bank's accounting system provides timely and accurate financial information for risk assessment? | | | | |
| (RM3) | The bank is able to detect and prevent fraudulent activities within your department? | | | | |
| (RM4) | My branch achieved its profit targets in the last fiscal year | | | | |
| (RM5) | Staff have received training in risk management practices in the last 12 months | | | | |

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