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The Effect of Internal Control Systems on the Financial Performance of Commercial Banks in Rwanda

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Keywords: internal control systems, financial performance, commercial banks, rwanda.

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Keywords: internal control systems, financial performance, commercial banks, rwanda.

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I. Introduction

Internal controls are a company-wide system of policies and procedures that provide some assurance that the company is operating effectively, and that all applicable laws and reporting processes are sound [1]. For large multinational corporations, the system of internal controls could involve dozens of layers of interconnecting controls that range from corporate ethics manual down to an input control in a database that makes sure the product identification number entered in the inventory system is valid.

From a global perspective, a global financial crisis highlighted the importance of a well-functioning and healthy banking sector for macro stability [2]. One of the main reasons for banking failures is a poor risk management system which results in significant financial loss and even bankruptcy for financial institutions across the globe. The lack of an internal control system to keep the risks under control or major breakdowns within an existing internal control system poses a threat to the success of the banking sector [3]. The ambiguity of the Control requirements is inevitable given China's background. China's institutional environment is considered relatively weak, lacking stringent enforcement [4]. Robust internal control systems and periodic audits are essential to preventing fraud when running a company in China [5].

From a regional perspective, the effect of internal controls on the Financial Performance of manufacturing firms in Kenya discovered that manufacturing firms that had invested ineffective internal control systems had a more improved financial performance as compared to those manufacturing firms that had weak internal controls [6]. In Kenya, weak internal controls activities and a lack of proper information and communication systems have encouraged conspiracy to fraud, loss of revenue, and embezzlement of collected revenue among the county governments [7]. Risk assessment is the process of identifying and analyzing management's strong risks to the preparation of financial statements that would be presented fairly in conformity with generally accepted accounting principles [8]. Risk assessment involves the use of systematic procedures to identify and analyze

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relevant risks and the subsequent management of those risks.

From national a perspective, the Rwandan government started to recognize the importance of the internal audit function, the reason why the Ministerial Order N°002/09/10/GP/A of 12/02/2009 set out rules and regulations for internal controls. The internal audit which is the integral component of internal controls was identified as one of the key players in promoting corporate governance. Strong internal control is one of the best defenses against business failures and an important driver of business performance. Internal controls help an organization attain its objectives by assembling a systematic, disciplined approach to evaluate and improve the effectiveness of the risk management process hence the promotion of financial performance[9]. The research focused on internal controls as a tool for mitigating risk management to promote financial performance in commercial banks in Rwanda.

II. Statement of the Problem

Globally, financial scandals have been witnessed triggering reactions for tighter regulation and enhanced standards for accounting and corporate governance. In America, scandals such as World.com and Enron in the year 2002 were 11 investors lost over $180 billion led to the enactment of the Corporate and Auditing, Accountability and Responsibility Act (Sarbanes–Oxley Act, 2002). These major financial scandals were caused by poor internal control systems including weak corporate governance which the Sarbanes Oxley Act of 2002, tried to address. A large scandal involving the public company Enron showed the American public and its representatives in Congress that new compliance standards for public accounting and auditing were sorely needed. Enron was one of the biggest, and, it was thought, one of the most financially sound companies in the U.S.

In Rwanda, the micro-finance sector has achieved tremendous growth over the past few years, with the number of players increasing close to 100 MFIs presently. The growth is however being threatened by the rising rate of non-performing loans (NPLs). The study indicates that registration fees for collateral at Rwanda Development Board (RDB) of up to Rwf 20,000, and Rwf1,500 contract notification charges a page were hurting commercial banks. The situation, according to the report, is compounded by a limited number of Commercial Courts to handle cases related to bad loans, and Rwf 50,000 judicial fees that small loan defaulters pay, among others. Additionally, many commercial banks were witnessed undergoing insolvency due to higher levels of non-performing loans (BNR, Financial stability report 2008). Initially, the banking sector and particularly commercial banks in Rwanda have faced a lot of problems like lack of resources, political uncertainty, lack of skilled human resource, and socioeconomic catastrophe, high nonperforming loan affects the profitability of the bank, which affected the efficient working of Commercial banking sector. Indeed, good performance and stability of a bank lie at the heart of confidence in the banking system due to the highly leveraged nature of banks. Individual banks' financial problems can have significant implications for the whole financial system. BPR represented 46% losses of shares capital for the annual financial report, 2009, 2012, and 2013. While BCR made losses worth 55% in 2012.

