International Journal of Progressive Sciences and Technologies (IJPSAT)
ISSN: 2509-0119.

Vol. 44 No. 1 April 2024, pp. 459-466

The Internal Control System For Operational Risks In Practice: An Exploratory Study Of A Congolese Bank.

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Abstract – This study analyzes the internal control system of operational risks of Congolese banks. Thus, through a methodology based on exploratory study, we also opted for the study of a single case. We have selected a credit institution based on the characteristics that seem interesting to us, namely: A well-established risk culture, which requires accountability at all levels of the organization; Governance adapted to the size and complexity of banking activity; And finally a risk management system considered as an inseparable element of the development strategy. From this perspective, it will first be necessary to analyze various aspects of the operational risk management system at the banking level, then present the results of the exploratory study carried out, and finally discuss the results of the study.

Keywords – Internal Control, Operational Risk, Banking, Democratic Republic Of Congo.

INTRODUCTION

Over time, the banking sector has experienced many events, including bonus crises, which have disrupted the economic system. This behavior of financial institutions creates a new type of risk, namely operational risk[1].

Regulators define operational risk as the risk of loss due to deficiencies or failures in internal procedures, people and systems or external events[2]

In order to control their activities, Congolese credit institutions must implement an operational risk management system in coordination with the board of directors and the governing bodies of the establishment. Internal control systems for operational risk at the level of banking establishments will continue to evolve thanks to the new directives from regulators under the name Basel III. However, the relationship between internal control and governance being closely linked, the practice of internal control has been the subject of numerous studies. Our study aims to examine the impact of certain governance relationship control practices on operational risk management at the banking level.

From this perspective, it is appropriate first to analyze the different aspects of the operational risk management system at the bank level, then to present the results of the exploratory research carried out and finally to discuss the conclusions.

I. CONCEPTUAL FRAMEWORK

1.1. Bank operational risk control system

The origin and evolution of internal control of banks is the capital adequacy system of banking establishments initiated by the Basel Committee, a group of banking supervisors whose mission is to formulate rules, recommendations and good practices in the field of banking supervision as a reference. Adopted by more than 100 countries internationally in 1988, this committee will define the first cornerstone of internal banking control in the name of the “Cook Ratio” or “Basel I”, according to which banking establishments are required to maintain funds own and similar efforts greater than or Equivalent to 8% of the total loan amount[3].

The Cook ratio will continue to evolve by incorporating the new revisions of 1996, including those relating to market risk. In fact, internal control processes, traditionally designed to reduce fraud, corruption and errors, have taken on a much broader dimension, encompassing all risks arising from banking organizations.

After almost two decades of application, the ratio will reveal weaknesses after a series of events, linked in particular to incomplete risk estimates not integrating sovereign or country risk, interest rate risk and more specifically operational risk [4].

1.2. Bank operational risk control system

The entry into force of the New Basel Accord in January 2008 completely changed the way banks manage operational risks, namely the modification of the governance system and the strengthening of control through the establishment of a management system risks. In this regard, Eric Lamarque (2009) distinguishes two levels of banking risk management: "macro management", in which hedging risks through the use of the institution's own funds is one of the three methods allowing banks to banks to control risks. At the micro level, methods of controlling the functioning of the organization are defined. To this end, risk management is the responsibility of the governance body, which determines the macro-risk management policies approved by the board of directors and carries out micro-management on this basis.[1].

1.3 Bank operational risk control system

Between 2006 and 2008, researchers launched several debates on the supposed relationship between banking governance and operational risk control. This involves two elements: the governance practices of the financial institution and the resulting organizational management structure Eric Lamarque (2009) [1]. In fact, researchers list two limitations related to banks' shareholder governance practices: Financial institutions cannot control the behavior and risk-taking levels of managers. Bessire et al., in their study on governance relations Vienot 1, Vienot 2 and France 2003 affirm that the independence of managers is favored in terms of human skills and therefore envisages a broad scope of shareholder governance on the part of managers[5]. Furthermore, regarding operational risks, we conducted research on report n°4/W/2014 on the internal control of credit institutions issued by the Central Bank of Congo in October 2014. In fact, we did not find no explicit reference to partnerships or the scope of governance perceptions in the report.

