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Assessing the Effects of Control Activities and Monitoring Activities on Financial Performance of Banks in Ghana

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Abstract
Background:*The Banking sector is a vital sector that controls the financial sector by resourcing it with needed support for individuals and businesses and making available financial inclusion. The purpose of this study was to examine the effects of control activities and monitoring activities on bankperformance in Ghana.*
Materials and Methods: *The study used asample of 154 respondents selected from 5 banks, the study adopted a quantitative research approach, data was collected andanalyzed using inferential statistical methods such as correlations and regression.*
Results:*The study found that, there was a fairly strong significant correlation between control Activities and monitoring activities.It was further observed that there was a weak significant relationship between control activities and financial performance, the study further found a weak significant relationship between monitoring activities and financial performance. The study further found that there was no significant effect between control activities and financial performance of banks in Ghana, finally there was negative significant effect of monitoring activities on the financial performance of banks in Ghana.*
Conclusions*: The study recommends that the management of banks should strengthen the control activities by reviewing the activities and ensuring all activities are working effectively, there is also the need to continuously review the existing control and monitoringpolicies, procedures and activities performed to ensure that they have not outlived their usefulness.*

***Keywords:* Internal Control system, Control Activities, Monitoring activities, Financial Performance.**

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I. Introduction

Control activities can be referred to as the set of policies and procedures adopted by organizations that enable the management of these organizations to carry out the necessary directives. They are designed in such a way that assist management to make sure that relevant activities and procedures are adopted to address risks and also help in the attainement of the entity's objectives. Control are activities that are carried out within the entire organization, and also at the different levels of the organization cutting across all funtions. They comprise a variety of actions such as getting actions approved, granting authorizations for activities, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. Control activities typicallycomprise two elements: a policy creating what needs to be done and procedures to ensure the policy is executed. Entirelyall the policies must be implemented considerately, carefully and steadily (Anduuru, 2005).

Eke (2018) defines monitoring as a procedure that evaluates the quality or effectiveness of internal controls within a given period. Eke (2018) explains that it includes consistent managing and controlling actions, as well as actions workers or employees take in executing their responsibilities. According to Eke (2018) devices that are utilized in monitoring internal controls and which are similarly utilized to in the measurrement of the quality of monitoring system which include budgeting and budgetary controls, performance evaluation, establishment of standards, internal auditing as well as top management supervision (Eke 2018) .

Financial performance in relation to global macro-financial vulnerabilities remained broadly subdued in spite of a slowdown in global economic growth. In 2019, heightened uncertainties emerging from geopolitical factors including the US-China trade tensions and prolonged Brexit negotiations slowed down economic activities and dampened global economic growth. Improvement in global financing conditions induced by an accommodative monetary policy stance, in most advanced economies, moderated downside risks to global growth and financial stability (BoG, 2019).

Favourable macro-financial developments reduced vulnerabilities stemming from the domestic economy. Domestic output remained strong at 6.5 percent in 2019, while headline inflation continued to decline. In the review period, a balance of payments surplus was also observed as a result of a narrowing of the current account deficit. This is expected to support stability of the local currency the Cedi and lead to improvements in the Gross International Reserves. On credit developments, the Credit-to-GDP gap was below its potential level, indicating that the economy has the capacity to absorb more credit without a significant build-up of risks. The banking sector remained sound and robust to severe stress test scenarios, featuring significant increases in credit impairments, extreme movement in interest and exchange rates, and liquidity pressures. Also risk emanating from cross-border exposures remained contained. The broad level of risk containment in the banking sector was underpinned by strong capital and liquidity positions, placement of offshore funds with stable institutions and improvement in asset quality, earnings and efficiency. Going forward, favourable economic prospects in the near term and the gradual phase in of Basel II/III are expected to firm up gains achieved through the banking sector reforms (BoG, 2019)

The performance of the insurance sector broadly improved in 2019, with the outlook for premium growth, risk retention and insurance penetration remaining positive. Policy reforms and a favourable operational environment improved premium income, assets and capital positions. Despite these improvements, persistent underwriting losses and declining investment yields continued to afect profitability. In the near to medium term, the introduction of the new minimum capital regime is expected to improve efficiencies through consolidation. In addition, insurance penetration is expected to improve on the back of a broad-based introduction of innovative insurance products and comprehensive policy reforms aimed at strengthening the insurance industry. Driven by strong growth in private pension funds, the pensions sector continued to expand in spite of emerging vulnerabilities from weak investment outturns, weakened contribution growth and rising benefit payout. Notwithstanding these vulnerabilities, the pensions sector exhibits a strong potential for growth in the medium to long term as policy measures are targeted at increasing contributions flows and inclusion (BoG, 2019)