Rwandan banks are faced with increasing competition and rising costs because of regulatory requirements, financial and technological innovation, entry of large foreign banks into the retail banking environment, and challenges of the recent financial crisis. In the Rwandan economy, studies done relating to internal control systems and financial performance do not show directly the effect of corporate governance and government policy on the financial performance of commercial banks [10]. This study, therefore, focused on a wider scope of commercial banks sought to fill existing research gaps in determining the Effect of Internal Control Systems on the Financial Performance of the Commercial Banks in Rwanda

III. Objectives of the Study

a) General Objective

The general objective of this study was to the determine effect of Internal Control Systems on the Financial Performance of Commercial Banks in Rwanda.

b) Specific Objectives

The specific objectives of the study were:

1. To establish the effect of the Internal Control Environment on the Financial Performance of Commercial Banks in Rwanda.
2. To determine the effect of Risk Management on the Financial Performance of Commercial Banks in Rwanda

c) The Research Hypotheses

The research hypotheses of the study were:

H0: There is no relationship between the Internal Control Environment on the Financial Performance of Commercial Banks in Rwanda.

H0: There is no relationship between Risk Management Control on the Financial Performance of Commercial Banks in Rwanda

IV. Theory

a) Systems Theories

Systems theories are based on the belief that individuals do not operate in isolation, but rather grow

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and develop in interaction with their physical and social environment [11]. Systems theories derive from general systems theory, which explores the parts of a system that interconnect and interact to make a complete whole. Within social work, systems can constitute individuals, couples, families, communities, organizations, society, and the world. Systems theories hold that each system should be viewed as consisting of several elements that make the system a functional whole, and each system should be viewed as the other systems that can cause a change or reaction within the main system. For example, when working with clients, social workers should consider the bio-psycho-social aspects of the client by looking at physical and psychological functioning, social relationships, and community or societal structures that impact the client [12].

The life model of social work practice was greatly influenced by system theories as well as the person-in-environment perspective [13] both of which examine how social work is a unique discipline, in that it focuses on the point where individuals interact with their environment. Such systems theories aim to move social work practice away from focusing solely on the individual, such as with development theories, psychodynamic theories, and behavioral theories and instead focus holistically on the individual within her/his environment (often referred to as human behavior in the social environment). Consideration of the environment includes the physical space, the social context, and the individual's culture and history. The aim of systems theories is to create homeostasis, or a favorable person-environment fit, in that the individual interacts and responds to her/his environment where interactions and change are contributing to positive growth and development and social functioning [14].

Family systems theory adapted the main concepts of general systems theory in understanding and working with families. The family is viewed as a system with each family member playing a critical part. Family systems theory holds that a change in one part of the family system will create a change in other parts of the family system, yet this is often variable depending on the boundaries of the family, the patterns, messages, and rules of the family, and the family's responsiveness to change [15]. The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the workplace. They recognize the various parts of the organization, and, in particular, the interrelations of the parts, for example, the coordination of central administration with its programs, supervisors, and workers, among other variables. In traditional management practices, managers typically took one part and focused on it [16].

Systems theories are useful to social work practice as they provide a theoretical basis for assessing a client holistically by examining all the systems within her/his environment [17]. Such theories are primarily used in the assessment and intervention stages of social work practice where the social worker assesses the client holistically by considering psychological, biological, and social functioning, as well as assessing the interaction of other systems within the client's environment, particularly those that could be contributing to the presenting problem. Based on the assessment, underpinned by systems theory, the social worker determines which system needs the intervention. Although the client may be an individual, the social worker may deem the family system, community system, or even political systems as the focus of intervention. Interventions most commonly used in social work practice include couple and family therapy, family systems therapy, community development, and community practice [18].

The theory was therefore very relevant in this study as shareholders who are the owners of the quoted companies have delegated the responsibilities of the daily running of the companies to the management who acts as their agents and hence the great need for strong internal control systems to ensure shareholders and other stakeholder's interests are adequately safeguarded [19]. The theory, therefore, supports the existence of a controlled environment, internal audit, and risk management

b) Agency Theory

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agents (management). This study used the agency theory to determine the effect of internal control systems on the financial performance of quoted companies in the Nairobi securities exchange[20], stating that according to the agency theory, a company consists of a set of linked contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling these resources.

