IMPACT OF INTERNAL CONTROL SYSTEM ON PERFORMANCE OF MICRO FINANCE BANKS IN KWARA STATE, NIGERIA

By

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MATRIC. NUMBER: 15/27/MAC017

BEING M.Sc. DISSERTATION PRESENTED AND SUBMITTED TO THE DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES, KWARA STATE UNIVERSITY, MALETE, NIGERIA IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF SCIENCE (M.Sc.) DEGREE IN ACCOUNTING

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September, 2018

ProQuest Number: 13807333

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DECLARATION

I hereby declare that this thesis titled Impact of internal control system on performance of micro finance banks in kwara state is my own work and has not been previously presented or submitted by me and to the best of my knowledge, by any other person for any course or qualification at this or any other academic or research institution. I also declare that the information provide herein are mine and those that are not are duly acknowledged by means of references.

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CERTIFICATION

This is to certify that, this thesis by Lawal Adekunle Lukmon (Matriculation Number 15/27/MAC017) titled 'Impact of Internal control system on performance of Micro finance Bank in Kwara State, Nigeria' has been read and approved as meeting the requirements for the award of Master Degree in Accounting.

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DEDICATION

To Almighty God for his blessing and mercy upon me.

ACKNOWLEDGEMENT

All thanks and adorations are belonging to the Almighty God for his infinite mercy bestowed on me to complete this research work.This thesis appears in its current form due to assistance and guidance of many people, I would like to offer my sincere appreciation to all of them.

My special appreciation goes to my indefatigable supervisor Dr. Sanni Mubaraq, I thanks him for his patience, word of encouragement and immense knowledge impacted on me. His guidance assisted me in all the time of research and writing of this thesis, I could not have imagined having a better supervisor for this study.

I want to express my deep thanks to my head of department, Dr. Emmanuel Imoloame and some other lecturers in the department: Dr Abdullahi Ibraheem, Dr Osemene Olubunmi, Professor Keneth Adeyemi and Dr Azeez Taiwo Olaniyi, for offering valuable advice and support during the period of my study.

Finally, my sincere thanks goes to my Parent, wife, family and friends for all their moral, spiritual and financial support throughout my postgraduate studies, may Allah reward them abundantly.

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ABSTRACT

The major cause of serious microfinance bank challenges continues to be ineffective of internal control system for core processes. Thus, the study empirically investigate the impact of internal control system on performance of microfinance bank in kwara state, Nigeria. The specific objectives are to: (i) examine the impact of control environment on performance of micro finance banks; (ii) investigate the extent to which the control activities affects performance of micro finance banks; (iii) determine the impact of risk assessment on the performance of micro finance banks; (iv) examine the extent to which information and communication affects the performance of micro finance banks; and (v) investigate the impact of monitoring on performance of micro finance banks.Primary data which were collected through questionnaires wereanalysed using Statistical Package for Social Science (SPSS version 22.0) and Partial Least Square-Structural Equation Modeling (PLS-SEM). The results of the analysis provides support for the hypothesised relationships. Furthermore, the significant positive relationship of internal control system (Head of internal audit,Head of Operations, Manaaging Director and Risk Managers) indicates that variables are essential requirements in enhancing the performance of microfinance bank in Nigeria particularly in Kwara State. Similarly, it was found that proper internal control system is needed in the area of management performance of the micro finance banks in Kwara State. The study recommended that Head of Internal Audit, Head of Operations, Managing Director and head of Risk Manager in the microfiance banks should improve their internal control system in enhancing better finance performance of microfiance banks in Kwara state.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

There have been controversies as to why there is a declining firms' survival trend in the world. This has been largely blamed on ineffective internal control systems put in place by firms in the world for core processes (Kinyua, 2015). As a result of this, organizations face external and internal forces that call for a plan to help them continue to be relevant and competitive Management's ability to accomplish its goal with respect to remaining relevant and competitive rests largely on the policies as well as the effectiveness of procedures established to safeguard its operations (Chebungwen & Kwasira, 2014).

Recently a number of financial scandals have been witnessed in quoted companies both in local and international scenes. For example in America, investors lost $180 billion in World Com Scandal of 2002, $150 million in Tyco Scandal of 2002, $1.4 billion in Heath South Scandal of 2003 (the largest publicly traded company) and $3.9 billion in America international Group (AIG) scandal of 2005, among several financial fraudulent activities affecting publicly quoted companies. In the early 2000s, a number of high-profile corporate accounting scandals resulted in some investors, company personnel and other stakeholders suffering significant losses. These scandals resulted in demands for a greater emphasis on corporate governance. In July 2002, the United States Congress passed the Sarbanes-Oxley Act (SOX) in an effort to reduce public concern over a number of high profile corporate failures in the US. Ashbaugh-Skaife, Collins, Kinney and LaFond (2008) documented that firms reporting internal control weaknesses have more complex operations; have experienced recent changes in organizational structure; are at increased exposure to accounting risks; and have fewer resources to invest in internal control. Furthermore, Willcutt, Doyle, Nigg, Faraone, and Pennington (2005) indicated that firms with material weaknesses have a lower earnings quality than those that do not report material weaknesses. Additionally, Hamersley, Lavik, Woebken, Rattray, Lam, Hopmans, and Kuypers (2007) showed a negative market reaction to firms that had reported material weaknesses in internal control of Sarbanes-Oxley Act Section 302.

In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partner acquired controlling interest. These scandals emphasize the need to evaluate, scrutinize, and formulate systems of checks and balances to guide corporate executives in decision-making. These executives are legally and morally obliged to produce honest, reliable, accurate and informative corporate financial reports periodically (Hayes, Daetwyler, Bowman, Moser, Tier, Crump & Goddard 2009). Nigeria is not left out of these financial scandals. For instance, the managing Director and Chief Finance Officer of Cadbury Nigeria Plc. was dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partners acquired controlling interest (Cadbury Annual Report, 2006). The collapse of banks such as intercontinental bank, Bank PHB, Finn bank, etc. has raised series of question on the effectiveness of internal controls.

The great remedy against business failure and an important driver of keeping business competitive advantage is having an effective internal control system. Best performing organizations know how to take advantage of opportunities and prevent threats through effective application of internal controls (IFAC, 2012). Government, auditors and management are responsible for the review and evaluation of internal control system. According to Statement of Auditing Standards SAS No.55, it requires an auditor to obtain an understanding of entity's internal control system sufficient to plan the audit. The Sarbanes-Oxley Act requires that the management of public companies assess the effectiveness of the internal control of issuers for financial reporting. Section 404(b) requires a publicly-held company's auditor to attest to, and report on, management's assessment of its internal controls. The Federal Managers' Financial Integrity Act of 1982 (FMFIA) requires the General Accounting Office (GAO) to issue standards for internal control in government. The standards provide the overall framework for establishing and maintaining internal control and for identifying and addressing major performance and management challenges and areas at greatest risk of fraud, waste, abuse, and mismanagement (Kinyua, 2015).

Internal control comprises both the "ex-ante" and "ex-port" (before and after operations) measures to control risk (Campion, 2000). Arsenault (2008) noted that internal control includes

the prevention of potential problems as well as the early detection and correction of actual problems as they occur. Basle Committee on Banking Supervision (1998) maintained that the primary objectives of the internal control in a financial institution include: to verify the efficiency and effectiveness of the operations; to assure the reliability and completeness of financial and management information; to comply with applicable laws and regulations. Commenting on Microfinance banks complying with applicable laws and regulations, Campion (2000) opined that Microfinance institutions use internal control mechanisms to ensure that staff respects their organizational policies and procedures. Internal control mechanism works to improve decision-making by ensuring that information is accurate, complete and timely so that the Board and Management can respond to control issues promptly as they arise.