In the capital market, the performance of the stock exchange declined in the period under review posing a risk to large equity holders such as the public pension fund. The declining performance reflects the reductions in the size, access, and efficiency dimensions of the stock market. Despite these developments, capital flight remained low as foreign investors increased their presence on the domestic capital market, partly due to restored banking sector stability and favourable macroeconomic prospects. The financial sector also continued to witness policy reforms aimed at safeguarding financial and macroeconomic stability. The reforms included the resolution of insolvent institutions, increase in minimum capital requirements, enhancement of supervisory regimes, establishment of a regulatory forum for Anti-Money Laundering and Combatting the Financing of Terrorism, establishment of a Financial Stability Advisory Council, and operationalization of the Ghana Deposit Protection Corporation, among others (BoG, 2019)

Problem Statement

Control and monitoring activities are key relevant activities that are vital in the management of organizations, a well established systems is expected to enhance the financial performance of organizations, ensuring that the right activities are done in an organization leads to the protection of assets and resources, enhancing the financial performance of institutions. Organizations having weak control and monitoring activities experience dwindling financial performance.

In Ghana the Banking sector is a vital sector that controls the financial sector by resourcing it with needed support for individuals and businesses and making available financial inclusion. In recent years the sector has gone through a lot of unstable moments, this led tobanks been unable to meet up with statutory capital requirements, leading to the merging of some banks and absorption of other banks by the Ghana commercial banks, and the downgrading of other banks into savings and loans companies etc. Aside this, the government through the bank of Ghana had to provide support for the banking sector upto 10.98billion Cedis which is equivalent to 2.1billon dollars, (Bank of Ghana, 2018). This raises concerns on the effectiveness of the internal audit of these banks and also the sustainability of the operations of these banks and calls for stringent measures to be taken to ensure that such drain on the national purse does not pressure. This study examines the relationship between the internal Control Environment of these banks and the financial performance and seeks to provide a recommendation on the way forward.

Previous studies conducted on internal audit with emphasis on internal control environment such as the study by Nyakundi, Nyamita, and Tinega (2014) examined the effect of internal control systems on financial performance of small and medium scale business enterprises in Kisumu City, Kenya.The study was conducted focusing on the micro finance sector, which is a sector different from the banking sector.

In other related studies Eke (2018) Internal Control and Financial Performance of Hospitality Organisations In Rivers State. The study was conducted in the hospitality industry, which is also different from the bank sector, the study was also conducted in Nigeria, this current study is in the Ghanaian context which presents a different environmental regulations and conditions that are different from that of the Nigeria.

Mbilla, Nyeadi, Gbegble, & Ayimpoya, (2020) assessed the Impact of Monitoring, Information and Communication on Banks Performance in Ghana. Although the study was done considering banks in Ghana, the study failed to consider all five internal control dimensions, this study only considered two of the dimensions which are information and communication and monitoring, the study failed to consider control activities, which presents a knowledge gap to be filled.

From the knowledge and contextual gaps identified in the previous studies, there is a need for further studies in the area of control activities and monitoring activities in the Ghanaian context focusing on the banking sector.

Objectives of the study

The objective of the study were;

i. To determine the relationship between control activities, monitoring activitiesand financial performance of banks in Ghana.

ii. To examine the effects of control activity and monitoring activities on the financial performance of banks in Ghana.

Research questions

The reasearch is guided by the following research questions;

i. To what extent does control environment affect the financial performance of banks in Ghana?

ii. What is the extent of effect of control activities and monitoring activities on theperformance of banks in Ghana?

II. Literature Review

Internal control is established by the administration of the organization, which determines the tone of the institution and affects the control consciousness of its people. Management should focus on ethical business practices and adherence to established control procedures. It is the basis of all other components of internal control that ensure order and structure. Factors in the control environment include: honesty and ethical values; commitment to competence; leadership philosophy and work style; and the way management assigns authority and responsibility, and organizes and develops its people (Thornton, 2004).

Agency Theory

This theory has its origins in modern corporate principles. It is based on the idea that the company's players can be divided into two groups: directors who are the owners of the firm and agents who manage the firm. (Jensen &Meckling, 1976; Eisenhardt, 1998). The agency theory describesthe principal-agent relationship and explains thatit results in misunderstanding between the principal and agent which can lead to extra expensesrelated with addressing the conflict between principals and agents (Jensen &Meckling, 1976; Eisenhardt, 1998). It is argued that agency theory is relatively a dominant pertaining problem in corporate governance and principal-agent theory is generally considered the starting point of this debate. Agency theory hypothesizes that in the modern corporation, in which share ownership is widely held, managerial actions depart from those required to maximize shareholder returns (Mallin, 2007). This theory is adopted because, from the agency theory perspective, non-executive directors and independent directors contribute to effective corporate governance by exercising control over senior managers' decision-making. After all, they are seen as the check and balance mechanism to enhance the board's effectiveness.