A significant body of work has been undertaken in this area within the context of the principal-agent framework. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. Argues that agency theory also provides a useful theoretical framework for the study of the internal auditing function [21]. Proposes that agency theory not only helps to explain and predict the existence of internal audit but that it also helps to explain the role and responsibilities assigned to internal auditors by the organization, and that agency theory predicts how the internal audit function is likely to be affected by organizational change. Concludes that

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agency theory provides a basis for rich research which can benefit both the academic community and the internal auditing profession.

Agency theory is used to understand the relationships between agents and principals [22]. This leads to the principal-agent problem. The principal-agent problem occurs when the interests of a principal and agent come into conflict. Companies should seek to minimize these situations through solid corporate policy. The agency relationship can have several disadvantages relating to the opportunism or self-interest of the agent: For example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal.

There can be several dimensions to this including, for example, the agent misusing their power for pecuniary or another advantage, or the agent not taking appropriate risks in pursuance of the principal's interests because the agent views those risks as not being appropriate while on the other hand, the principal may have different attitudes to risks [23].

There is also the problem of information asymmetry whereby the principal and the agent have access to different levels of information; in practice, this means that the principal is at a disadvantage because the agent has more information. The theory was therefore very relevant in this study as shareholders who are the owners of the quoted companies have delegated the responsibilities of the daily running of the companies to the management who acts as their agents and hence the great need for strong internal control systems to ensure shareholders and other stakeholder's interests are adequately safeguarded [24]. The theory, therefore, supports the existence of a controlled environment, internal audit, and risk management. The agency theory offers a solution to problems arising where there's a clash of interests between a principal and an agent. It however requires that one party concedes to the other. Keep reading to learn more about the agency theory and how it applies in business.

V. Methodology

a) Research Design

A research design is a road map or a plan of research to be used to answer the research questions and research objectives. It is the structure or framework to solve a specific problem. It gives direction and systematizes the research. It refers to the process that the Investigator will follow from the inception to the completion of the study [25]. A research design is the determination and statement of the general research approach or strategy adopted/for the project. It is the heart of planning. If the design adheres to the research objective, it will ensure that the client's needs will be served.

A survey research design is a process of collecting information from a sample of people who have been selected to represent a defined target population. In survey research design, a researcher collects information that describes, explores, and quantifies social phenomena, particularly issues, conditions, and problems that are prevalent in society at a particular point in time [26]. The study collected information relating to internal control systems and the financial performance of commercial banks in Rwanda. The variables that were examined include control environment, internal audit functions, risk management control, and internal control activities. This study adopted a survey design because it was easy and convenient to be conducted through interviews or questionnaire instruments, or both. In this study, both instruments, i.e. self-administered interview guides and questionnaires were employed as appropriate[27].

b) Population

A population is an entire group of individuals, events, or objects having a common observable characteristic. In other words, the population is the aggregate of all that conforms to a given specification. The population is the entire group of objects of interest from whom the researcher seeks to obtain the relevant information for the study [28]. They contend that a population of study should possess a characteristic that meets a researcher's study interests. The population of this study focused on the list of commercial banks in Rwanda.

c) Sampling Frame

The sampling frame comprises a comprehensive list of all the sampling units from which a sample could be selected. A sampling frame is required to define the universe (population). The frame (data sources) could be a list of households, establishments, and industries with detailed addresses, products produced and/or consumption, expenditure, revenue data, and so on [29]

d) Sample Size and Sampling Technique

Sampling may be defined as the selection of parts of an aggregate or totality based on which judgment or inference about the aggregate or totality is made [30]. It is the process of obtaining information about an entire population by examining only a part of it. Sampling is commonly used in inferential statistics to make predictions on the behavior of the population. Using sampling techniques, a researcher is guaranteed that the characteristics of the population are accurately reproduced in the sample [31]. The study used a stratified random sampling technique since the population was not homogeneous and could be subdivided into groups or strata to obtain a representative sample. Stratified random sampling involves dividing the population into homogeneous

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subgroups and then taking a simple random sample in each subgroup making it possible to make reliable estimates for each stratum as well as for the population as a whole [32] Stratified sampling will be employed whereby the following procedure was followed:

Table 5.1: Target Population

S. No.	Names of Commercial Banks	Population	Sample Size
1	Access Bank Rwanda	13	4
2	Bank of Kigali	12	6
3	Commercial Bank of Rwanda	12	3
4	Banque Populaire du Rwanda SA (BPR)	12	5
5	Compagnie Générale de Banque (Cogebanque)	11	3
6	Eco bank	9	3
7	Equity Bank	11	3
8	Fina Bank	9	4
9	Banque de l'Habitat du Rwanda	6	3
10	Kenya Commercial Bank	6	4
Total		96	38

n = (z2 PQ)/d was applied. This is in line with a statistical technique for selecting a sample from a population of less than ten thousand. The model is derived as follows:

$$n = (z2\ PQ)/d$$

Where:
n = is the desired sample size when the target population is > 10,000.
z = standardized normal deviations at a confidence level of 95% which is 1.96.
p= the proportion in the target population that assumes the characteristics being sought.