Central Bank of Nigeria (2005) stated that the sub-optimal performance of many existing Community banks, Microfinance and Development finance institutions are due to incompetent management, weak internal controls and lack of deposit insurance schemes. This shows that where the internal control system is weak, it will not effectively serve as a means of preventing fraud. Culley and Bauer cited in Udofia (2002) said that internal controls within an organization are set up to safeguard cash, merchandise, and other assets and also to provide checks on the accuracy of the records and compliance with organizations' policies. Therefore, without efficient internal control, the existence and success of an organization would be in doubt, as the system would collapse due to errors, frauds and maladministration.

The Management team in any Microfinance bank comprises the key officers who are responsible to the Board of Directors for the implementation of the internal control mechanism. These officers include the Bank Manager, Head of Operation, Internal auditor and the Credit officer. Internal control mechanism of the bank entails that internal auditors strictly examine the banking operations carried out by other management staff (Managers, Accountants and Credit officers).
It was reported in the Nigerian Guardian (July 3, 2017) that the level of fraud cases in the Nigerian banking system has risen beyond expectation between 2014 to 2016 which had led to loss of money and resources, consequently, continuous drop in the survival and performance of banking industry in Nigeria. It was reported that fraud were perpetrated through various payment channels in the banking sector such as across the counter, automated teller machines, cheques

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and electronic-commerce platforms (Nigerian Guardian , July 3, 2017). It is worth noting that internal controls only provide reasonable but not absolute assurance to an entity's management and board of directors that the organization's objectives will be achieved. "The likelihood of achievement is affected by limitations inherent in all systems of internal control" (Hayes, 2005). Organizations establish systems of internal control to help them achieve performance and organizational goals, prevent loss of resources, enable production of reliable reports and ensure compliance with laws and regulations. An internal control system comprises the whole network of systems established in an organization to provide reasonable assurance that organizational objectives will be achieved.

The most effective way to improve net income is by reducing the level of irregularity and fraud through improvements in the firm's systems of internal financial control (Wainaina, 2014). Management should on a regular basis review all aspects of their company and ensure internal controls that will strengthen the company and increase profitability are in place, (Kamau, 2014). Every business decision contains risk; avoiding or mitigating this risk is achieved through strong internal controls. Performance is the ability to operate efficiently, profitability, survives, grow and react to the environmental opportunities and threats. Financial performance encompasses accumulated end results of all the organization's Work processes and activities. Performance measures can be financial or non-financial. Both measures are used for competitive firms in the dynamic business environment. Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth. The study focused on internal audit and risk and assessment whereas Camel model was employed in assessing the performance of the microfinance banks in Nigeria.

1.2   Statement of the Problem

The financial crisis that rocked the Nigerian microfinance banks in the last decade has led to continuous struggle with issue of asset management, poor management performance, financial and liquidity difficulties, fraud and misuse of banks' resources. The banking crisis were more severe to the extent that credit lines dried up, credit risk increased and competition become more intense and majority of the microfinance banks' client were unable to pay back their loans due to hostile economic environment. The incidence of these had led to panic withdrawals by clients

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thereby making the microfinance banks lose most of their capital and some even winding up. This has been attributed to incompetent and weak internal controls put in place by these financial institutions. These poor performances lead to the failure of microfinance banks and the withdrawal of the license of 224 microfinance banks in 2010 (Kanu & Isu, 2015).

It has been observed that poor internal controls lead to erosion of small capital base of microfinance banks resulting to high operating cost, low cost and poor financial result. More so, many Nigerian microfinance Banks had their operational licenses withdrawn in 2007 as a result of non-maintenance of liquidity ratio leading to inability of microfinance banks to honour depositors' withdrawal and consequently failure and closures of the microfinance banks. Poor and incompetent management have hindered financial result of the microfinance banks because microfinance institutions are unable to attract competent management, thereby resort to recruiting dismissed conventional bank staff as well as inexperienced or unqualified managers. Furthermore, poor asset management also leads to poor financial performance of microfinance banks. It is observed that when credit books are not properly assessed, it leads to unnecessary risk being taken; hence procedures in credit disbursement are neglected for personal interest which subsequently leads to poor financial performance.

Different studies have been conducted on the impact of internal control systems on the financial performance such as (Munene 2013; Ejoh and Ejom 2014; Mwakimasinde, Albert and John 2014; Ali, Awad and Yousef 2015; Abdullahi and Muturi 2016; Magu and Kibati 2016; Yemer and Chekol 2017; Niaz, Masoud, Kazemi and Kazemi 2017) among other. These studies have shown conflicting results (positive, negative and no relationship).These studies were carried out in the developed and developing countries. To the best of the researcher's knowledge, no study has been conducted on the effect of internal control systems on the Performance of micro finance banks in Kwara State. Therefore, this study filled the gaps identified in the literature.

1.3   Research Questions

From the foregoing, the following research questions were raised and answered in the course of this study: the main research question is looking to the impact of internal control system on the Performance of Microfinance bank in Kwara state Nigeria.

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i.   What is the effect of control environment on the performance of microfinance banks in Kwara state?

ii.   To what extent does the control activity affect performance microfinance banks in Kwara state?

iii.   What is the effect of risk assessment on the performance of microfinance banks in Kwara state?

iv.   To what extent does the information and communication affect the performance of the microfinance banks in Kwara state?

v.   What is the effect of monitoring on the performance of microfinance banks in Kwara state?

1.4   Objectives of the Study

The general objective of this study is to examine the impact of internal control systems on the performance of microfinance banks in Kwara state. The specific objectives are to:

i.   examine the effect of control environment on the performance of microfinance banks in Kwara state;

ii.   Investigate the extent to which the control activity affects the performance of the microfinance banks in Kwara state;

iii.   Determine the effect of risk assessment on the performance of microfinance banks in kwara state;

iv.   Examine the extent to which information and communication affects the performance of microfinance banks; and

v.   Investigate the effect of monitoring on performance of microfinance banks in Kwara state.

1.5 Research Hypotheses

In line with the specific objectives stated above, the following research hypotheses were stated in null form in order to answer the research questions and achieve the research objectives:

H_{01}: Control environment have no significant effect on performance of the microfinance banks in Kwara state.

H_{02}: There is no significant effect of control activities on performance of microfinance banks in Kwara state.

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H_{03}: Risk assessment has no significant effect on performance of microfinance banks in Kwara state.

H_{04}: Information and communication has no significant influence on performance of microfinance banks in Kwara state.

H_{05}: There is no significant effect of monitoring on performance of microfinance banks in Kwara state.

1.6 Justification of the Study

The study contributed to the existing body of knowledge on internal control systems and financial performance. Researchers will benefit from both theoretical literature review and the findings of this study which aimed at establishing the link between internal control systems, government policy and financial performance. This study has identified further research areas where other researchers would have an opportunity to carry out further research and grow knowledge in internal control systems and financial performance.

In addition the study offers insight into the relevance of internal control systems in enhancing corporate governance and improving financial performance in companies quoted at the Nigerian Stock Exchange. Directors and management of listed companies are expected to appreciate the importance of internal control system practices and assist in rating their level of compliance against those of their competitors. Shareholders will get to know the various mechanisms through which they can exercise their control in the management of listed companies. Potential investors will also benefit as they will be able to determine which companies are properly governed hence make more informed investment decisions.

Government and policy makers will gain insight on the critical role of internal controls in the financial performance of companies listed in the Nairobi Securities Exchange. The policy makers will be informed on the type of internal controls to incorporate in public quoted companies. Other institutions will benefit through the understanding of corporate governance practices and the important role that the internal control systems play in enhancing corporate governance, particularly in fostering corporate accountability and transparency and effect financial performance. The management of different business organizations will also benefit from the

study through the understanding of internal controls and their role in corporate governance and financial performance.