Stewardship theory

The stewardship theory of corporate governance holds that, because people can be trusted to act in the public good in general and in the interests of their shareholders in particular, it makes sense to create management and authority structures that, because they provide unified command and facilitate autonomous decision making which enables companies to act quickly and decisively to market opportunities. This approach leads, for instance, to the combination of the roles of CEO and board chairperson and for audit committees to be either non-existent or lightweight. Stewardship theory assumes that managers are honest, and motivated more by intrinsic rewards than extrinsic rewards, and self-motivated to maximize collective interests (Nicholson and Kiel, 2003; Davis-et al., 2003).The stewardship theory is adopted for this study because it strongly argues that managers and boards of directors are good stewards of a firm and they should be given utmost trust.

Institutional Theory

Institutional theory is one of the dominant perspectives within organisations and management theory (Greenwood et al., 2008); it has been widely utilized to assess the practical influence of Corporate Governance codes (Solomon, 2013). Beasley et al. (2009) explain that institutional theory is uniquely positioned to contribute to researchers' knowledge of Corporate Governance (CG) because of the insights it offers into the nature of authority and control structures. For example, Beasley et al. (2009) argue that institutional theory confirms that governance structures are often primarily symbolic/ceremonial; their legitimacy is paramount, but the formal processes are only loosely coupled with true monitoring. This theory is adopted because there is a consensus among researchers that institutional theory offers a useful lens for investigating the role and activities of Internal Audit, particularly when used in conjunction with agency theory.

Empirical Studies

Ejoh and Ejom (2014) conducted a study on the effect of internal control activities on the performance of tertiary institutions in nigeria, the researcher distributed 75 questionaires, the data collected was analysed using Zscore, the study found out that there was significant relationship between control activities and financial performance of tertiary institutions in Ghana. The study was done in the context of tertiary institutions and not the banking sector which is the context of this current study, the study further did consider the Ghanaian context which presents a different sets of corporate governance directives and banking rules, the study did not consider monitoring activity which is one of the variables under consideration in this current study creating a knowledge gap to be filled.

In other related studies Eke (2018) Internal Control and Financial Performance of Hospitality Organisations In Rivers State. The study was conducted in the hospitality industry, which is also different from the bank sector, the study was also conducted in Nigeria, this current study is in the Ghanaian context which presents a different environmental regulations and conditions that are different from that of the Nigeria.

Mbilla, Nyeadi, Gbegble, & Ayimpoya, (2020) assessed the Impact of Monitoring, Information and Communication on Banks Performance in Ghana. The study was quantitative, the sample size was 300 representatives from twelve listed banks. A descriptive study was done and regression analysis was performed on the field data. The study findings indicate that Information and communication have a weak significant effect on financial performance. There was no significant effect between Monitoring and financial performance.The study, therefore, recommends that managers of listed Banks must invest more on information and communication to improve performance. Although the study was done considering banks in Ghana, the study failed to consider control activities creating a knowledge gap that needs to be addressed.

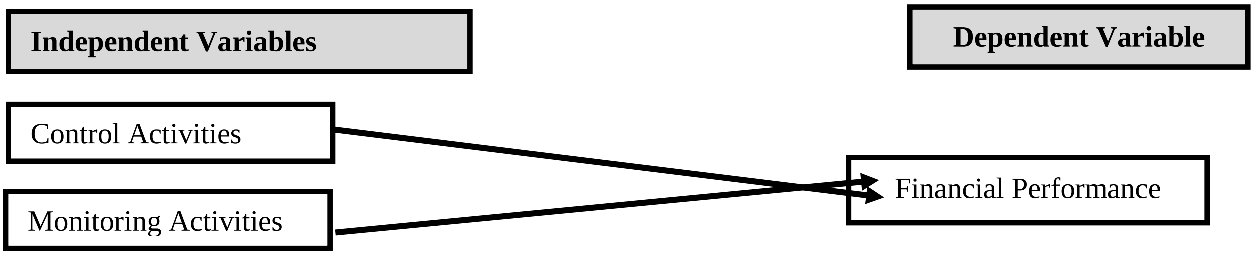
In other related studies Collins, (2014) examined the effect of internal control on the financial performance of microfinance institutions in Kisumu central constituency, Kenya. The specific objectives included; to determine the extent of internal control systems application; to assess the adequacy and effectiveness of the established control activities, and to determine the relationship between the internal control and financial performance of microfinance institutions. The independent variable was internal control (Control Environment, Control Activities and Information and communication) and the dependent variable was financial performance (Liquidity). Descriptive and correlation research design was adopted and a case study was done on the chosen institutions. Convenience sampling technique was used and a total of 7 institutions were chosen from a total population of 18 micro-finance institutions and a total of 35 respondents (five respondents per institution; 2 midlevel managers and 3 staff members) chosen purposively for this study. Questionnaires were used to collect primary data and data collected analyzed using correlation and presented through tables. Findings revealed that there is a positive relationship between internal control. The study recommends that the institutions should tighten controls to tend towards a 100% debt collection. The study further points out that keen attention should be paid to adopt more efficient management information systems. The study was carried out in Kennya which is a different context other than Ghana. The study was further conducted on Microfinance institutions which is also different from the context of this study which is the banking sector.