In this study, a 50:50 basis is assumed which is a probability of 50% (0.5).

q = The balance from p to add up to 100%. That is 1-P, which in this case will be 1- 50%
(0.5).
d = Significance level of the measure, that is at 90% confidence level the significance level is 0.1. Using the above formulae, the number of companies to be sampled was calculated as below.

$$n = (1.962 \text{ X } 0.5 \text{ X } 0.5)/ (0.1)2$$

$$= 96$$

The target population in this study is less than 10,000, thus the sample of 96 was adjusted using the formula:

nf = n/(1+n/N) where nf is the desired sample size when the sample size is less than 10,000 and n is the sample size when the target population is more than 10,000. N is the target population size.

$$nf = n/(1+n/N) = 96/(1+96/62) = 38$$

Using the above formulae, the number of commercial banks to be sampled was reduced to thirty-eight (38), and thereafter purposive sampling technique was used to select them from the strata. By apportioning the companies in every stratum, the number of companies to be sampled in every stratum was calculated as indicated above. From the 38 commercial banks earmarked for sampling, the study targeted 6 key Senior Managers in every commercial bank who head various key departments/functions namely the Chief Executive officer, Head of Finance, Head of Audit and Risk, Head of Human Resources, Head of IT and Head of Legal unit. The interest of this population was driven by the fact that this category of the managers are the key custodian and owners of the internal control systems and above all, they have great knowledge and expertise in the working of internal control systems in their companies.

e) Data Collection Instrument

The study collected both primary and secondary data. Primary data was collected using a structured questionnaire that is comprised of two sections. The first part collected information on the demographic characteristics of the respondent, while the second part consisted of questions where the variables of the study were focused. The structured questions were used to conserve time and money as well as to facilitate easier analysis of data. Unstructured questions were also included in the questionnaire to encourage the respondent to give an in-depth and felt response without feeling held back in revealing any information.

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VI. Data Processing and Analysis

Table 6.1: Distribution of Respondents by Age

Age	Frequency	Percent
20 -30yrs	15	24
31-40 yrs	13	21
41-50 yrs	12	19
51-60 yrs	13	21
Over 60 yrs	9	15
Total	62	100

The findings above indicate that majority of the respondents in the region were of the age-group 20 -30 years (24%) while the least age group was above 60 years (15%), the age group between 31-40 years were (22.2%), while 21% and 19% were of the age group 41-50 and 51-60 years respectively. This shows that the sample used by the study (3%) was distributed in terms of age and could therefore give reliable information. It also attributes that (24%) of the respondents were between 20 and 30 years which is usually the productive age group hence improved organizational performance. Furthermore, the researcher attributed this trend to the fact that most people in the training retire before they reach 65yrs

a) Descriptive Analysis for Internal Control Environment

Table 6.2: Respondents' Opinion on Internal Control Environment

Respondents' opinion	Strongly agree	Agree	Neutral	Strongly disagree	Disagree
Management analyses the risks and potential benefits of a venture before making a decision	50	40	5	3	2
Management has mechanisms to anticipate, identify and react to events that affect achieving company objectives	45	40	10	2	3
Turnover of key personnel is relatively low	40	35	15	3	2
Management and Operating decisions are not dominated by a few individuals	35	40	16	4	5
The organizational structure appropriate for the size and complexity of the entity	30	40	20	5	5
There is a clear assignment of responsibility and delegation of authority	30	45	15	5	5

The study sought to investigate if the Management analyse the risks and potential benefits of a venture before making a decision, the result as shown in table 6.2, indicated that the majority (50%) of the respondents strongly agreed that the company's Management analyzes the risks, 40% agreed, 5% were neutral while an equal 5% of the respondents disagreed and strongly disagreed with the statement respectively. Based on the above statement as indicated by the majority of respondents 90% (strongly agreed and agreed) that risk analysis is a proven way of identifying and assessing factors that could negatively affect the success of a business or project.

