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The effects of the internal control activities on the performance of microfinance institutions in the West Region of Cameroon

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Abstract
The aim of this study is to examine the effect of internal control on the financial performance of microfinance Institutions in the West Region of Cameroon. A sample of 50 MFIs was analysed using simple percentages, tables, correlation coefficient and Ordinary Least Square (OLS). The results show a positive effect of risk assessment, monitoring and internal control environment on the financial performance of MFIs. It also indicates a strong correlation monitoring index and internal control environment index. This suggests the microfinance institutions should carry out effective risk assessment, monitoring and assessment of internal control environment with the aim of improving financial performance.

Keywords: internal control, monitoring, risk assessment, financial performance

Introduction

The objective of Microfinance Institutions is to Maximise shareholder wealth. Most often supervision plays an important role in achieving this objective. Also, the nature of an organization sometimes makes it difficult to carry out effective supervision of activities. The basic components of organizational governance are risk management and financial performance. Therefore, for an organization to achieve this it needs to ensure effective and efficient operations, reliable information (both financial and non-financial) and compliance of rules and regulations. Thus measures need to be put in place to ensure compliance to these rule and regulations. Some of these measures include having policies and procedures for execution of operations, establishing standards for recruitment and competency development of employees, development of policies which govern the behaviour of organizational members, having security measures to guarantee assets protection, establishing proper procedures for record keeping, defining reporting relationships among organizational members, establishing procedures for authorization of transactions and the limits thereon as well as top management supervision. These measures, together with many others, such as internal auditing, budgeting, performance evaluation, etc., that an organisation may implement in order to achieve its objectives, constitute the internal control system of the organisation.

Internal control is a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of a firm's objectives in the effectiveness and efficiency of operations, reliability of financial and management reporting, compliance with applicable laws, regulations and protect the organization's reputation (Kaplan, 2008).

An internal control is a topic that cuts across a number of disciplines including financial accounting and auditing. It can be traced back to ancient times. In Hellenistic Egypt there was dual administration where one side was involved in collation of taxes while the other supervising them. Sacking of Troy was one of the examples of weaknesses of internal controls. Internal controls became apparent at the beginning of 21st century following major corporate scandals (PABC 2007).

John J. Morris. (2011) [19] separates internal controls into those that are general (entity-wide) controls from those that are specific (account-level) controls. He believes that if management was overriding control features in order to manage earnings, then one would expect to find more Internal Control Weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behaviour should be uncovered during the audit process since this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that "entity-level controls include controls over management override." On the other hand, a stronger argument could be made that if general controls are in place and working, then one would expect to find less Internal Control Weaknesses related to general controls.

Many empirical studies like those carried out by Kinyua (2016) [5], Nyakundi, Nyamita & Tinega (2014) [6], Njeri (2014), Ejoh & Ejom (2014) [35], Etengu & Amony (2016) [4], just to mention a few, focus on industrial sectors such as manufacturing, banking, tertiary education, agriculture as well as oil and gas. There appear to be no empirical research, especially in Cameroon and the West Region in particular, on the effect of internal control on financial performance of MFIs. Hence, there is need to investigate the effect, if any, of internal control on the financial performance of MFIs in the West Region and the nature of the relationship between internal control and financial performance of MFIs. Thus, the main objective of this study was to determine the effect of internal control on financial performance of MFIs in the West Region of Cameroon.

Literature Review
Conceptual framework
Definition of internal control
The COSO *Internal Control Integrated Framework* is used worldwide; this research adopts the definition of COSO which defines internal control as "a process, affected by an organisation's s board of directors, management and other personnel" (COSO, 1992, p. 2) [42] This process is aimed at guaranteeing the achievement of objectives in effectiveness and efficiency of operations, reliability of financial reporting, and compliance with current laws and regulations (COSO, 1992, p. 2) [42]. According to COSO (1992) [42], these five elements of IC need to be present to conclude that IC is efficient. The five components are discussed in the following paragraphs.

Control environment
The control environment makes employees to be conscious of control activities. Control environment is pervasive since it affects the whole firm either positively or adversely. It is the medium that spreads the organization's commitment to ethical and honest behavior, effective internal controls and proper financial reporting. The major elements of control environment are management's philosophy and operating style; the way in which management assigns authority and responsibility; the way management organizes and develops employees; and the attention and direction provided by the governing board.

Risk assessment
RA is the identification of factors or conditions that threaten the achievement of the objectives of an organisation. It involves identifying risks that may affect the effectiveness and efficiency of operations, reliability of financial reporting, and respect of laws and regulations. Changes in personnel, new product lines, or rapid expansion are some of the factors that could affect an organization's risks.

Control activities
Control Activities are the policies and procedures designed by management to help ensure that the entity's objectives and goals are not negatively impacted by internal and external risks. The COSO report identified a range of control activities including: approvals, authorizations, verifications, reconciliations, and reviews of operating performance, security of assets and segregation of duties.

Information and communication
Information and communication is another element that flows through the entire internal control framework. Information is the vehicle by which control policies and procedures are introduced and reinforced and communication is the conduit by which employees become aware of management's commitment to internal controls. Both the control environment and information and communication connect all elements of the framework together. The executive summary to COSO states, "Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Information systems produce reports containing operational, financial and compliance-related information that make it possible to run and control the business." COSO also states that information must flow throughout the organization so that individuals understand their own roles in the internal control system and how their work relates to the work of others. As part of the information and communication system, it is important to inform all employees that control responsibilities are to be taken seriously. Each employee should understand his or her role in the internal control system, as well as how their individual activities relate to the work of others. Employees also need to know that they have a responsibility to communicate problems they notice in the performance of their duties.

Monitoring
It determines whether or not policies and procedures put in place by management are being implemented effectively by employees. It also ensures that control defects are identified on time and corrective action taken. COSO (1994) further states that there are differences in internal control effectiveness in different firms possibly because of the way and manner in which they are implemented, controlled and monitored.