1.7   Scope of the Study

This study focused on the effect of internal control systems on the performance of microfinance Banks in Kwara State, Nigeria. The study was restricted to the microfinance banks in Kwara state as a result of some banks that had collapsed in the state. The study covered all Managing Director, Head of Operations, Credit officer, Accountant and head of internal audit of microfinance banks in Kwara state due to their wide experience and education and training in the banking industry. The study employed management performance and asset management to measure the dependent variable whiles the control environment, risk assessment and information and communication system to proxy the independent variables (internal control systems).

CHAPTER TWO

LITERATURE REVIEW

This chapter discussed the literatures under three dimensional categories of conceptual review, theoretical review and empirical studies relating to the study.

2.1   Conceptual Review
2.1.1   Internal Control System

Different scholars and researchers had provided different meanings on the concept of internal control. Committee of sponsoring organization of Tread way Commission COSO (1992) defined internal control as an executive process of board of directors ,authorities and other employees to achieve purpose in efficiency and effectiveness of operation, reliability of financial accountability, obeying laws and legal acts. In the revised guide lines for internal control standards for public sector of INTOSAI (2004) the international organization of supreme audit institution , internal control system has been defined as an integral process that is effected by an entities management and personnel, and is designed to address risk and to provide reasonable assurance that achievement of entities mission.

Control objective for information and related technology, COBIT (2007) also defined internal control system is a process including norms, procedures, performance and organizational structure established to ensure reasonable guarantees so as to achieve the settled business goals and avoid undesirable event, or they could be indicated and fixed. Although the conception of internal control is defined in different ways, the core point still remains the same in all frame works definition as internal control is the inspection, observation, maintenance and regulation of organization work for the achievement of objectives.

Similarly, INTOSAI (2004) also defined internal control systems as integral process that is effected by an entity's management and personnel and is designed to address risks and to provide reasonable assurance that in pursuit of the entity's mission, with general objectives of executing orderly, ethical, economical efficient and effective operation, fulfilling accountability obligation, complying with applicable laws and regulations and safeguarding resources against loss, misuse.

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Furthermore INTOSAI (2004) explains that internal control needs commitment of management and employees at all levels to involve to address risks and to provide reasonable assurance of the achievement of entity's mission and general objectives as internal control is a dynamic and integral process that is continuously adapting to the changes an organization is facing.

According to Arad and Jamshedy (2009) internal control system is a combination of financial control and other controls where financial control addresses; Control for recording accounting transactions properly, Control for proper safeguarding company assets, Early detection and prevention of errors and frauds, Properly and timely preparation of financial records, and Maximizing profit and minimizing of costs. Also other control emphasizes on quality controls, control over raw material and finished products, marketing controls etc.

An internal control system comprises the whole network of systems established in an organization to provide assurance that organizational objectives will be achieved and more over system of internal control will always lead to improved financial performance (Nyakundi, 2014). The revised COSO (2013) frame work presents a more clear explanation of internal control as a process designed to provide reasonable assurance regarding the achievement of objectives, for reliable financial reports, effective and efficient operations and compliance with applicable laws and regulations.

Hence it could be observed from the above definitions that, properly introduced systems of control would make certain the comprehensiveness of all the deals carried out by a unit, that all the assets possessed by the unit are secured from any kind of scam or robbery, that all the deals in the financial accounts are written accurately, that there is an existence of all the assets in organization's financial accounts and that they can be recovered and that the company's business deals are presented accurately and appropriately as per with relevant exposure framework.

Internal control provides reasonable assurance that the objectives of the organization are being achieved in the following categories: effectiveness and efficiency of operations including the use of the entity's resources, reliability of financial statement and other report for internal and external use, compliance with applicable laws and regulation (Moeller, 2005). Internal control provides reasonable assurance, not absolute assurance; management design and implement internal control based on the related cost and benefits. No matter how well designed and operated, internal control cannot provide absolute assurance that all organization's objectives

will be met. Factors outside the control or influence of management can affect the entity's ability to achieve all of its goals. For example, human mistakes, judgment errors, and acts of collusion to circumvent control can affect meeting organization's objectives. Therefore, once in place, internal control provides reasonable not absolute assurance of meeting organizational goals (Adewal, 2014).

Generally, the term internal control is used to outline how administration works out in order to make certain that a company is able to accomplish its economic and other aims. Internal control systems not only play a role in administrative efficiency but also contribute to essential tasks of company boards of directors (Watts, 2004).

Johnson (2011) opined that there are two important kinds of internal controls linked with the administration of huge businesses, especially varied businesses, which have a really major impact on company novelty. These are financial controls and strategic controls. Strategic controls are about the usage of the long term and tactically appropriate criterion for the evaluation of business level administrator's practices and performance. Mainly slanted and at times, instinctive criterions for evaluation are highlighted through strategic controls. In order to make use of strategic controls, business administrators need to have quite some knowledge regarding business level markets and operations. There is also a requirement of a strong data exchange among divisional and corporate managers.

While financial controls require objective criterion like return on investment (ROI) in the valuation of business level administrator's performance. Therefore, senior administrators set up financial targets for every business and calculate the business level director's performance opposed to those targets. This method could be challenging when the level of interdependence between business groups is great. Hence, importance regarding financial controls needs each section's performance to be greatly independent (Anderson, 2008).

As the business expands particularly through achievement, it also develops in difficulties and the various elements that business directors need to manage and control. Hence, every attainment boosts up business manager's requirement for data processing, at times radically so. These variations make it very complicated for directors to utilize strategic controls. To reduce the demands of information processing, they might alter their stress from strategic to financial controls (Krishan, 2006).

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Goodwin (2009) believes that the control environment establishes the tendency of the company by impacting the control awareness of the individuals. They further declared that control environment is known as the basic groundwork for all the other elements of internal control. Control environment factors are comprises of: honesty and moral values of workers responsible for manufacturing, managing and observing the controls, dedication and capability of persons practicing duties that one is assigned to, directors or inspection groups particularly the degree of their autonomy from administration, importance and experience, management idea and style of working in terms of their fierceness which might detect the degree of threat they face and industrial structure, which could be a well-established structure that offers for right plotting, managing and monitoring functions or an incompetent structure that might only supply in order to create confusion among the main players by making vague parts.

Donald (2009) recommends that internal inspection is practiced as part of the observation activity of a company. It includes the appreciation and examination of internal controls and the effectiveness of which the certain departments of the company are carrying out their tasks. It's the duty of a general auditor to make sure that a section clearly understands its tasks, is effectively operated, keeps better records, keeping the cash secure, inventory and other assets and collaborates with other sections. The internal inspector usually gives reports to the high management.

2.1.2   Measurements of Internal Control Systems

Committee of Sponsoring Organizations (COSO) of the Treadway Commission 2004 have identified internal control system consists five interrelated parts namely control environment, control activities, risk assessment, monitoring and information and communication. In order to have effective internal control system all the components must be present and function effectively for operation, financial reporting and compliance.

2.1.2.1 Control environment

According to COSO (2004) and Brinks (2005) the control environment sets the tone for the organization and influences how employees conduct their activities and carry out their control responsibilities. The control environment is the foundation for all other components and provides structure and discipline. An effective control must incorporate integrity and ethical values,

commitment to competence, management philosophy and operating style, organizational culture, attention and oversight by directors or audit committee with the objective of good governance and adequate financial reporting.

The control environment is the basis for a complete internal control system. This environment creates discipline and structure which influence the quality of internal control. The control environment highly influences the establishment of the strategies, objectives and structure of control activities (COSO, 2004). An effective control environment is an environment where competent people understand their responsibilities, the limit to their authority, and are knowledgeable, mindful, committed to following an organization policy and procedure and its ethical and behavioral standards. The control environment encompasses technical competence and ethical commitment (Mohammed, 2013).