In another study Mire, (2016) assessed the Effects of Internal Control System on the Organizational Performance of Remittance Companies in Mogadishu-Somalia. The study adopted quantitative research with the specific research design being descriptive. The population of the study was the classified remittance companies located in Bakara market, and there were 15 remittance companies in the Bakara market, the employees who worked in 15 remittance companies were 402 employees. The sampling technique used was purposive sampling. Primary data was collected by use of questionnaires which were administered through drop and pick method. Data screening was done to identify any missing data and was further tested for reliability and normality. Data was analyzed using the SPSS version. The study recommended that there is need for the remittance companies in Mogadishu to increase their control environment; risk assessment and control activity as it was founded that these variables positively affects the organizational performance of remittance companies in Mogadishu. The study failed to consider all five internal control variables, the study also used customer satisfaction and employee satisfaction as dependent variables without considering return on assets, the study did not also focus on the baking sector. From the above review of literature, the researchers formulate the following hypothesis to guide the study;

H0$_1$: there is no significant relationship between control activities, monitoring activities and financial performance of banks.
H0$_2$: there is no significant effects of control activities and monitoring activities on the financial performance of banks in Ghana

Conceptual Framework

The conceptual framework for this study is developed in consideration withthe Committee of Sponsoring Organizations of Tread Way Commission (COSO) Model introduced by COSO committee in 1992 and modified in 2013. From a thorough review of literature:Mire, (2016); Collins, (2014); Ahmed & Ng'anga, (2019) the study identified the following independent variables; Control Activities (CA)and Monitoring (MO) that may affect Bank's Financial Performance.For the purpose of this study the researchers focus on control activities and monitoring activities. Conceptual framework of the study is as follows;



III. Materials and Methods

The study sought to examine the effects of control activities and monitoring activities on the financial performance of banks in Ghana. This research design is the blueprint that guides the researcher in the conduct of the study, in this study a descriptive survey design was adopted forthe study. The study further made use ofa quantitative research approach.The study used a sample of 154.Thesample size is considered adequate because it is in line with the assertions by Hair, Sarstedt, Ringle, & Mena, (2011) who advocated that in conducting a survey study, a sample of 100 is considered enough to generate the statistical strength of the study. Again, the sample size chosen was based on recognized sample sizes required for given population size. The study made use of purposive sampling technique in selecting the banks for the study. The respondents included Managers, Account officers, Auditors and Chief Executive Officers of the respective Banks.The analysis was done using inferential analysis in the form of correlation and regression analysis.

IV. Results

This section discusses the analysis from the data collected, as follows;

Test of the relationship between variables

The study sought to test the significant relationship between the independent variables and the dependnent variable, a correlation analysis was done. The results of the analysis have been captured and presented in the table below;

Table 1 – Correlations

		Performance	Control Activities	Monitoring Activities
Performance	Pearson Correlation	1		
	Sig. (2-tailed)			
	N	154		
Control Activities	Pearson Correlation	.127	1	
	Sig. (2-tailed)	.117		
	N	154	154	
Monitoring Activities	Pearson Correlation	.009	.669**	1
	Sig. (2-tailed)	.916	.000	
	N	154	154	154

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

The Pearson's *r*Results of the Pearson correlation indicated that there was a weak significant positive association between control activities and performance, (r(154) = 0.127, p = 0.117). The study further found from the pearson correlation that there was a weak significat relationship between monitoring activities and financial performance (r(154) = 0.009, p = 0.916). the study further found a strong positive insignificant relationship between monitoring activities and control activities (r(154) = 0.669, p = 0.001).

Effects of control and monitoring activities on the financial performance of banks in Ghana.