Table 1: Summary of the research system

Control system	dimensions
The practice of operational risk control	Control mechanisms
Interactions	Individuals/Control Environment
Performance	Financial and non-financial indicators

Source: by the author

We also opted for the study of a single case. We have selected a credit institution based on the characteristics that seem interesting to us with regard to our problem, namely:

- A well-established risk culture, which requires accountability at all levels of the organization;
- Governance adapted to the size and complexity of banking activity.
- And finally a risk management system considered as an inseparable element of the development strategy.

The exploratory study took place from June 2018 to December 2020. The 14 semi-structured interviews took place in the workplace (Table 2). The length of the process can be explained by the fact that we had to go back and forth between theory, fieldwork and analysis.

Table 2: Profile of participants in the qualitative study

Interviews		Geographical location	Numbers
HAS	Risk Manager	Head office Kinshas	1
B	Internal Auditor	Head office Kinshas	1
VS	Corresponding Operational Risk Manager (RCRO)	Head office Kinshas	3
D	Operational Risk Correspondent (CRO)	Head office Kinshas	3
E	Branch managers (A)	Head office Kinshas	2
F	Agency heads (B,C)	Venus and Royal Agency	4

Source: by the author

Data collection was carried out using documentary research from several sources:

- Study of corporate documents: activity reports, mapping of institutional operational risks, study of awareness of operational risks for institutional managers, internal audit missions for "Banking Institutions", notifications linked to banking regulations to control operational risk and Al Maghrib Bank Report…

- Observations and field visits.

Two governance bodies are responsible for setting up the operational risk control system and its implementation within the bank: the Board of Directors and the Steering Committee. A third agency is responsible for coordinating and managing the bank's operational risks and is called the internal control agency. This study will focus on internal control institutions as the main guarantee of internal operational risk management of banks.[6].

The operational risk control system and its implementation in banks. The organization of internal control of operational risks is carried out jointly by the three institutions of the People's Bank of China. The Council determines the directions of activities based on: the strategy; policies, procedures and operational risk management tools, which it ensures are implemented by the governing body. From there, the main responsibility of the Steering Committee is to implement the system validated by the Council with the various control bodies designated by region (BPR, subsidiaries) and by business (engagement, accounting, etc.) in accordance with the work process[7].

Responsibility (division of labor) for risk control, measurement and monitoring is shared as follows:

- Risk Management and Compliance Committee: ensures compliance with established deadlines and compliance with regulatory requirements in terms of risk management;

- Operational Risks Committee: examines the proposed action plan by analyzing the risk mapping and/or the missions of the General Inspection of the CPM and the Internal Audit of the BCP and supervises the implementation of the projects selected for control the identified risks.

Table 3: Internal control practices for operational risks at the BPR level

Questions	Practices of the internal control system for operational risks
Who ?	internal/transversal/operational audit functions To assess the risk incurred by the bank and in accordance with BAM recommendations, the consolidation of operational risk by the Risk manager is carried out via the IT tool through the classification of operational risk reported according to the profession and the typology thus allowing the BPR to relay the risk function with the Banque Centrale Populaire (BCP) The Operational Risk Manager at the BCP level consolidates all operational risk incidents declared and validated at the CPM level and, the where applicable, at group level. He prepares reports of operational risk incidents to be transmitted to BAM or presented to the Risks & Compliance committee. The Internal Audit Department aims to

	provide the BPR Management Board (and or BPR audit committee) with an assessment of how the BPR's activities are carried out and reasonable assurance aimed at implementing effective management, security and good governance of CPM resources and processes
What ?	Objectives/strategy/culture/standard The purpose of operational risk control at group level concerns: - The reliability of financial information on operational losses - The typology and sub-typology of the loss; - Direct and indirect losses; - corrective actions; - and the accounting data relating to the recorded loss.
Attitude ?	Instrumental relationship Upon observing an incident causing or likely to cause an operational loss, the declaring CRO is required to: - Collect as much information as possible to qualify the event; - Consult with the agents affected by the incident and with their direct manager to evaluate and enrich the information to be reported. The CRO Manager (RCRO) must either complete and validate the incident declaration via the computer application, or reject it if he considers that the incident is unfounded or that the declaration is erroneous. Transmit additional information: Once the declaration has been made, the declaring CRO is required to: • Transmit to the Risk Manager all additional information to enrich the qualification of the incident: financial loss caused, customer impact, corrective actions;
When ?	During the occurrence of the risk: RCRO and Risk manager Carry out regular monitoring with the functions involved in the resolution of incidents. As such, he must: ➢Monitor daily the progress of the declarations recorded and which are being validated; After the occurrence of the risk Risk manager Define an appropriate monitoring periodicity for declarations relating to incidents with a long outcome;
Means ?	The CRO declarant has a “Front risk” application dedicated to recording the information necessary for the qualification of the event. In turn, the IT application allows the Risk Manager visibility into the life cycle of the incident from its declaration to its closure.