2.1.2.2 Control Activities

Control activities are policies and procedures that help ensure management directives are carried out, Norvee (2004). Control activities are the actions supported by policies and procedures that help assure management directives to address risks are carried out properly and timely. According to COSO (1994) control activities include range of tasks such as approvals, authorizations, verifications, reconciliation, and review of operating performance, security of assets and segregation of duties. Beasley (2007) has categorized control activities as adequate separation of duties, proper authorization of transactions and activities, adequate documents and records, physical control over assets and records and independent checks on performances. As stated in Munene (2013) claim control activities in an organization consist physical controls, segregation of duties, information processing and performance reviews.

2.1.2.3 Risk assessment

Ofori (2011) defines risk assessment as procedures organizations goes through to identify and analyze the relevant risks which may affect the organizations ability to achieve its major objectives. Risk assessment is an important exercise for all size companies since every organization faces different kind of risks from external or internal sources that must be asses. Similarly Njeri (2014) claims risk assessment is a careful assessment of factors that affect the

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possibility of objectives of the organization not being achieved. The process refers the identification and analysis of relevant risks associated with achieving the objective of the organization. Risk assessment requires identifying clear objectives of organization, Tsegahiwot and Zelalem (2009). They also claim management needs to effectively balance risks and control. In situations where risks and control are well balanced a reasonable assurance can be reached. According to COSO (1992) uncontrolled risk taking can bring operations of organization put in danger and its objectives remained unattained. Therefore management must assess all risks to determine what the risks are, what controls are needed and how they should be managed. COSO (1992) further states after risks have been identified, risk analysis is performed to priorities those risks.

2.1.2.4 Monitoring

Many incidents can be the cause for the change for internal control system and application of control. Management needs to determine and observe whether the internal control system continues to be relevant and effective in the entity as intended which is monitoring of INCS, Norvee (2006). Monitoring defined in Management responsibility for internal controls (published by Office of New York State comptroller) is a process that assesses the quality of system's performance over time. The process of evaluating the quality of systems performance over time is also referred as monitoring, Jones (2008).Monitoring involves the activities and procedures designed to assess the effectiveness of the internal control system in achieving the entity's financial reporting objective. Coffin (2003).The activities in monitoring may be ongoing or may be separate assessment and it is significant in the complex and dynamic environments faced by many organizations. Monitoring seeks to ensure that the systems are performing as planned and this is accomplished through ongoing monitoring activities, periodic evaluation or a combination of the two, COSO (2004) and COSO, (2005) has summarized the principles of monitoring as ongoing monitoring which enables management to determine whether internal control is present and functioning, separate evaluation and reporting which also enables management to determine the effectiveness of internal control over financial reporting and reporting deficiencies which helps to detect the deficiencies in the internal control system and to make corrective actions.

2.1.2.5 Information and communication

Relevant information must be identified, gathered, and communicated in a form and time frame that enables people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across, and up the organizational structure. All personnel must have a means of communicating significant information upstream. Sharon (2013).Britnell (2001), also states Information and communication as the systems put in place by an organization to identify, capture, process and report relevant and reliable information in a timely manner so that people can carry out their responsibilities effectively. In addition, these systems deal with both internally and externally generated required data and flows both vertically and horizontally in the organization. As cited in Noorvee (2006) benefits of relevant, timely and effective internal and external communication are listed out by various authors as enhancing decision making, improved communication about expectation, responsibilities and objectives of an organization and reduced depending on individual employees who assist in the prevention and detection of fraud.

However, the Central Bank of Nigeria Regulatory and Supervisory Framework for microfinance banks in Nigeria (2011) requires that: every MFB shall have an internal audit unit, which shall ensure that the operations of the company conform to the laws, as well as to its internal rules and regulations. The Internal Auditor shall forward his report directly to the Board Audit Committee to strengthen corporate governance in the MFB; Every MFB must include a statement on the effectiveness of the internal control signed off by at least two members of its Board of Directors as part of its audited financial statements. Also, a declaration on the risks inherent in the business of the MFB and the controls put in place to mitigate the identified risks shall be part of the directors' reports; Every fraud or attempted fraud must be reported along with the statement of assets and liabilities within one month of its occurrence to the Director of OFISD and Director of SIID. Where no frauds/forgeries and defaults occurred during the month, a nil return shall be made. Where it is established that an officer of an MFB has been involved in fraud or unethical behavior at any time in the course of his/her career, the officer shall be removed from office by the MFB and blacklisted by the CBN; and Every MFB shall develop, implement and submit evidence of implementation of an internal control framework.

Therefore, this study looked at the relevance of internal audit and risk assessment to the performance of the microfinance institutions in Nigeria.

2.1.3 Performance

According to Stoner (2003), performance refers to the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this, Sollenberg and Anderson (1995) assert that, performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process (EFQM 1999). Financial measures of organizational performance include; return on assets, return on sales, return on equity, return on investment, return on capital employed and sales growth.

Performance is a measure of company's policies and operations in monetary terms. It is a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. There are many different ways to Measure Company's financial performance. This may be reflected in the firm's return on investment (ROI), return on assets (ROA), value added, among others and is a subjective measure of how a firm can use assets from its primary mode of business and generate revenues (Mishkin, 2007).

Positive performance in a firm can be achieved by eradicating waste in benefits services processes and systems. The "critical success factor for a firm is the degree to which it fulfills its set objectives and mission in terms of being efficient, effective and economical. The information obtained from a sound internal control system as reflected from financial statements will provide a report on a firm's financial performance and position that is useful to a wide range of users for assessing the stewardship and making economic decisions (Davies, 2005).

Several performance evaluation indicators (such as PEARLS model 1990 from the World Council of Credit Unions, CAMEL 1993 from the ACCION International and GIRAFE model 1999 from the planet rating) have emerged in relation to different areas of management which are considered important in evaluating the performance of microfinance institutions around the world (ACCION, 2012). In Nigeria, the regulatory and supervisory framework for microfinance banks in Nigeria required every MFBs in Nigeria to adopt the use of CAMEL model in the

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assessment of their performance. CAMEL is an acronym for capital adequacy; asset quality; management; earnings; and liquidity. This model has MFB rating according to the regulatory framework (2012) with weighting as capital adequacy (30%); asset quality (30%); management (20%); earnings (10%); and liquidity (10%).   On each of the performance indicators, the prudential guidelines for microfinance banks required that every MFBs shall comply with the following requirements:

Asset Management: As stated by Ledgerwood (1999) in formal financial institutions asset and liability management is normally carried out by a committee because it involves both operations management and treasury activities the committee functions involves setting g policies and guidelines to establish the risk tolerance of the organizations. But the policies formulated are ratified by the board of directors. The asset and liability committee meets frequently and determines the lending organizations current position in every risk dimension while also forecasting for all future time periods. If the organization is currently or expected to be outside of its risk limit, then the asset and liability committee must make a decision as to how to correct the situation. This could involve a change in the structure of the balance sheet to ensure that the level of risk is appropriate or less commonly, a change in the policies and guidelines of the micro financial institutions. Most micro financial institution does not have the depth of financial and operational management to create a committee. Hence asset and liability will likely be carried out by the director and the financial manager of micro financial institution.

The German Technical co-operation (GTZ) carried out a performance evaluation of 24 micro finance banks in Nassarawa, Niger and Plateau States, the result showed absence of prudential strategies of balance sheet management. This is an indication of poor understanding of how to leverage their capital, maintain sound asset and liability. This lack of understanding is also shown in that fact that half of these banks are still yearning for additional funding without recourse to new saving products while the other half which have more fund than they known how to efficiently on-lend would rather leave money in commercial bank money market instrument at sub-optimal levels of returns. Poor understanding of how to efficiently manage balance sheet for growth and sustainability can have severely restraining effects and frustrate efforts to midwife a strong micro finance sector.