The framework states that the effectiveness of internal control is a subjective judgment as to whether there is a reasonable assurance that the objectives of internal control are being met. Owner/managers are the chosen observers of effectiveness in this study for three reasons: first, establishing, evaluating and supervising internal control is the responsibility of management (Krishnan 2005). Second, management has immediate and detailed insight into the operation of the internal control system (Changchit *et al*. 2001; COSO, 1994) [43]. Thirdly, many empirical studies have mainly concentrated on the views of external parties, such as external auditors, rather than management's perspective (Felix and Niles, 1988; Dirsmith and Haskins, 1991; Trotman, 1999), despite the first point above. O'Leary, Iselin and Sharma (2006) (cited in Morehead, 2007), after reviewing the above studies, concluded that significant gaps existed in the internal control literature.

Theoretical review

The significance of upholding effective internal control system in organizations has been persistently and immensely emphasized, due to its positive effects on financial performance. Efficient internal control enables the prevention and detection of fraudulent activities in the institution. In line with this, persistent efforts by policy makers to pursue policies that would improve internal control system (Sahabi Giibuzies *et al*., 2017) [39]

Agency theory

This theory was developed by Jensen & Meckling (1976) [8], they consider the firm as a nexus of contracts between different stakeholders of the firm. They suggest that the owners and executives of an organisation may have different goals in relation to the best interests of the organisation. The aim of this theory is to determine optimal contract between the principal and the agent. The agent tries to maximize personal gains by satisfying principal's economic objectives and as such the agent's commitment level is a function of perceived reward value for satisfying principal's objectives. The agency theory is based on the agency relationship. Jensen & Meckling (1976) [8] indicates that an agency relationship is one in which one or more persons (the principal{s}) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Perhaps the most recognizable form of agency relationship is that of employer and employee. Thus, the relationship between the principal and the agent based on the contract is a focal point of agency theory. Principal wants to maximize his/her benefits while minimizing reward to the agent at the same time. On the other hand, the agent wants to maximize his/her benefits. The fundamental issue underlying this theory is that the agent may not foster the interest of the principal since he his objectives are different from those of the principal.

The internal controller is an agent who controls to ensure that the organisation is pursuing the interest of the principal. Thus, for internal control to be effective, the controller must have the interest of the principal (shareholders) at heart.

Stewardship theory

According to Davis *et al* (1997) [21] stewardship theory postulate that a manager is like a steward protects and maximizes shareholder's wealth through firm performance since his utility utility functions are maximized. A steward compares with the agent in the agency theory, where he is entrusted with the running of the business on behalf of the owner. He prepares the statements to show financial performance and position. He makes the decisions in managing the business to protect the interest of the owner. The clear difference between the two theories is on the perception and attitude towards the job. In agency theory, an agent is solely aimed at financial benefits from the organization whereas in stewardship theory a steward derives satisfaction from his achievement. Unlike in agency theory where agent is viewed as opportunist, a steward is cognizance of the owners' interest in running of the business (Donaldson and Davis 1991). He aligns himself with the organization (Donaldson and Davis 1991) hence his passion is when the organization achieves the objectives. His goals are similar to that of the principal since his aspirations are big, he is motivated to do the good work and takes good care of the corporate assets (Brennan, 2010; Danaldson & Davis, 1991;Aras & Crowther, 2007) [1]

Stewardship theory proposes establishment of the structures that will empower the steward to work independently without supervision or monitoring (Donaldson and Davis 1991).Similarly the board of directors of MFIs grant unlimited authority to the manager (steward) to run the organization. This reduces the costs of monitoring and controlling the organization (Davis *et al* 1997) [21], and enables the stewards to guarantee the survival of the firm and protect their interest in the firm. Fama (1998) [13] asserts that executives and directors are also managing their careers so as to be seen as effective stewards of their organization, while Shleifer and Vishny (1997) [14] insists that managers return finance to investors to establish good reputation so as to re-enter the market of future finance.

In this theory the internal controller can be considered as a steward who is given the power to independently control and align the activities of the firm to the general norms, rule and objectives. So the controller guarantees the survival of the firm by carrying out effective control and consequently protects his interest.

Stakeholders' theory

This theory strives to meet the interests of different stakeholders of the organisation (Freeman 1996). Stakeholders have been defined as any group or individual who can affect or is affected by the achievement of organization goals. According to Leonardi (2011) [15] enterprises implement stakeholder management practices in order to meet expectations of their stakeholders. The MFI board of directors is the highest body responsible for devising policies aimed at taking care of interests of different stake holders (Freeman 1996). In so doing there is no interest assumed to dominate the other. This is because every stakeholder contributes in a different way towards attainment of the organization goals. The wealth created by MFI's is believed to have been contributed voluntarily or involuntarily by the stakeholders interacting with the MFI. An efficient MFI board that is efficient generates maximum reward for all its stakeholders (BBVA Microfinance Foundation 2011b) [17]. Mori and

Munisi (2009) have given reasons why the organization should concern itself with meeting the interest of different stakeholders. One is that it can be considered that they have intrinsic needs so that MFI meet their legitimate claims. Two is giving back to stakeholders who have contributed in generating profitability. The major difference between the stakeholders' theory and stewardship theory is that whereas the steward is entrusted with the organization by the principal, the management is viewed as stakeholders who participate in sharing out of the value added. This is vividly manifested in the VAS as payments towards staff inform of salaries and allowances. Clarkson (1995) [12] suggested that the firm is a system; where there are stakeholders and it purpose is to create wealth for its stakeholders. Donaldson and Preston (1995) put it that all groups take part in a business to obtain benefits. The agency theory only recognizes agency and principal in employee-employer relationship whilst stakeholder theory expands the purview of the stakeholders. Instead of agent endeavouring to meet the interests of the principal, he endeavours to meet the interest of all stakeholders that the organization have. Sundaram and Inken (2004) argued that stakeholder theory attempts to address the group of stakeholders deserving attention of the management.

The problem with stakeholder's theory is conflicting objectives. The management find they are sacrificing the interest of some stakeholders to meet interests of others. For example participation in social programmes reduces the wealth of equity owners. The lesser the corporate tax paid by the MFI to the Government the more the tax reported in the financial statements but the requirement is tax should be paid in full. This conflict of interests may result in politics which deteriorate organization performance. They need to address this interest well ahead of time before it degenerates (Elbanna 2006). One of the remedies to this problem is balanced power where the decision maker is powerful with clear purview of responsibilities. For internal control to be effective the interest of all stakeholders must be considered and all the stakeholders should adhere to the overall objective of the firm.