Source: by the author

1.4. Interactions of the operational risk control system

Following the same logic applied previously, we attempted to deepen the question of the areas of intervention of each actor in the internal control system. We draw inspiration from theoretical developments to further clarify our questions and guide our debates. The first element mentioned concerns the fact that the interaction of actors allows banks to better understand these operational risks at multiple organizational levels:

Subsequently, we attempted to guide the intentions of the interlocutors by exploring other actors in the internal control system of the retail sector. We therefore discussed the second element during our interviews. Overall, it involves stakeholders at the operational level and allows detailed reporting of operational risks occurring at the end of the management process. “Our agency and branch leaders were required to report the incident as soon as the qualifications of Incident Responder C were brought to their attention.” The proposal was approved during the interviews and after further analysis, in the case of “interviewee C”, this participant was considered the main actor in the interaction. We can conclude that the role of branch presidents was strengthened at the banking level after Basel II formally standardized the operational risk management process. The results of the transversal analysis of the content of the interviews with the heads of agencies/agency revealed to us the orientation of the responses from two different perspectives: In the case of head of agency “A”, he favored option to escalate any problem. When management identifies a risk, it believes that only by respecting the standards can the risk situation be managed.

1.5. Control and performance systems

The use of reporting in our study includes identifying the nature of internal control practices in operational risk management in the case studies. The nature of banking governance (shareholder, partnership or cognitive) was determined through a descriptive analysis of the financial statements published by the People's Bank of China from 2014 to 2018. First, we observe the evolution of the distribution of shares of the People's Bank of China from 2014 to 2018. Three key indicators are retained for the financial indicators. We choose turnover, net banking income and net income.

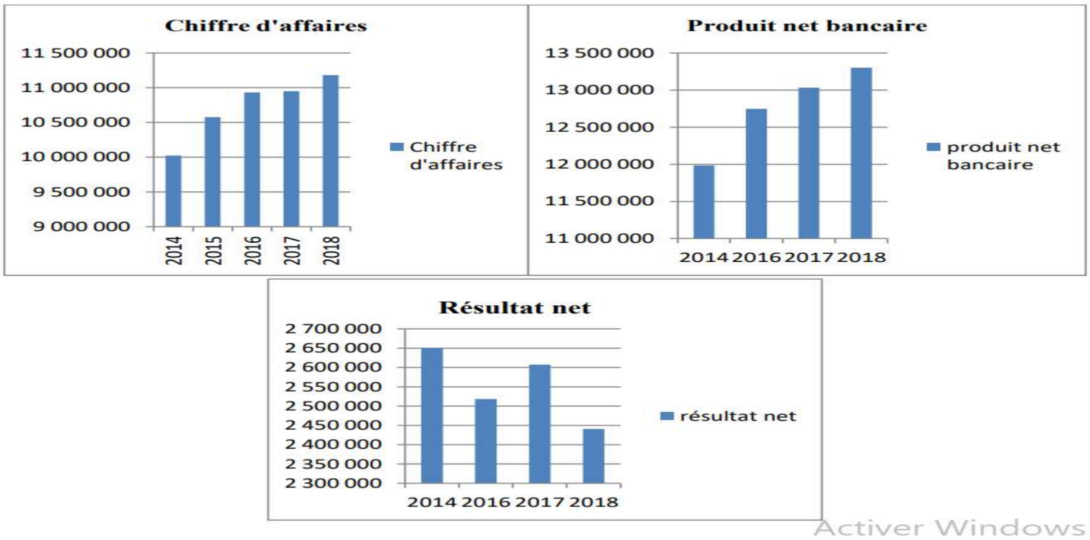

Figure n°1: indicators for measuring the financial performance of the BGFIBank group from 2014-2018

We found that the group's turnover increased between 2014 and 2018. Likewise, online banking products for popular groups between 2014 and 2018, as well as transaction volume, saw growth during this period. period. The Volkswagen Group's net profit from 2014 to 2017 experienced a slight depreciation in 2016 and increased in 2017. Between 2017 and 2018, its net profit depreciated. As for the question of the perception of the group's banking activities, four determining indicators were retained.