Further on the opinion about whether the Management has mechanisms to anticipate, identify and react to events that affect achieving company objectives, most of the respondents (45%) agreed that the Management has mechanisms to achieve company objectives, 40% strongly agreed while 10% were neutral. Only 3% and 2% of the respondents disagreed and strongly disagreed respectively. Based on respondents' views, the Management has mechanisms to anticipate, identify and react to events that affect achieving company objectives.

As to whether the Turnover of key personnel is relatively low, 40% of the respondents strongly agreed, 35% agreed, 15% were neutral and 5% disagreed with the statement. Based on respondents' views majority highlights that Turnover of key personnel is relatively low. High turnover rates do not always mean that you have bad managers or that you are not a great place to work [33]. Firms with great brands and industry visibility are often the target of recruiters.

According to the respondent's view, 35% strongly agreed, 40% agreed, 15% were neutral and 5 % disagreed and strongly agreed that Management and Operating decisions are not dominated by a few individuals. This is in agreement with [34] who urged that Individuals tend to think and question before performing. This is fruitful in the analysis and forecasting of an individual's behavior. Individual decision making has certain pros and cons, few of which are mentioned.

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The results were that 30% of the respondents strongly agreed that the organizational structure was appropriate for the size and complexity of the entity, 40% agreed, 20% were neutral and 5% disagree, while 5% strongly disagreed with the statement. The result indicates that An organizational structure details how certain activities are delegated toward achieving an organization's goal. It outlines an employee's role and various responsibilities within a company [35].

The results indicate that 35% strongly agreed that there is a clear assignment of responsibility and delegation of authority, 45% agreed, 15% were neutral, 5% disagreed and 5% strongly disagreed with the statements. The results agree with the findings, Authority is the power or right to perform an assignment while responsibility is the obligation given to an individual to accomplish the said assignment [36].

b) Respondent's Risk Management

Table 6.3: Respondents' Opinion on Risk Management

Respondents' opinion	Strongly agree	Agree	Neutral	Strongly disagree	Disagree
There exists a Risk Management Committee in the organization	35	45	10	5	5
The company has a monitoring system that identifies potential risks	40	40	10	5	5
Management uses instruments for risk transfer or sharing with other organizations (e.g. insurance companies)	35	45	20	5	5
The company regularly updates the risk register	42	28	21	4	5
The company management effectively communicates risks to the employees and the stakeholders	38	42	10	5	5
The company has a monitoring system that identifies potential risks	40	35	15	5	5

The results indicate that majority (45%) agree that there is a Risk Management Committee in the organization, 35% strongly agree, 10% were neutral while 10% disagree and strongly with the statement. The results also agree with the findings, Risk management committees are a way for organizations to take a proactive approach to safety. Many non-profit and community-based organizations use a risk management or safety committee to help minimize hazardous issues within their organizations [37].

The majority of respondents (80%) agree and strongly agree that the company has a monitoring system that identifies potential risks, 10% were neutral, and 10% disagree and strongly with the statement. This is in agreement with the findings that Risk identification is important because it is used to create a list of risks the organization is facing. All of the subsequent steps in the risk management process are aimed at the same list of risks [38].

Most of the respondents (80%) strongly agreed that Management uses instruments for risk transfer or sharing with other organizations, 20% were neutral while 10% strongly disagreed and disagreed with the statement. Findings indicate that risk transfer is a common risk management technique where the potential loss from an adverse outcome faced by an individual or entity is shifted to a third party [39]. To compensate the third party for bearing the risk, the individual or entity will generally provide the third party with periodic payments.

Most of the respondents agree and strongly agree (70%) that the company regularly updates the risk register, 21% were neutral while 9% strongly agree and agree with the statement. The findings indicated that The risk register database can be viewed by project managers as a management tool for monitoring the risk management processes within the project [40].

The majority of respondents (80%) agreed and strongly agreed that the company management effectively communicates risks to the employees and the stakeholders, 10% were neutral and 10% strongly disagreed and agreed with the statement. The findings indicate that Communicating information about risk puts all stakeholders, including customers, vendors, and employees, on the same page. It also allows the target audience to better prepare for the risk and mitigate its impact when the risk is understood [41]. Timely and effective risk communication reduces confusion, improves problem-solving, and strengthens decision-making.

The most of respondents (75%) agree that the company has a monitoring system that identifies potential risks, 15% were neutral, while 10% strongly disagreed with the statement. The results also concur with the findings that Understanding risk is also important to project management because with every new project comes new project risk. By crafting an effective risk management strategy, an organization can identify the project's strengths, weaknesses, opportunities, and threats [42].