Empirical review

In the last years many studies have tried to identify the relationship between internal control and financial performance. In a study on the impact of internal control on the performance of state college of education in the Cross River state of Nigeria, Ndifon Ejoh and Patrick Ejom (2014) [35] revealed that the institution adheres strictly to the provisions [of annual [departmental budget and that controls are put in p[lace to avoid incurring expenditures in excess of allocated funds.

Liangcheng Wang, Yining Dai and Yuye Ding **(**2019) [40] Using a sample of SMEs listed in China to examine the relationship between internal control and sustainable growth, and assesse a moderating role of multiple large shareholders. The results showed that effective internal control significantly promotes SMEs to achieve sustainable growth, and the effect is moderated by multiple large shareholders, suggesting that the role of internal control is more prominent in SMEs with multiple large shareholders.

Emmanuel K. Oseifuah and Agyapong B. Gyekye (2013) [41] use questionnaire to collect data pertaining to the five essential and interrelated components of internal control: control environment, risk assessment, information and communication, monitoring and control activities. They used the Chi-square statistical procedure to establish the relationship between levels of internal controls among businesses by size of business and type of business in the Vhembe District and they conclude that (i) the practice of internal control among small business sector enterprises in the Vhembe District is low, with only 45 per cent of firms surveyed having adequate internal controls systems in place; (ii) the size of business in the sector studied determines the possession of insurance cover (a major component of internal control). Consequently there is need to encourage and support small businesses to grow and expand in size in order to effectively employ internal control measures, the lack of which is firmly established as a major cause of business failures around the world.

Ngari Mwaniki Gabriel (2017) [36] used a sample of 21 MFIs in Kenya and suggests that segregation of duties is positively related to financial performance and [recommend that Division of labour, job rotation and job description should be handled properly in MFIs.

Ayneshet Agegnew Alemu (2020) [37] indicates that sometimes organisations carry out transactions without proper authorization and even without approval in some cases and thus give room for fraudulent activities and misappropriations.

Ndungu, H. (2013) [34] studied the effect of internal controls on revenue generation using the University of Nairobi Enterprise and Services Limited (UNES) with a view to instituting whether such internal controls have created any expressive results in increased collected revenue. The data was analyzed using both statistical and descriptive methods while regression was used as a technique of evaluating the effect of internal controls and revenue generation. The findings revealed that the five components of the control environment, risk assessment, control activities, information and communication and monitoring must be available for internal controls to work.

Eke Gift O. (2018) [38] used a sample of 20 selected hospitality organisations in River state of Nigeria and found that internal control influence financial performance to a significant extent and that there is a positive relationship between internal control and financial performance of hospitality organizations.

Sahabi Ibrahim, Gordon Dibuzies, Mohammed Abubakari (2017) [39] used an ordered logistic regression model for a sample of 50 health institution and found a positive relationship between internal controls and financial performance with only three of the control variables being significant with p-values less than 5%.

The study recognized that weak internal controls and particularly poor ethical values in the organization have encouraged collusion to fraud, loss of revenue and embezzlement of collected revenue. The study, therefore, concluded that internal controls do function although with setbacks and that there is a significant effect between internal controls and revenue generation in UNES.

Ewa and Udoayang (2012) [33] carried out a study to establish the impact of internal control design on Institutions "ability to investigate staff fraud and staff life style and fraud detection in Nigeria". Data were collected from 13 Nigerian Institutions using a four point likert Scale questionnaire and analysed using percentages and ratios. The study established that internal control design effects staff attitude towards fraud. Solid internal control mechanism is avoidance to staff fraud as all the essential checks are in place and hence limiting staff from succeeding in any prearranged duplicitous activity, adversely a weak mechanism disclosure the system to fraud and makes opportunity for staff to commit fraud due to the prevailing gaps. The study concluded that effective and efficient internal control system is essential to stem the condition in the banking sector. The study therefore recommended that Institutions in Nigeria have to upgrade their internal control designs and pay severe attention to the life style of their staff members as this might be a red flag to recognizing scams.

Olagunju (2011) [32], reviewing the credibility of internal audit resolved that for an audit to be credible, and reliable, it must be performed by someone who is independent and cannot be influence by position and power which will disturb its own position. He recommended that for auditors to endure strictly independent and credible they should not allow providing audit clients, with any other suggested or non-audit services in order to safe guard the audition from self-review threat

Focusing on control environment Abbott (2000), examined whether audit committee activity and independence is inversely related to fraudulent financial statements, using 156 firms subject to SEC (Securities and Exchange Commission), Accounting and Auditing Enforcements Releases (AAERs) between 1980 and 1986. He relieved the variable audit committee presence used in earlier studies with audit committee activity and independence, meanwhile the earlier studies reported mixed results about the relationship be audit committee and likelihood of fraud. The results of the study indicated that firms with independent directors and with the minimum activity level are less probable to be related with fraudulent financial statements.

Kakucha (2009) [31] evaluated the level of effectiveness of internal controls operating in Nairobi using a sample of 30 small businesses as listed in the National Social Security Fund (NSSF) Register of Kenya. The study found that there are deficiencies in the systems of internal controls, with the degree of deficiencies variable from enterprise to enterprise. The mechanisms of internal control that were absent in most businesses surveyed included: firstly, risk analysis, and furthermore lack of proper flows of information. It also found that there is a weak adverse relationship between the internal control weaknesses and financial performance. However, this study did not take into account the effects of the specific aspects of internal control such as the monitoring and evaluation and risk auditing and management within small businesses.

In order to establish the effect of internal controls on the financial management of deposit taking Savings and Credit Cooperative Societies (SACCOs) in Kenya, Magara (2013) [30] investigated on 122 deposit taking SACCOs in Kenya depended on both primary and secondary data which was acquired from the annual reports of the SACCOs. The regression analysis conducted recognised that all independent variables namely, the control environment, risk assessment, control activities and monitoring mechanisms contribute positively to the financial management of SACCOs in Kenya. The study also considered that SACCOs institution will performance poorly without the presence of strong internal controls within these institutions.