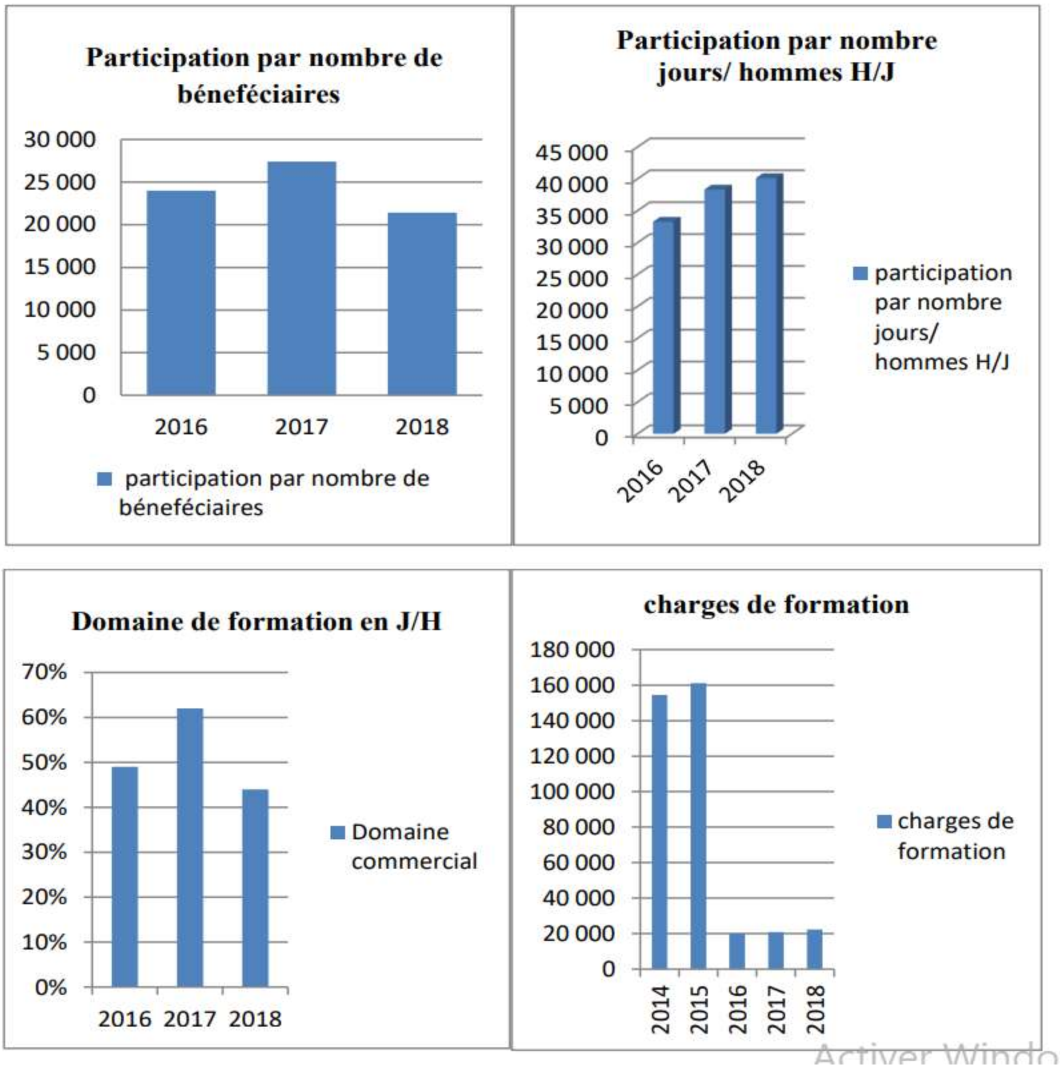

Figure n°2: cognitive performance measurement indicators of the BGFIBank group 2014-2018

Source: BCC 2014-2018 annual report

Finally, the costs associated with support, training and evaluation actions clearly explain the efforts of the People's Bank of China in this area, even if these efforts underwent some changes during the 2014-2018 period. An analysis of the annual reports of the People's Bank of China for 2014-2018 on a series of indicators (revenue, gross national product, net profit) provides a solid reflection of at least the partnership nature of the direction of the People's Bank of China. A textual analysis of the content of the PBOC's annual reports from 2014 to 2018 yields results that at least reflect the partnership nature of the popular bank's concerns.