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c) *Multiple Linear Regression for all Variables After Moderation*

The study also aimed at finding out the moderating effect of government policy on the relationship between internal control systems and the financial performance of companies quoted in the Nairobi Security exchange. The model FP= β0+ β1X1+ β2X2+ β3X3+ β4X4+β5X5+ β6X6+ ε explained 96.1% of the variations in financial performance as shown in Table 6.3. The adjusted r changed from 94.1 to 96.1 meaning there is a significant moderating effect of government policy on the relationship between internal control systems and financial performance

Table 4.4: Relationship between Internal Control Systems and Financial Performance Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	B Std. Error	Beta t Sig.
Internal Control Environment	.120	.056	264	2.144
Risk Management	.229	.064	.338	3.590
a. Dependent Variable: Financial performance b. Linear Regression through the Origin				

Multiple Linear Regression for all Variables After Moderation. The study also aimed at finding out the moderating effect of government policy on the relationship between internal control systems and the financial performance of commercial banks in Rwanda. The model FP= β0+ β1X1+ β2X2+ β3X3+ β4X4+ β5X5+ β6X6+ ε explained 96.1% of the variations in financial performance as shown in Table 4.4. The adjusted r changed from 94.1 to 96.1 meaning there is a significant moderating effect of government policy on the relationship between internal control systems and financial performance

VII. Recommendation

a) *Relationship between Internal Control Environment on Financial Performance of Commercial Banks in Rwanda*

The segregation of duties should be occasionally reviewed to match dynamics in accounting staff. Job rotation should be enhanced to ensure all staff can handle duties in absence of their colleagues. The job description should be modified to include a wider range of activities in the accounting department.

The study also recommends that Management should establish and implement a periodic review of internal audit performance to ensure that its performance and value to the Institution are maximized and to ensure compliance with appropriate standards and guidance. The study further recommends that the head of the Internal Audit department should be a professional accountant and registered with any of the professional accountancy bodies in Rwanda to ensure ethical righteousness. Further, the management should also ensure that their organizations have a strong internal control environment where internal control activities inform policies and procedures are adequate. The control environment and control activities should regularly be evaluated by the internal audit department to provide management with the assurance on the adequacy and effectiveness of mitigation controls that management has put in place.

b) *Relationship between Risk Management and Financial Performance*

The study recommends that there is a need for commercial banks to effectively manage their risk as it was found that risk management positively influences the financial performance of commercial banks. The study further recommends that there is a need for the management of commercial banks to constantly check their banks' exposure to credit risk, insolvency risk, and interest rate sensitivity, as it negatively affects the financial performance of commercial banks. There is a need for the commercial banks to enhance their capital adequacy, size of the banks, and operational efficiency, as it was revealed that capital adequacy, size of the banks, and operational efficiency positively influence the performance of commercial banks in Rwanda.

VIII. Conclusion

a) *Relationship between Relationship Between Internal Control Environment and Financial Performance*

The findings of this research support the findings by concluding that the study concludes that segregation of duties influences the financial performance of commercial banks in Rwanda and this could be through setting up appropriate stages in the accounting process considering the number of accounting staffers in the institution. Checking the work done by the staff who have attended to the document prior, before proceeding to the next task ensures the accuracy of the document. The study concludes internal audit functions influence financial performance. The management control theories underpin findings where internal auditors review the policies and procedures that guide activities of the MFI in operation audit. This is underpinned by stewardship theory. Preparation of financial statements should disclose all necessary material information that is of interest to various

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stakeholders as advocated in stakeholders' theory. Confirming the argument of the findings of this study suggests that internal control systems are one significant area quoted companies should give attention to enhance their financial performance. Additionally, the findings of this research support the findings of previous researchers. Further, it can be concluded that effective internal control systems must incorporate the effects of corporate governance and government policy to enhance financial performance.

b) Relationship between Risk Management and Financial Performance

The overall results reveal that risk management practices have a statistically significant impact on the financial performance of commercial banks in Rwanda. The results also reveal the trend in risk management practices in another developing economy. This result leads to a recommendation that an adequate risk management system should be put in place by the board of directors which should include the establishment of the company's annual risk limit, risk appetite, and risk strategy to curtail the excessive risk-taking of the management. This system should be reviewed regularly to determine its adequacy, effectiveness, and compliance level of the management with this risk management system

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