In Ondieki (2013) [29], examines the effects of internal audit on financial management of Micro Financial Institutions. The results show that internal controls can have components through which fraudulent activities are highlighted or made challenging, if not impossible, to transact. Internal control audits affirm the assurance that controls are employed, but they do not essentially identify fraud or dishonesty.

Nguele M. (2017) [28] assess the effect of internal auditing on the financial management of SMEs in Yaoundé with the use of a casual research design and a sample of over 12 selected SMEs and concludes that internal auditing has a significant effect on the performance of small and medium size enterprises. Specifically, audit plan procedure, monitoring, risk assessment and control activities are impact variables of financial management.

In a study carried out by Wainaina (2011) [27], that examines the internal control function. The results suggest that as a auxiliary for its presence on the scene of operations, management must rely on internal control techniques to implement its decisions and to normalize the activities for which managers would eventually be accountable for. It is in this light that use of efficient Internal Control Systems (ICS"s) is considered vital in the management of business assets. He established that, other than the prevention and detection of fraud, internal controls should reflect the strength of the overall accounting environment in an organization as well as the accuracy of its financial and operational records.

Barra (2010) [26] investigated on the effect of penalties and other internal controls on employee's propensity to be fraudulent. The results presented that the existence of the control activities and separation of duties increases the cost of committing fraud. Thus, the advantage from committing fraud has to overshadow the cost in an environment of segregated duties for an employee to commit fraud. Further, it was established that segregation of duties is a "least-cost" fraud constraint for non-managerial employees, but for managerial employees, maximum penalties are the "least-cost" fraud disincentives. The results proposed the effectiveness of preventive control activities such as segregation of duties is reliant on detective controls

Olatunji (2009) [25] required to find out the impact of internal control system in banking sector. The study considered controls into three major classifications: Preventive controls, detective controls and corrective controls. It used the chi square to analyse the data and indicates that the lack of an efficient internal control system is the main reason of Institution frauds in Nigeria. It then concludes that the management of each Institution should generate and establish a standard internal control system, solid enough to stand against the wiles of fraud in order to endorse continuity of operations and to make sure there is liquidity, solvency and going concern concept of the Institution.

An evaluation of Internal Control Systems of the African Development Institution Group (ADB) in Uganda in East Africa by Amudo and Inanga (2009) [24] using the variables; monitoring, control activities, risk assessment, information and communication and control environment. They concluded that certain control components of internal control systems are lacking in these organisations making the control structures ineffective. The study suggested an upgrading of the current internal control systems in the organisations.

Jones (2008) [22] investigated on internal controls, accountability and corporate governance in medieval and modern Britain using a modern referential framework (control environment, risk assessment, information and communication, monitoring and control activities) as a lens to examine medieval internal controls used in the twelfth century royal exchequer and other medieval institutions. He established that most of the internal controls found nowadays were existed in medieval England. Stewardship and personal accountability were found to be the essential elements of medieval internal control. The recent recognition of the need for the enhanced personal accountability of individuals is reminiscent of medieval thinking.

Diana (2017) [20] in her study to the role of internal controls on financial performance of commercial banks in Kenya had as main objective to assess the effect of internal control on the financial performance of commercial banks in Kenya. Using the descriptive design of research with a population of 43 licensed commercial banks in Kenya found of that the various elements of internal control contributes significantly to the performance of commercial banks. The study concludes that internal control components should be well monitored in other to enhance performance in commercial banks. It is in this light that we present the methodology uses to examine the effects of internal control on financial performance of MFIs below.

Methodology

Area of the study

The area where this piece of work is carried out is the West Region of Cameroon. This area was selected due to the rapid increase of Micro Financial Institutions (MFIs). The area covered includes all the Divisions which make up this Region with great emphasis on Bafoussam which has a representation of over 85% of the Micro Financial Institutions (MFIs) existing in the region.

Population and sample of the study.

Population of the study

The study focused on MFIs in the West Region of Cameroon. The persons under the study include: Managers, Finance officers, Accountants, internal auditors, internal control members. The study involves 50 MFIs with a focus on 3 persons involved in internal control in every institution making a population of 150 staffs.

Sample size

This study essentially targets Top management staff of these aforementioned offices and personalities. The researcher therefore will use purposive sampling techniques to selecting interview respondents. This will ensure that only people with relevant information are sampled.

Staff of the MFIs will be contacted for all needed information in order to achieve the study target. A number of respondents would be selected from MFIs which comprises staffs of MFIs, staffs of a supervisory body like CamCCUL who are involved with the control system. Using Taro Yamani Formula to get sample size.

$$\mathrm{n} = \frac{n}{1+N(e)^2}$$

n is the sample size
N is the population
E is the error term
1is the constant

$$\mathrm{n} = \frac{150}{1+150(0.05)^2}$$

The sample size of the study from the above formula is based on 110 respondents selected from the different MFIs in West region.

Sample techniques

The population under this study was identified to be the entire population of MFIs in the West region of Cameroon. The sampling technique used here is the cluster sampling which was done by dividing up the region into the various Divisions, after these, a convenient sampling was applied given that most of the MFIs are represented in Bafoussam much attention was paid on the Bafoussam city this convenience sampling was applied due to availability of the respondents.

Validity of instrument

Validity refers to the degree to which a measuring instrument measures what is designed to measure. The first validity will be carried out by giving questionnaires to my supervisor who will go through the questions drafted and made appropriate suggestions and corrections that will helped meet the validity.

The content validity was also be carried out by my supervisor, lectures and experts in the field to ensure that the research work is in line with what is actually taking about and this will be done by going through the written work before completion.

Reliability of the instrument

This is a test or measure of the extent to which a research instrument will yield the same result under the same conditions that is the consistency of the work. The study ensured reliability of the data collection instruments to enable the instruments solves the research problems. Further, the researcher tested the reliability of the research instrument using Cronbach's alpha value. All statements with an alpha of at least 0.7 were considered for the study and satisfy the internal consistency measures (Mugenda & Mugenda, 2003). Table 1 below presents the reliability of the instrument for data collection.