In other to test the effect control and monitoring activities on financial performance, regression was done to ascertain the effect. The regression results from the regression analysis done on the are captured below;

Table 2 - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.163[a]	.027	.014	2.70798

a. Predictors: (Constant), Monitoring Activities, Control Activities

From the model summary, it is observed that the independent variable explain 0.027% of the changes or variations in the dependent variable which is performance. by this, it means there are other variables other than the independent variables that account for 2.7% of variations or changes in the financial performance of the banks.

Table 3 - ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.303	2	15.152	2.066	.130[b]
	Residual	1107.307	151	7.333		
	Total	1137.610	153			

a. Dependent Variable: Performance

b. Predictors: (Constant), Monitoring Activities, Control Activities

From the ANOVA results, the significance value of 0.130[b] which is greater than 0.05, indicates that the model is statistically not significant in predicting how the independent variable studied influenced the financial performance of banks in Ghana.

Table 4 - Coefficients[a]

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	19.173	2.006		9.556	.000
	Control Activities	.141	.069	.219	2.030	.044
	Monitoring Activities	-.095	.074	-.138	-1.278	.203

a. Dependent Variable: Performance

From the above regression model, holding internal control environment constant, the beta coefficient would 19.173The established regression equation by the study was Y = 19.173 + 0.141X1 + -0.095X2. Where Y = Financial Performance; X1= Control Activities, X2= Monitoring Activities.

As shown in the table above, it is observed that control activitieshad a statistically insignificant effect on financial performance with (t=0.044, p-value < 0.05).it was further observed that monitoring activities had statistically significant negative effect on financial performance with (t=-0.095, p-value > 0.05).

V. Discussions

The aim of the study was to establish the effects of control activities and monitoring activities on the financial performance of banks in Ghana.A correlation test was done to examine the relationship between the independent variables and the dependent variable, the results suggest that there was a weak significant positive association between control activities and performance, the study further found that there was a weak significat relationship between monitoring activities and financial performance and finally betwween the independent variables the study further found a strong positive insignificant relationship between monitoring activities and control activities. The current study results is in variance with the study results of Mbilla, Nyeadi, Gbegble, & Ayimpoya, (2020) who assessed the Impact of Monitoring, Information and Communication on Banks Performance in Ghana. The results from their study found that there was no significant effect between Monitoring and financial performance. The study is in support of the findings of Eke (2018) Internal Control and Financial Performance of Hospitality Organisations In Rivers State. The study found a positive relationship between internal control variables and financial performance.

From the analysis of data it was observed that control activities had a statistically insignificant effect on financial performance whilst monitoring activities had statistically significant negative effect on financial performance.Thestudy results are in variance with the study results of Eke (2018) who examined internal

Control and Financial Performance of Hospitality Organisations In Rivers State. The study found a significant positive relationship between control variables and financial performance. The study study results if also in variance with the study done by Mbilla, Nyeadi, Gbegble, & Ayimpoya, (2020) who assessed the Impact of Monitoring, Information and Communication on Banks Performance in Ghana. Their study results indicated that there was no significant relationship between Monitoring and financial performance.

VI. Conclusions

The study aimed to establish the effects of control activities and monitoring activities on the financial performance of banks in Ghana. The study results suggest that there was weak significant relationship between monitoring activities and financial performance, the study further concludes that there was a weak significant relationship between monitoring and financial performance and finally there was strong insignificant relationship between control activities and monitoring activities the study further concludes that there was no significant effect of control activities on financial performance of banks in Ghana, it can also be concluded that there was a negative significant effect of monitoring activities on financial performance of banks in Ghana. It is important that monitoring and control activities are strengthened to ensure that all activities are well developed, well-structured and are in line with the purpose for which they were established. The study further concludes that monitoring and control activities need to be improved to ensure the system is fully safeguarded. It is also concluded that there are other factors other than monitoring and control activities that affect the performance of banks in Ghana.From the above discussions it is recommended that the management of banksstrengthen the monitoring and control activities, by enhancing the policies and procedures adopted by the banks in protecting assets and properties, there is the need to continuously review the existing control and monitoring policies, procedures and activities performed to ensure that they have not outlived their usefulness in the wake of changing competitions and advancement in technology and management orientation. The banks should appraise continuously the control and monitoring to ensure that the activities are up to date and up to the task they are designed to perform. The banks should further appraise the control and monitoring activities to ensure that all activities are properly done and are in line with company policy and banking regulations. The study is not without limitations, the study focused on five banks, it is recommended that future studies consider expanding the scope to include the entire banking sector. The study further did not consider all internal control variables, there is the need for future studies to consider expanding the scope to include all control Variables.

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