2.2 Theoretical Review

There are several theoretical approaches which can be used to outline the financial performance of companies, to select the predictors to the models, and to justify the functional form between these predictors. In this review these approaches are classified into the following categories; system theory, agency theory, institutional theory, transaction theory, stewardship theory and stakeholder theory.

2.2.1 Agency Theory

Agency theory was developed in the economics literature during 1960s and 1970s, so to ascertain the optimal amount of the risk-sharing among different individual (Jensen and Meckling, 1976). The origin of the agency theory is traceable to Adam Smith (1770). In his discussion of the problem of the separation of ownership and control, he suggested that managers of other people's money cannot be expected to 'watch over it with the same anxious vigilance' expected of the owners and that 'negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company's (Adam Smith, 1770).

Agency theory has been widely used in literature to investigate the information asymmetry between principals (shareholders) and agent (management). This study used the agency theory to determine the effect of internal control systems on the financial Performance of quoted companies in Nigerian stocks exchange. Sarens and Abdolmohammadi (2011) state that according to the agency theory, a company consists of a set of linked contracts between the owners of economic resources (the principals)and managers (the agents) who are charged with using and controlling these resources.

A significant body of work has been undertaken in this area within the context of the principal-agent framework. The work of Jensen and Meckling (1976) in particular as well as that of Fama (1980) is important. Agency theory identifies the agency relationship where one party, the principal, delegates work to another party, the agent. The agency relationship can have a number of disadvantages relating to the opportunism or self-interest of the agent: For example, the agent may not act in the best interests of the principal, or the agent may act only partially in the best interests of the principal. There can be a number of dimensions to this including for example, the

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agent misusing their power for pecuniary or other advantage, or the agent not taking appropriate risks in pursuance of the principal's interests because the agent views those risks as not being appropriate while on the other hand the principal may have different attitudes to risks.

There is also the problem of information asymmetry whereby the principal and the agent have access to different levels of information; in practice this means that the principal is at a disadvantage because the agent has more information. The theory was therefore very relevant in this study as shareholders who are the owners of the banks have delegated the responsibilities of daily running of the companies to the management who acts as their agents and hence great need for strong internal control systems to ensure shareholders and other stakeholder's interests are adequately safeguarded. The theory therefore supports existence of control environment, internal audit and risk management.

2.2.2 Systems Theory

As cited in Keraro (2014) the systems theory was propounded in the 1940s by a biologist Ludwig von Bertalanffy and advanced by Ross Ashby in his study "Introduction to Cybernetics" in 1956. Bertalanffy (1968) emphasized that real systems were open to, and interact with, their environments, and that they can acquire qualitatively new properties through emergence, resulting in continual evolution. He argued that rather than reducing an entity or organization to the properties of its parts or elements, systems theory focused on the arrangement of and the inter-relations between the parts which connect them into a whole. Such an organization determined a system that is independent of the concrete substance of the elements (for example, the various departments such as finance, accounting, human resources, research and development).Thus, the same concepts and principles of organization underlie the different disciplines, providing a basis for their unification.

Hartman (2010) observed that the systems theory provides a leader with a tool for analyzing organizational dynamics without providing a specific theory about how an organization should be managed. He also observed that with the recognition of systems theory, all organizations consist of processing inputs and outputs with internal and external systems and sub-systems helpful in providing a functional overview of any organization. Smith and Cronje (2002)

observed that a system is a collection of parts unified to accomplish an overall goal. If one part of the system is removed, the nature of the system is changed as well.

The effect of the systems theory in management is that managers look at the organization from a broader perspective. Systems theory has a new perspective for managers to interpret patterns and events in the work place. They recognize the various parts of the organization, and, in particular, the interrelations of the parts, for example, the coordination of central administration with its programs, supervisors and workers, among other variables. In traditional management practices, managers typically took one part and focused on it. They then moved all attention to another part. The problem was that an organization could, for example, have a wonderful central administration and wonderful set of teachers, but the departments didn't synchronize at all (Rue & Byars, 2004).

Relating the foregoing discussion of the study undertaken, the systems theory thinking helped the researcher to visualize the fact that what may seem as an isolated internal problem is actually part of an interconnected network of related issues in internal control systems of quoted companies. This theory therefore supports corporate governance.

2.2.3   Institutional Theory

Institutions are social structures that have attained a high degree of resilience. They are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life. Institutions are transmitted by various types of carriers, including symbolic systems, relational systems, routines and artifacts. Institutions operate at different levels of jurisdiction, from the world system to localized interpersonal relationships. Institutions by definition connote stability but are subject to change processes, both incremental and discontinuous. Institutional and neo-institutional theory suggests that adoption of organizational practices and environmental alignment is an institutional process subject to the effect of three pressures or forces – coercive, mimetic and normative. This theory further suggests that these forces can encourage organizations to adopt similar strategic actions thereby leading to organizational homogeneity (Adebanjo, Ojadi, Laosirihongthong & Tickle, 2013). The interests of shareholders have been strengthened over time, especially through efforts by the government and professional bodies. More specifically, there has been increased pressure

on management to ensure that an organization is governed efficiently, effectively and economically for the benefit of shareholders. Much of this pressure has been a result of social expectations in response to recent corporate scandals (Christopher, Sarens & Leung, 2009). This study draws on institutional theory, which essentially points that organizational management and control structures tend to conform to social expectations. The theory therefore advances argument for enhanced corporate governance in management of organizations resources. Therefore, this study was anchored on the system theory.

2.3   Empirical Review

Various studies have been carried out on the effect of internal control systems on financial performance of firms. These studies have shown different results ranging from positive, negative and no correlation at all. The present study review the empirical results of the previous studies carried out in developed economies, developing economies and the studies done in Nigeria in order to clearly identified the gap in the literatures.

2.3.1   Empirical Review in Developed Countries

Hayali, Dinç, Sarılı, Dizman and Gündoğdu (2012). Carried out study Importance of internal control system in banking sector: Evidence from Turkey. The method used in this research is evaluating and comparing of selected 15 Turkish banks and 3 main international banks. The research shows that the internal control activities of the banks are adapted to the international standards in Turkey and effective control procedures exist in the banking system. In addition, efficient internal control mechanisms have great impact on the strong and stable outlook of Turkish banking sector.

Tuan (2016) Studying the Impact of Internal Control on Performance and Risks of Vietnam Commercial Banks. The study uses the agency theory and contingency theory approach, with literature review of empirical researches in IC. In term of result, the authors collect together some definitions of IC; using the framework of COSO, Basel and related Vietnam regulations for commercial banks, research builds a theoretical model on the impact of IC to the Vietnam commercial banks' performance effectiveness and risks. This result helps find the theoretical

relationship between IC and performance effectiveness, as well as between IC and commercial banks' risks.

Magu and Kibati (2016) determined the influence of internal control system on the financial performance of KFA Ltd, Austrailia. The data source through the questionnaire administered to seventy-eight (78) managers was analyzed using regression analysis technique. The study depicts that control environment and control activities have significant and positive effect of financial performance.

In the study carried out byKinyua (2016) on the effect of internal control systems on financial performance of companies quoted in the Securities Exchange. Data were sourced through the questionnaire administered to one hundred and forty-four (144) senior managers in sixty-two (62) companies quoted in Nairobi Securities Exchange. The results of the multiple regression analysis revealed that internal control systems (control environment, internal audit function, risk management, control activities and corporate governance) have positive and significant effect on the financial performance of sampled firms.