Table 1: Test of reliability of the research instrument

Variables	Coefficient Alpha(a)	Number of Items(N)
Control Environment	0.865	9
Risk Assessment	0.843	4
Information & Communication system	0.758	4
Control Activities	0.951	6
Monitoring	0.741	4

Source Researcher‘s finding 2020

From table 1above, it is clearly indicated that all the coefficients are above 0.70 for all the constructs tested. This therefore validate that the scales used to measure these variables were consistent and therefore reliable for the data collection.

Data collection procedure

The study uses both primary and secondary data. Secondary data will be from management and financial reports. The drop and pick method shall be used to collect primary data. The structured questions will be used in an effort to conserve time and money as well as to facilitate in easier analysis as they are in immediate usable form.

Data collection instruments

The collection of primary data will be done with the use of questionnaire. These questionnaires will be distributed amongst the respondents. The method used to administer this questionnaire was the drop-and-pick method. Semi-structural questions will be also designed and used for a face-to-face interview whose main objective is to provide a backing for the validity and responses of the questionnaires.

Model specification

This study seeks to examine the effect of internal control on financial performance in MFIs of the West Region of Cameroon. The study centres on two models. The first model links internal control variables (risk assessment, monitoring and internal control activities) to financial performance. The first model is specified as follows:

$$PERF = \beta_0 + \beta_1 RISK + \beta_2 MONI + \beta_3 ACTI + \varepsilon$$

The second model relates internal control to financial performance while controlling for the frequency of internal control system review. The model goes thus:

$$PERF = \alpha_0 + \alpha_1 RISK + \alpha_2 MONI + \alpha_3 ACTI + \alpha_4 ANNUAL + \alpha_5 SEMI + \alpha_6 NEEDY + \mu$$

Where:
PERFIS= financial performance index
RISK = is risk assessment index
MONI = monitoring index
ACTI = internal control activities index
ANNUAL = annual review of internal control system measured as a binary variable (1 if annual review and 0 if otherwise)
SEMI = semi-annual review of internal control system measured as a binary variable that is 1 if semi-annual review and 0 if otherwise

NEEDY = review of internal control system when need arises measured as a binary variable that is 1 if review when need arises and 0 if otherwise

Method of data analysis

Both descriptive and inferential analysis was used to analyse the data. Descriptive analysis involved the use of bar and pie charts, frequencies and percentages tables. This study employed the Ordinary Least Squares (OLS) technique for the estimation of the parameters of the model specified above. This is because it possesses the best linear unbiased estimator (BLUE) property and has been widely used in literature. Unbiased means that the estimated coefficients are a true representation of the population parameters and it is also said to have the minimum variance amongst all other estimators rendering it efficient. The OLS technique of estimation is used when the dependent variables varies in the range negative infinity to positive infinity. However, it is not much of a problem if in practice the dependent variable fluctuates in a restricted interval say from 1 to 20 provided the variable is continuous in nature. Problems arise only when the dependent variable can take only two values such as binary variables. In this case, the dependent variable of this study (financial performance index) is a continuous unlimited dependent variable.

It should be noted that, before the OLS estimation, a single index (indicator) of each of the variables in the model specification is constructed using the Multiple Correspondence Analysis (MCA) given the nominal value of each of the items. Multiple Correspondence Analysis (MCA) is an extension of Correspondence Analysis (CA) which allows one to analyse the pattern of relationships of several categorical dependent variables. As such, it can also be seen as a generalisation of Principal Component Analysis (PCA) when the variables to be analysed are categorical instead of quantitative. Technically, MCA is obtained by using a standard correspondence analysis on an indicator matrix (a matrix whose entries are 0 or 1). The percentages of explained variance need to be corrected, and the correspondence analysis interpretation of inter-point distances needs to be adapted. The constructed indexes are therefore continuous variables which renders the Ordinary Least Squares operational and suitable for the estimation of the above specified model

Presentation and Discussion of Findings

This section is devoted to the presentation of results and discussion. It starts by presenting the descriptive statistics followed by the major results.

Descriptive statistics

Demographic characteristics of the respondents

The descriptive statistics of the sample is summarised in table 2 below shows the characteristics of the correspondents namely gender, age group, position, experience and level of education of the respondents.

Table 2: Characteristics of respondents

Variables	Categories	Frequency	Percentage
Gender	Male	64	59.3%
	Female	44	40.7%
Age	Less than 20 years	0	0%
	20 – 30 years	6	5.6%
	31 – 40 years	64	59.3%
	41 – 50 years	27	25%
	Above 50 years	11	10.2%
Education	Primary	1	0.9%
	Secondary	3	2.8%
	High school	29	26.9%
	Undergraduate	59	54.6%
	Postgraduate	16	14.8%
Position	Management team	27	25%
	Senior staff	27	25%
	Junior staff	54	50%
Experience	Less than 3 years	3	2.8%
	3-6 years	13	12%
	7 – 10 years	41	38%
	Above 10 years	51	47.2%

Source: Authors from field survey

According to table 2 above, 59.3% of the 108 respondents used for the study were male representing 64 out of the 108 against 44 females which represents 40.7% of all the sample. This results shows that microfinance employees and staff are predominantly men. In terms of age distribution of respondents, results from descriptive analysis indicates that the highest proportion of respondents were aged between 31 and 40 years as this age group represents 59.3% of the sample that is 64 out of 108 respondents while 25% (27) were of the age bracket

41 to 50 years old. 10.2% of the sample was aged above 50% representing 11 respondents while 5.6% corresponding to 6 respondents. This age distribution indicates that workers of MFIs in the west are mostly adults of early adulthood age.

Further demographic characteristics shows that 54.6ution indicates that MFIs workers are mostly % of the respondents had an undergraduate level of education which corresponds to 59 out of the 108 sampled respondents while 26.9% (29) claim to have a high school level, 14.8% (16) for postgraduate level, 2.8% (3) for secondary school level and only 0.9% (1) who reported to have a primary school level. These figures show that workers of MFIs in the West Region are mostly university graduates with HND and Bachelor Degree. Most of the workers interviewed were junior staff workers representing half of the sample (50%) as against 25% (27) senior staff and 25% (27) for management team. The great majority of respondents interviewed had more than 10 years' experience as those belonging to this category represents 47.2% (51) of the sample as opposed to 38% (41) of those who have been working for between 7 and 10 years, 12% (13) for workers who had a working experience of between 3 and 6 years and only 2.8% (3) who had been working for less than 3 years. These result reveal that the majority of the workers sampled in this study had a certain level of experience which could permit them have a mastery of the functioning of their organisation.