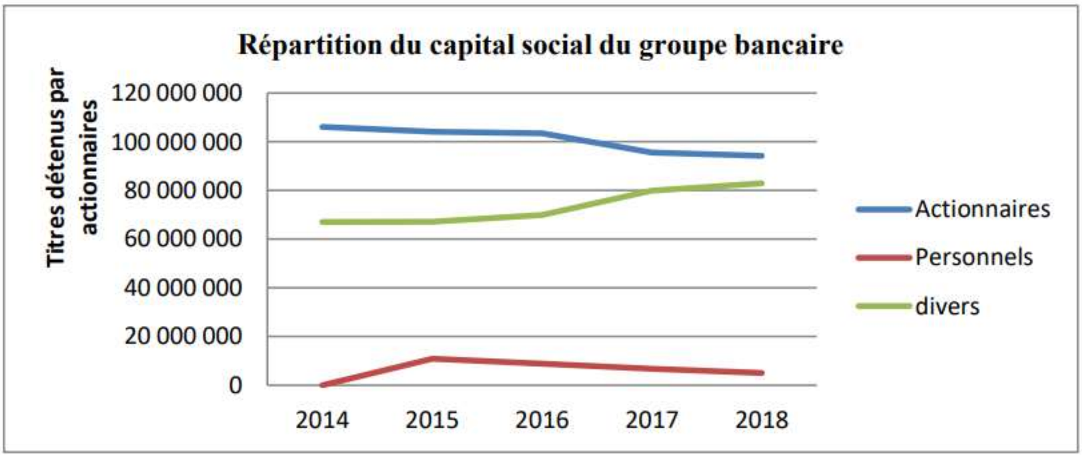

Figure n°3: distribution of share capital

Source: BCC 2014-2018 annual report

In short, the responses obtained distinguishing between different options proceed from the heads of agencies. Furthermore, the absence in the literature review initiated before the qualitative phase on the interactions of the actors of the operational risk management system, encouraged us, secondly, to direct the debate so as to generate items on this variable. In this context, a set of indicators was therefore collected. An avenue that we deemed relevant to explore further on a practical level.

II. DISCUSSION OF THE RESULTS

A review of internal control practices regarding operational risk management leads to the following conclusions:

- Operational Risk Internal Control System: A practical study of the operational risk internal control system at the case study level of the People's Bank of China reveals a partner variant of the bank's unique shareholder governance system. Indeed, the case study carried out highlights the consideration of partnership dimensions at the level of the operational risk control system studied and the interactions between actors in the system which can influence their performance;

- Internal Operational Risk Control Practice: Representative diagram of the declared incident reporting workflow system, representing the incident reporting stage at the regional level, composed of the reporter, the manager, the risk manager and the risk manager. Operational Risks Department. As these representations show, operational risk management within the People's Bank of China includes a set of bank-specific banking actors, ranging from superstructure to infrastructure. The above system provides a partner version of the shareholder governance system unique to the People's Bank of China. For the sake of good governance and performance, the Bank considers internal audit as a component of the partnership's internal control system for operational risks and continually improves the internal control system;

- Systemic interaction: The discovery of the protagonists of the interaction prompted us to deepen the debate on performance variables in the following interviews with agency/agency heads. A series of indicators was therefore developed. The results will be used to prepare the questionnaires planned for the quantitative phase of the study. Heads of civil society institutions are considered important actors in the internal control systems associated with their governance systems. As Interviewee C explained, this appears to be a trigger within the operational risk management process;

- Performance: In order to explain performance and based on the theories that drive the study of governance and its main developments (partnership approach), it is useful to question its necessary instrumentalization.

In fact, financial statements traditionally dominate among organizational performance indicators for assessing the quality of management of managers and the future prospects of the company. In this regard, numerous studies confirm that financial statements constitute relevant and relatively reliable indicators of value. However, in recent years, the pre-eminence of financial statements as the preferred reporting method for business leaders has been widely questioned, and non-financial measures of organizational performance have become increasingly important.

III. Conclusion

In this study, we first wanted to explain the notions of internal control of operational risks in practice in Congolese banks. We note that the period from 2014 to 2018 was marked by an increase in the group's turnover. Likewise, the net banking product of the popular group during the period from 2014 to 2018 saw, as well as the turnover, an increase throughout this period. While the net profit of the popular group between 2014 and 2017 experienced a slight depreciation in 2016 to increase in 2017.

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