Florio and Leoni (2017) investigate whether a relationship exists between the extent of implementation enterprise risk management systems and the performance of Italian listed companies. Data were sourced through the questionnaire administered to one hundred and fifty (150) respondents and was analyzed with the use of multiple regression analysis. The result of the study revealed that firms with advanced level of enterprise risk management implementation present higher performance and reduce risk exposure.

In the study of Chen (2018) on the empirical study among internal control, social responsibility and financial performance based on Chinese listed food and beverage industry, panel regression analysis was employed in analyzing the data sourced from WIND and CSMAR for the periods 2011 to 2015. The result of the study revealed that internal control quality has significant positive relationship with corporate financial performance of the sample firms.

2.3.2 Empirical Review in Developing Countries
Munene (2013) investigates the effect of internal controls on financial performance of Technical Training institutions in Kenya. The data collected from thirty-seven (37) respondents through

questionnaire administered was analyzed using regression and correlation analysis techniques. The finding of the study shows that internal control systems (control environment, risk assessment and control activities) have positive and significant effect on financial performance of the sample institutions.

Khamis (2013) assessed the contribution of internal control system to the financial performance of financial institutions using Peoples' Bank of Zanzibar Ltd as a case study. The study sourced its data through the questionnaire administered to sixty (60) employees of the case study and was analyzed using descriptive analysis. The result of the study shows that internal control systems (control environment, control activities and risk assessment) have significant positive relationship with organizational financial performance of banks.

Ndiwa and Kwasira (2014) studied the assessment of internal control systems on financial performance of tertiary institutions in Kenya. Data were sourced through structured questionnaire administered to sixty-eight (68) staff of the African Institute of Research and Development studies in Eldoret town. The results of the Pearson's Product Moment correlation coefficient indicate that the institution's internal audit department was not sufficiently staffed.

Mwakimasinde, Albert and John (2014) investigate the effect of internal control systems on financial performance of Sugarcane Out grower companies in Kenya. Questionnaire was used to solicit for data from all the financial managers and heads of internal audit of all the nine (9) out grower companies in Kenya and was analyzed using simple descriptive analysis. The study found that internal control systems have significant positive effect on financial performance of the sampled firms.

In the study of Oyoo (2014), on the effect of internal control on financial performance of micro-finance institutions in Kusum central of Kenya. Questionnaires were administered to thirty-five (35) respondents and were analyzed through Pearson correlation technique. The study revealed that there is a positive relationship between internal control systems (information and communication, control activities and control environment) and financial performance. Nyakundi, Nyamita and Tinega (2014) investigate the effect of internal control systems on

financial performance of small and medium scale business enterprises in Kisumu city, Kenya Data were collected through interview and structure questionnaire administered to one hundred seventeen respondents and was analyzed using multiple regression analysis. The study found out that a significant change in financial performance (ROI) is linked to internal control systems.

Kinya, Gakure, Gekara and Orwa (2015) examined the effect of internal control environment on the financial performance of companies quoted in the Nairobi securities exchange. The data collected through questionnaire administered to respondents in thirty-eight (38) companies was analyzed with the use of ANOVA, chi-square and correlation analyses. The study concluded that there was significant association between internal control environment and financial performance of companies quoted in Nairobi securities exchange.

Njoki (2015) assessed the effect of internal controls on the financial performance of manufacturing firms in Kenya. The data collected from the annual reports and account of thirty-five (35) manufacturing firms selected as sample was analyzed with the use of multiple regression analysis. The result of the study shows that internal control systems (control environment, risk assessment, information and communication and control activities) have positive and significant positive relationship with return on asset while monitoring activities has significant relationship with return on asset. Hanif (2015) also assessed the impact of internal control systems on financial performance of banks in Pakistan. Data obtained through questionnaire administered to one hundred and thirty (130) respondents was analyzed with the use of regression analysis. The result of the study shows that internal control systems (control environment, internal audit and control activities) have significant positive impact on the financial performance of banks in Pakistan.

Morteza, Parviz and Shima (2015) investigate the relationship between internal control system and financial performance of Telecommunication companies of Golestan Province. Data were collected from seventy (70) respondents through Spearman correlation method. The study shows that internal control system has positive and significant relationship with the financial performance of Telecommunication companies of Golestan Province.

Ali, Awad and Yousef (2015) examined the impact of internal control systems on profitability of Saudi Arabia shareholding companies. Questionnaire was used to collect data about the compliance with internal control requirement and was analyzed using multiple regression analysis and t-test analytical method. The result shows that internal control and its components have significant and positive effect on return on asset and return on equity while it is positive on EPS and profit margin but statistically insignificant.

Abdullahi and Muturi (2016) examined the effect of internal controls systems on financial performance of higher education institutions in Puntland. Data were collected through questionnaires administered to departmental heads, management committee members and account officers and was analyzed using correlation and regression analysis techniques. The result of the study shows that internal control systems components (information and communication systems, internal audit risks and monitoring activities) have positive and significant effect on the financial performance of higher institutions in Puntland.

Etengu and Amony (2016) investigate the effect of internal control system on financial performance in non-governmental organizations in Uganda. Data were sourced through structured interview and questionnaire administered and was analyzed using regression analysis technique. The result of the study revealed that internal controls systems have significant positive effect on financial performance of non-governmental organizations in Uganda. Shabri, Saad and AbuBakar (2016) assessed the effect of internal control systems on cooperatives' profitability. Data were collected through interview and documentary evidences. The study was conducted using a qualitative approach. The study shows that internal control system components of Koperasi ABC Berhad could be used to improve their profitability.

Eniola and Akinselure (2016) studied the effect of internal controls on financial performance of selected manufacturing firms in Nigeria. Data collected through the questionnaire administered to one hundred and fifty (150) employees of five organizations selected as sample was analyzed using multiple regression analysis. The result of the study shows that internal control activities have significant positive relationship with financial performance of the sample firms.

Odongkara (2016) assessed the effect of internal control systems and financial performance of Municipal-Urban councils in Northern Uganda. Data were sourced through the questionnaire administered to seventy (70) political leaders and top level administrators in Uganda. The result of the Pearson Moment correlation coefficient revealed that internal control systems (control environment, control activities and internal audit) have significant and positive relationship with financial performance.

Asiligwa (2017) established the effect of internal controls on the financial performance of commercial banks in Kenya. Structured questionnaires were administered to forty-three (43) employees of the commercial banks taken as sample for the periods 2010 to 2014 was used to source for data while multiple regression analysis was employed in analyzing the data collected. The findings of the study revealed that banking sector in Kenya enjoy a strong financial performance partly because of implementing and maintaining effective internal controls.

Sabina and Priya (2017) assessed the impact of internal control system on the performance of Sri Lanka telecom limited in Jaffna district. Data were sourced through the questionnaire administered to sixty (60) staff of Sri Lanka telecom limited. The result of the correlation and SWOT analysis showed that there is a strong relationship between internal control system and organizational performance of Sri Lanka telecom limited.

In the study of Ibrahim, Diibuzie and Abu Bakari (2017) on the impact of internal control system on financial performance of health institutions in upper west region of Ghana, ordered logistic regression model was employed in analyzed the data collected through questionnaire administered to fifty (50) respondents from five health institutions in the region. The result of the study shows that internal audit, control activities and monitoring activities have positive and significant effect on financial performance while control environment and information and communication systems have insignificant positive effect on financial performance.

Ayyash (2017) examined the impact of internal control requirements on profitability of Palestinian shareholding companies in the Palestinian banking sector. The data sourced through questionnaire administered to eighty-six (86) employees of sample banks was analyzed through Pearson correlation coefficient and multiple regression analysis. The result of the study shows

that there is significant relationship between internal control systems (control environment, control activities, risk assessment, information and communication system and monitoring activities) and profitability of Palestinian Shareholding companies.