Internal control variables

In this section we carry out a descriptive analysis of internal control variables in reference to the table below.

Table 3: Risk assessment

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Management has defined appropriate objectives for the entire organisation	3 (2.8%)	5 (4.6%)	13 (12%)	47 (43.5%)	40 (37%)
Management has put in place mechanisms for mitigation of crucial risks that may result from fraud	4 (3.7%)	11 (10.2%)	14 (13%)	40 (37%)	39 (36.1%)
Management has a criteria for ascertainment of which fraud related risks to the organisation are most critical	3 (2.8%)	11 (10.2%)	10 (9.3%)	78 (72.2%)	6 (5.6%)
Management identifies risks that affect achievement of the objectives of the organisation	3 (2.8%)	10 (9.3%)	15 (13.9%)	53 (49.1%)	27 (25%)

Source: Authors from field survey

According to results from table 3, the greater majority of respondents agreed that management had defined appropriate objectives for the entire organisation with a percentage of 80.5% representing 87 out of 108 sampled respondents while 7.4% (8) disagreed. In this same line, 73.1% (79) of the respondents had the opinion that management had put in place mechanisms for mitigation of risks that may result from fraudulent activities as against 13.9% (15) who disagreed. According to 84 respondents out of the 108 sampled, management had a criteria for ascertainment of which fraud related risks to the organisation are most critical corresponding to 77.8% of the sample while 13% (14) disagreed. Also, 74.1% (80) of the respondents agreed with the fact that management identified risks that affect achievement of the objectives of the organisation whereas 12.1% (13) had the contrary view.

Table 4: Monitoring activities

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Internal reviews of implementation of internal controls in units are conducted periodically	0 (0%)	21 (19.4%)	21 (19.4%)	47 (43.5%)	19 (17.6%)
Monitoring has helped in assessing the quality of performance of the organisation over time	3 (2.8%)	26 (25.9%)	6 (5.6%)	43 (39.8%)	28 (25.9%)
Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance item noted	6 (5.6%)	10 (9.3%)	21 (19.4%)	59 (54.6%)	12 (11.1%)

Source: Author computation from field data

According to results from table 4, the greater majority of respondents agreed that "internal reviews of implementation of internal controls in units are conducted periodically for the entire organisation with a percentage of 61.1% representing 66 out of 108 sampled respondents while 19.4% (21) disagreed. In this same line, 65.7% (71) of the respondents had the opinion that monitoring has helped in assessing the quality of performance of the organisation over time as against 28.7% (29) of those who disagreed. According to 71 respondents out of the 108 sampled, Management has assigned responsibilities for the timely review of audit reports and resolution of any non-compliance item notedto 77.8% of the sample while 14.9% (14) disagreed.

Table 5: Internal control activities

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Individual independent of receivables record keeping promptly investigate disputes with billing amounts reported by customers	0 (0%)	40 (37%)	15 (13.9%)	33 (30.6%)	20 (18.5%)
Accounting records are limited to employees with designated responsibility for such records	0 (0%)	33 (30.6%)	19 (17.6%)	34 (31.5%)	22 (20.4%)
Changes to the prescribed billing amount require the approval of an authorised individual	6 (5.6%)	26 (24.1%)	11 (10.2%)	31 (28.7%)	34 (31.5%)
Procedures exist to prevent the interception or alteration by unauthorised persons of billings or statements before posting	9 (8.3%)	8 (7.4%)	32 (29.6%)	37 (34.3%)	22 (20.4%)
Reconciliation is done monthly to reconcile separate records and properly resolve any differences	6 (5.6%)	7 (6.5%)	9 (8.3%)	35 (32.4%)	51 (47.2%)

Source: Author computation from field data 2020

With respect to results from table 5, the greater majority of respondents agreed that Individual independent of receivables record keeping promptly investigate disputes with billing amounts reported by customers with a percentage of 49.1% representing 53 out of 108 sampled respondents while 37% (40) disagreed. In this same line, 60.2 % (65) of the respondents had the opinion that accounting records are limited to employees with designated responsibility for such records as against 29.7% (32) of those who disagreed. According to 65 respondents out of the 108 sampled, Changes to the prescribed billing amount require the approval of an authorised individual corresponding to 60.2% of the sample while 29.7% (32) disagreed. Equally, 54.7% (59) of the respondents agreed that Procedures exist to prevent the interception or alteration by unauthorised persons of billings or statements before posting whereas 15% (17) had the contrary view. Furthermore, 86 respondents out of 108 agreed that reconciliation is done monthly to reconcile separate records and properly resolve any differences in their organisation representing 79.6% while 12.1% (13) disagreed on the fact that reconciliation is done monthly to reconcile separate records and properly resolve any differences.

Financial performance elements

Below is the descriptive analysis of variable of financial performance. Table 7 summarises the frequency and percentage of respondents rating of each indicator of financial performance retained for the study.

Table 6: Indicators of financial performance

Statement	Very poor	Poor	Average	Good	Very Good
Profit	3 (2.8%)	3 (2.8%)	10 (9.3%)	70 (64.8%)	22 (20.4%)
Gross loan portfolio	3 (2.8%)	9 (8.3%)	26 (24.1%)	39 (36.1%)	31 (28.7%)
Savings and deposits	3 (2.8%)	16 (14.8%)	18 (16.7%)	55 (50.9%)	16 (14.8%)
Return on assets	10 (9.3%)	16 (14.8%)	21 (19.4%)	36 (33.3%)	25 (23.1%)
Return on equity	6 (5.6%)	8 (7.4%)	25 (23.1%)	47 (43.5%)	22 (20.4%)
Ratio of non-performing loans	0 (0%)	10 (9.3%)	41 (38%)	37 (34.3%)	20 (18.5%)

Source: Author computation from field data

According to results from table 6. majority of respondents reported that the profit of their institution was good as the percentage stands at85.2% representing 92 out of the 108 sampled respondents as against 9.3% (10) who claimed that it was average and 5.6% (6) who reported a poor performance. Further results indicate that 70 out of 108 respondents were of the opinion that the gross loan portfolio of their institution was good representing 64.8% of the sample whereas 11.1% (12) believed that it was poor and 24.1% claimed that it was average corresponding to 26 respondents. In terms of savings and deposits, most of the respondents reported that it was good given a percentage of 65.7% (71) while 17.6% (19) view it as poor and 16.7% (18) average. The majority of respondents also confirmed that the return on assets, return on equity and the ratio of non-performing loans in their institution were good as the percentages of those who choose good or very good are respectively 56.4%, 63.9% and 52.8%.