In the study carried out byBett and Memba (2017) on the effect of internal control on the financial performance of processing firms in Kenya. Data were collected through the questionnaire administered to one hundred and eighty-nine (189) respondents while multiple regression and analysis of variance (ANOVA) was employed to analyze the data collected. The result of the study shows that internal control systems (control environment, risk assessment and information and communication) have significant positive influence on financial performance of Menega Oil Company.

Mungai and Muturi (2017) assessed the effects of internal control systems on the financial performance of SACCOS in Kenya. Data were sourced through the questionnaire administered to one hundred and eighteen (118) respondents. The result of the regression analysis shows that internal control components (risk assessment, control system and control environment) have significant positive effect on financial performance.

In the study of Ngari (2017) examined the effect of internal controls on financial performance of Microfinance institutions in Kenya. Data were sourced through questionnaire administered to twenty-one (21) respondents and was analyzed using multiple regression analysis. The study shows that internal control system has positive effect on financial performance of Microfinance institutions in Kenya. Worku (2017) examined the role of internal control systems on financial performance of Ethiopian Shipping and Logistics Services Enterprise. Data were collected from forty (40) respondents through questionnaire administered to the staff of finance department. The result of the multiple regression analysis shows that internal control systems (control environment, risk assessment) have insignificant effect on the financial performance of the sampled firms.

Irene, Bunyasi and Muchiri (2017) examined the effect of information system and control environment on financial performance of state owned corporation in Kenya. Data was sourced

through the questionnaire administered to one hundred and sixty (160) employees and was analyzed using regression analysis and bivariate correlation. The study established that information and control environment were positively related to financial performance of state owned corporations. Ershaid, Abdullah and Mohamed (2017) investigate the moderating effect of internal control system on the relationship between environmental turbulence and firm performance in Jordanian listed companies. Questionnaires were administered to employees of two hundred and fifty three (253) listed companies in Amman Stock Exchange and were analyzed using partial least square (PLS) the result shows that technologies have positive effect on financial performance of Jordanian listed companies.

Yemer and Chokol (2017) assessed the effect of internal control systems on hotels revenue in Ethiopia. Data were sourced through the structured questionnaire administered to the employees of thirty (30) hotels from Bahir Dar City and Gondar City and was analyzed using regression analysis. The result shows that the overall internal control systems of the hotels have significant positive effect on hotel revenue performance.

Forseh (2017) examined the role of internal audit in the Cameroonian bank governance. it examines the compliance with rules ensuring that the rules are appropriate in ensuring effective governance. The research findings reveal the diversity of accountability structures and activity scope for. The revealed that effective implementation of these pronouncements requires whistle blowing and the internal Audit stands the strongest means to monitor financial reporting, ethics, and governance in Cameroonian banks. The research findings reveal the diversity of accountability structures and activity scope for and understand whether internal auditors are positive about their role in corporate governance, and whether the existing structures are conducive to put such a role into practice.

2.3.3 Empirical Studies in Nigeria

Unam (2014) investigated the effect of internal controls on the operating performance of small businesses in Lagos Metropolis. Data were collected through structured questionnaire administered to two hundred (200) small businesses chosen as sample. The result of the multiple regression analysis shows that internal control systems (control environment, risk assessment,

control activities, information and communication and monitoring activities) have significant positive effect on the profitability of small businesses in Lagos state.

Akinyomi (2015) examined the effect of internal control system on Nigerian banks. Three banks were randomly selected for the study, while three hundred and sixty (360) questionnaires were distributed to respondents, but only three hundred and forty-two (342) were retrieved. The study revealed that the lack of a good internal control system is a major cause of fraud in banks. It was also discovered that banks with effective internal control system can prevent and stand against the menace of fraud. One of the major recommendations is that adequate internal control system should be put in place at all level of banks' operation. Also, it is recommended that an effective internal audit department should be established possibly with qualified Chartered Accountants as

Adetiloye, Olokoyo, and Taiwo (2016) conducted survey on Fraud Prevention and Internal Control in the Nigerian Banking System. The study adopted both primary and secondary data. Primary data was used to test internal control while secondary data were employed to test fraud prevention. The results show that internal control on its own is effective against fraud, but not all staff are committed to it, while the secondary data is quite supportive of the primary data but more exemplifying in that M2, staff qualifications and technology were significant throughout the various dependent variables. It is also clear from the regressions that technological based fraud is significant. The paper recommends the continuation of the cashless policy of the Central Bank to reduce available cash and improvement in educated staff engagement to reduce fraud in the banking system.

Ikeotuonye and Linda (2016) investigate the Internal Control Techniques and Fraud Mitigation in Nigerian Banks. This work examined how the internal control Systems in the branches of the studied banks: Guaranteed Trust Bank Plc and Fidelity Bank Plc have aided in combating or preventing fraud in Nigerian banks. Among the findings was that: the internal control techniques

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employed by banks in checking fraud have not been very effective; and the branch managers were the dominant perpetrators of fraud in the banks. We recommend among other things that all banks should establish work ethics unit; reduce excessive confidence in any bank staff; and leadership by example should be the watch word of all bank mangers.

Adetula, Balogun, Uwajeh and Owolabi (2016). Internal Control System in the Nigerian Tertiary Institutions. This study assessed the internal control system of tertiary institutions in Nigeria using four tertiary institutions in South West, Nigeria. Data was collected through primary source using questionnaire. The method of data analysis was descriptive statistics. Findings revealed that many components of internal control system are properly situated except that the internal audit unit of those institutions is not independent. The study recommends that internal audit unit should have an independent department and the head of that department should report directly to the highest level of management within the institution.

Omonyemen, Mary and Godwin (2017) investigate the effect of internal control size, internal control quality and internal control independence on financial fraud detection in Nigeria. The survey design was employed by the researcher. The sampling was done using both the purposive and simple random sampling technique. The study found that all the core internal audit features; internal audit size, internal audit quality and internal audit independence have a significant positive impact of financial fraud detection. Based on the empirical findings, the study recommends there is the need for banks to increase the size of their internal audit departments.

2.6 Summary and Gaps Identified in the Literature

This study discussed the various definitions of internal control in relation to firm performance, as there seems to be no standard or agreed definition of internal control. Three theories of system theory, agency theory and institutional theory were reviewed in relation to internal control system to financial performance. It was also observed that there seems to be no universal classification regarding components of internal control system. Therefore, the study combines

three theories relating to the internal control system and firm performance that has not been used together from the previous study.

In Nigeria, to the best of the researcher's knowledge, majority of the studies on internal control system and firm performance were carried out in the other sector with scanty literature that examined the impact of internal control system and firm performance in the context of microfinance bank. Even, some studies used other variables that are not related to this study variable and make the study unique to other studies.

Review of existing literature discloses that the internal control components by COSO, 2011 seems to be the most commonly stated as components of internal control. This model of COSO, measures the effectiveness and efficiency of firms' five types of control activities, control environment, risk assessment, monitoring and information and communication. Most research work conducted therefore failed to consider all five internal control component mentions by COSO with firm performance in the area of asset management and management performance. This study examines the internal control in the area of management performance and asset management.

Study of the literature also discovered that despite the much research that has been done in advanced world, the body of research work available in developing countries like Nigeria on internal control system and performance in microfinance institution is quite very few. That is, Nigeria as a country is yet to tap into the abilities that come up as a result of good internal control system most especially in the microfinance institution. Therefore, this study fills the gap in literature by using COSO model that recognizes all five component of internal control system adding to the few existing empirical studies on the effect of internal control system to financial performance most especially in microfinance bank in Nigeria.

Methodologically, most of the existing studies in Nigeria conducted in the area of commercial banks and development bank with the use of secondary data (E-view & Stata). This study used primary data with the adopting of PLS-SEM software for the analysis of data collected from the Managing Director, Head of Operations, Credit officers and head of internal audit in the microfinance bank in Kwara state.