Construction of indexes: results of the multiple correspondence analyses

Six indexes are constructed using the MCA given the categorical nature of the elements used in constructing the indices.

Table 7: Synopsis of MCA results

Dimension	Principal inertia	percent	Cumulative percentage
Risk assessment index (number of axes = 2)			

Dim1	0.1787913	34.11	34.11
Dim2	0.0815407	15.56	49.67
Dim3	0.055129	10.52	60.19
Dim4	0.0361693	6.90	67.09
Dim5	0.0250853	4.79	71.88
Dim6	0.0071235	1.36	73.23
Dim7	0.0042045	0.80	74.04
Dim8	0.0000292	0.01	74.04
Total	0.5241198	100.00	
Monitoring index (number of axes = 2)			
Dim1	0.3736193	52.83	52.83
Dim2	0.152285	21.53	74.36
Dim3	0.0538398	7.61	81.97
Dim4	0.0466644	6.60	88.57
Dim5	0.0000199	0.00	88.57
Total	0.7072464	100.00	
Internal control activities index (number of axes = 2)			
Dim1	0.2656799	43.44	43.44
Dim2	0.1337215	21.86	65.30
Dim3	0.0531347	8.69	73.99
Dim4	0.0232674	3.80	77.79
Dim5	0.0153261	2.51	80.30
Dim6	0.0110893	1.81	82.11
Dim7	0.0005395	0.09	82.20
Total	0.6116266	100.00	
Financial performance index (number of axes = 2)			
Dim1	0.3304323	42.63	42.63
Dim2	0.1512834	19.52	62.15
Dim3	0.0798138	10.30	72.45
Dim4	0.0645677	8.33	80.78
Dim5	0.019162	2.47	83.25
Dim6	0.0062774	0.81	84.06
Dim7	0.0024381	0.31	84.37
Dim8	0.0003627	0.05	84.42
Dim9	0.0000124	0.00	84.42
Total	0.7750992	100.00	

Source: Computed by author, field data 2020

According to results from table 7, there are two perspectives for all the four indexes constructed. The risk assessment index was constructed from 8 dimensions while monitoring, internal control activities and financial performance indexes were constructed from 5, 7 and 9 dimensions respectively.
Table 8 presents a summary of descriptive statistics of variables used in the model specified in chapter three.

Table 8: Summary of descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
financialperformanceindex	108	4.42e-09	1.004662	-0.7661623	4.662269
riskassessmentindex	108	5.28e-09	1.004662	-1.369049	3.137801
monitoringindex	108	7.59e-10	1.004662	-0.8782088	3.879071
controlactivitiesindex	108	-1.62e-09	1.004662	-2.165525	1.773224

Source: Computed by author, field data 2020

Results from the summary of descriptive statistics of the variables reveal that the mean value of financial performance index is 4.42e-09 with a standard deviation of 1.004662 indicating high variability of values around the mean. In fact, values of financial performance index vary between-0.7661623 and 4.662269. Furthermore, the average value of the risk assessment index is calculated at 5.28e-09 with values ranging from-1.369049 to 3.137801. Also, the mean values of monitoring and internal control activities indexes are respectively 7.59e-10 and-1.62e-09 with values ranging from-0.8782088 to 3.879071 for monitoring index and from-2.165525 to 1.773224 for internal control activities index.
As a prelude to the regression analysis, the pairwise correlation analysis is conducted to verify if there is no strong correlation among the independent variables which may lead to problem of multicolinearity. Table 4.8 presents the pairwise correlation matrix of the variables included in the model.

Table 9: Pairwise correlation matrix

Variables	performance	risk assessment	monitoring	activities
performance	1.0000			
risk assessment	0.3689*** (0.0001)	1.0000		
monitoring	0.5249*** (0.0000)	0.5153*** (0.0000)	1.0000	
activities	0.4659*** (0.0000)	0.2957*** (0.0019)	0.4403*** (0.0000)	1.0000

Source: Computed by author, field data 2020

Results from table 10 reveal that there is a strong correlation between monitoring index and internal control environment index as the correlation coefficients among these two variables exceeds 0.6 and is significant 1% level. In most cases, there are moderate correlation among the variables (correlation coefficients between 0.4 and 0.6). Thus, it was important to carry out a formal test of multicolinearity to ascertain that the model does not suffer from multicolinearity. Table 10 presents the results of the Variance Inflation Factors (VIF) test of multicolinearity.

Table 10: VIF results for multicolinearity

Variable	VIF	1/VIF
monitoring index	1.55	0.643590
risk assessment index	1.37	0.728595
control activities index	1.25	0.799663
Mean VIF	1.39	

Source: Computed by author, field data 2020

Results from the VIF test show that none of the individual VIF coefficients is greater than the critical value of 10 as prescribed by Gujarati (2004) and the mean VIF is lower than 2.5 which implies that multicolinearity is not a problem in the model. Thus the Ordinary Least square estimation can be used to estimate the parameters of the model.

Verification of hypotheses: regression analysis

The verification of hypotheses was conducted using the multivariate regression analysis with the help of the Ordinary Least Squares (OLS) estimation technique. Results of the regression analysis are presented in table 11 below. It should be noted that equation 1 is the results of the effect of internal control on financial performance without control variable while equation 2 presents the effect of internal control on financial performance while controlling for the frequency of internal control.

Table 11: Ordinary least square results

	(1)	(2)
VARIABLES	performance	performance
risk assessment index	0.108	0.0675
	(0.247)	(0.448)
monitoring index	0.345***	0.360***
	(0.001)	(0.000)
control activities index	0.282***	0.432***
	(0.002)	(0.000)
Annual review		-0.0945
		(0.717)
Semi-annual review		0.475*
		(0.075)
Needy review		0.680**
		(0.018)
Constant	4.05e-09	0.315
	(1.000)	(0.160)
Observations	108	108
R-squared	0.352	0.433

Probability values in parentheses, *** $p<0.01$, ** $p<0.05$, * $p<0.1$

Source: Computed by author, field data 2020

Results from the Ordinary Least Squares (OLS) estimation above indicate that the coefficient of risk assessment index is positive (0.108) meaning that there is a positive effect of the risk assessment on the financial performance of MFIs in West Region of Cameroon. In order words, an increase of the risk assessment index by one point will lead to an increase in financial performance index by 0.11 point everything being equal. It should also be noted that this results is statistically insignificant given that the probability value (0.247) exceeds10%. Thus, there is a positive but insignificant effect of risk assessment on the financial performance of MFIs in the West region. The study therefore accepts the first hypothesis of the study claiming that there is no significant effect of risk assessment practices on MFIs financial performance.

Further results indicate that the coefficient of monitoring index is positive (0.345) and significant which shows that monitoring relates positively with financial performance. Put differently, an increase in monitoring index by one point will lead to an increase in financial management index by about 0.34 point anything else held constant. This result is significant at 1% level given the probability value of monitoring (0.001) is lower than 0.01 (1%). Therefore, this result is relevant for policy recommendations towards improving the financial performance of MFIs in the West Region of Cameroon. This result permits us to reject the second hypothesis of the study which states that monitoring has no significant effect on financial performance.

In this same vein, the coefficient of internal control activities is positive (0.282) which shows that there is a positive effect of internal control activities on the financial performance of microfinance institutions in the West Region. More precisely, an increase of internal control activities index by one point will result in about 0.28 point increase in financial performance. Therefore, increased internal control activities will help improve the financial performance of MFIs of the West Region of Cameroon. This finding is significant at 1% level as the probability value (0.002) was found to be far less than 0.01 (1%). Thus, it can be concluded that there is a significant positive effect of internal control activities on the financial performance of MFIs in the West Region of Cameroon. Therefore, we reject the third hypothesis of the study which claims that there is no significant effect of internal control activities on the financial performance of MFIs in the West Region.

It should also be noted that the value of the adjusted R-square is estimated at 0.352 which means that 35.2% of variation in the financial performance index of microfinance institutions in the West is jointly explained by changes in all the variables used in the model (risk assessment, monitoring and internal control activities). In addition, the overall model is globally significant at 1% level given that the probability value of Fischer statistics (0.0000) is far below 1%. Thus, internal control captured by in risk assessment, monitoring and internal control activities significantly explain the financial management of MFIs in the West Region of Cameroon.

Looking at results from equation 2, it was found out that, even when controlling for the frequency of internal control system review the sign and significance of the internal control variables used for the study remained consistent and even almost the same in terms of magnitude. Further results reveal that annual review of the internal control system exerts a negative effect on the financial performance of MFIs as the coefficient of annual review was found to be negative. In effect, annual review of the internal control system reduces the financial performance index by 0.09 everything else being equal. However, this finding is statistically insignificant.

Unlike annual review, the coefficient of semi-annual review of internal control system is positive (0.475) implying that there is a positive effect of semi-annual review of internal control system on the financial performance of MFIs. Thus, MFIs which review their internal control system on half yearly basis are more likely to perform better financially. This outcome is significant at 10% level. Similarly, MFIs where internal control system is reviewed when need arises are likely to perform well given that the coefficient of needy review is positive. Also, it should be noted that this result is significant at 5% level given that the p-value of the variable is greater than 0.01but less than 0.05.

Discussion of Findings

Results from data analysis indicate that there is a positive but insignificant effect of risk assessment on the financial performance of MFIs in the West Region of Cameroon. This outcome leads to the acceptance of the first hypothesis of the study. Though the sign of the coefficient is in conformity with a priori expectation, it should be noted that this result contradicts the finding of Ngundu (2013) who found that significant effect between internal controls (captured by control environment, information and communication, risk assessment, monitoring activities and control activities and revenue generation. This finding can be justified by the fact that there may weaknesses in the risk assessment procedure of many MFIs due to “man knows man” (acquaintances) between loan officers and customers which sometimes leads to the violation of procedures.

Further results from data analysis indicate that there is a significant positive effect of monitoring activities on the financial performance of MFIs in the West Region. This result is in line with theoretical expectation and conforms to the finding of Kakucha (2009) [31] who found that weak internal control compromises the financial performance of small businesses in Nairobi. We therefore reject the second hypothesis of the study that monitoring activities have no significant effect on the financial performance of MFIs. This result is in conformity with the agency theory given that internal control helps to reduce information asymmetry between agent (workers) and principal shareholders. The control of employees through monitoring activities can significantly reduce fraud and stimulate the financial performance of MFIs.

The third objective of this study was to examine the effect of internal control activities on the financial performance of MFIs. Results from data analysis indicate that increasing internal control activities positively and significantly influence the financial performance of MFIs in the West Region of Cameroon. Therefore, the third hypothesis is also rejected. This finding conforms to the contingency theory which suggests that internal auditors who are specialized and have more internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via the efficiency of the internal control mechanism.

Conclusion

The objective of this study was to examine the effects of internal control on the financial performance of MFIs. The ordinary least square was used to analyse the information that was collected with the help of questionnaires. The results show that risk assessment, information and communication and monitoring indices are positive and significant and consequently internal control activities have a positive and significant effect on the financial performance of MFIs of our sample. This shows that MFIs with operative measures of risk assessment, good communication policies that make information readily available and adequate monitoring mechanisms for their internal control activities are more likely to perform better. The Management of every Micro Financial Institution has the essential accountability for designing, applying and checking their internal controls system. With suitable control activities against frauds and other threats to the Institutions" operations, MFIs are in better performance position. Internal controls provide complete and accurate records are kept of transactions involving the Establishment and the clients are protected. We therefore suggest that MFIs should endeavour to implement suitable risk assessment principles and good communication policies in accordance to the internal control procedures.

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