2.5   Theoretical Framework

This research work is guided by the system theory. In using the systems theory approach, the study recognized that there are many possible roles of governance in the strategic management of companies. Bertalanffy (1968) saw organizations as a composition of its elements which together make a "whole". The key identifiable organization variables, based on this theory were the people, leadership, structures, and processes, resources (human, financial, communication systems, position, power and others). All these are viewed by the systems theory as the parts that, if coordinated strategically, will lead to an effective financial performance. The systems theory upholds the idea that the different parts of an institution should not be managed in isolation. Agency theory was very relevant in this study as shareholders who are the owners of the quoted companies have delegated the responsibilities of daily running of the companies to the management who acts as their agents and hence great need for strong internal control systems to ensure shareholders and other stakeholder's interests are adequately safeguarded. The theory therefore supports existence of control environment, internal audit and risk management.

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2.6 Conceptual Framework

Internal System
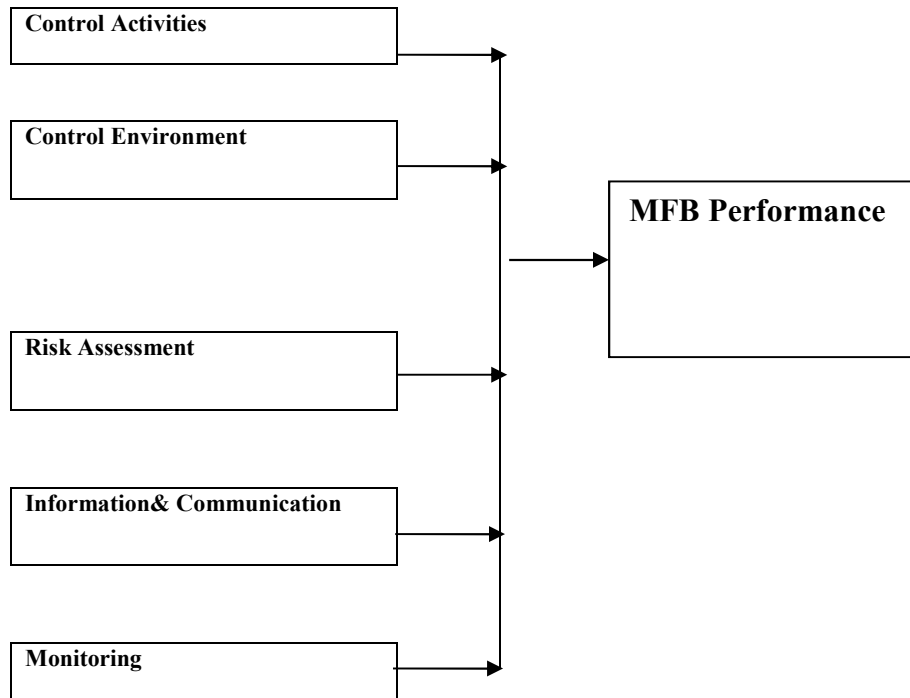
Source: Author's Conceptualization, (2018).

Figure 2.1 *Conceptual framework of the impact of Internal Control System on Financial Performance*

The conceptual framework shows the effect of independent variables on the dependent variable. The dependent variable in this study is financial performance measured through the return on equity. The independent variable is the internal control proxy by control environment, risk assessment and information and communication systems.

CHAPTER THREE

METHODOLOGY

This chapter discussed the research methods and procedures that were employed in collection of data, research design, population of the study, sample size and sampling technique and the method employed in analyzing the data collected for the purpose of testing the hypotheses formulated in chapter one.

3.1 Research Study Area

Kwara State in North Central, Nigeria, as a study area was created on 27 May 1967, when the Federal Military Government of General Yakubu Gowon broke the four regions that then constituted the Federation of Nigeria into 12 states. At its creation, the state was made up of the former Ilorin and Kabba provinces of the then Northern Region and was initially named the West Central State but later changed to "Kwara", a local name for the River Niger. The principal groups residing in Kwara State are the Yoruba, Nupe, Bariba and Fulani.

3.2 Research Design

This study adopts survey research design method. This method involves the use of questionnaire survey technique in collecting data in order to testing hypotheses or answering research questions concerning the current status of the subject of the study (Gujarati, 2004). The choice of this research design is that inferences from the larger population can be made from the result.

3.3 Population of the Study

The study attempt to analyze the impact of internal control on performances of microfinance Banks in Kwara State. The targeted total population of this study is one hundred and fifty-five (155) staff of thirty-one (31) (see Appendix) microfinance banks in Kwara State as at 31st December, 2017. Five principal officers (Head of Operation, Managing Director, Heads of Internal Audit, Accountant and Risk Manager) were selected from each micro finance banks in kwara state.

3.4 Sample Size and Sampling Technique

In order to arrive at the number of Micro finance Bank staff to be to be sampled, Taro Yamane statistical method of determining sample size was applied.

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

Where:

n = sample size

N = population size

e = error term

$$n = \frac{N}{1 + N(e)^2} = \frac{155}{1 + 155(0.05)^2} = 111.7$$

From the calculation above, the sample size of the study was 122 respondents. The study used both stratified and purposive sampling technique so as to enable the researcher to use his judgments to select targeted respondents which could best enable him answer his research questions and meet his objectives. The respondent's included Head of Operation, Managing Director, Heads of Internal Audit, Accountant and Risk Manager of the microfinance banks in the Kwara state. They were selected to take part in the study as they are perceived to be knowledgeable on the issues under study and for which they are either responsible for their execution or they personally execute them.

3.5 Sources and Method of Data Collection

Primary sources of data were employed in collecting data for this study. This obtained through the distribution of a well-structured and closed-ended questionnaires administered to the targeted respondents. The questionnaire method was employed as it allows for collection of data from large respondents within a short period of time and provides a degree of data standardization and adoption of generalized information amongst many populations (Field, 2009).

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3.6 Research Instrument

The appearance and layout of the questionnaire have a great importance in any survey where the questionnaires could be completed by the respondents. The layout of the questionnaire was kept very easy and simple in order to encourage meaningful participation by the respondents. The questionnaire was designed to have 5-point likert scale measurement which is a measurement with five response categories ranging from "Strongly disagree" to "Strongly agree". This requires the respondents to indicate a degree of agreement or disagreement with each of a series of statement related to internal control activities. The 5-point Likert scale measurement questionnaire consists 1-5points in each section for internal control measurements, that is, 1 point for strongly disagree; 2 points for disagree; 3 points for undecided; 4 points for agree; and 5 points for strongly agree.

3.7 Data Analysis Technique

The study employed the use of both descriptive and inferential statistics to analyze the data collected through questionnaire. Descriptive statistics provide the summary of the socio-demographic characteristics of the respondents. Normality test was conducted prior to testing of hypotheses in order to determine if data collected were normally distributed. This was done with the use of skewness and kurtosis. The skewness and kurtosis indicate that data are normally distributed if the cut-off point is within the range of -3 and +3 (Peck, Olsen and Devore, 2008). Reliability test was also conducted to measure the degree to which a research instrument yields consistent results across time and across the various items of the instrument. Cronbach Alpha was employed in determining the consistency of the items of scale used in the questionnaire administered. Ritter (2010) opined that the value of Cronbach Alpha varies from 0 to 1, indicating that estimates of alpha can be any value less than or equal to one (including negative values), although only positive values make sense but higher positive values of alpha are more desirable. The hypotheses were tested through multiple regression analysis.

3.8 Measurement of Variables

There are two variables in this study which are dependent and independent variables. The dependent variable is the Firm's performance. The performance measures for the microfinance institutions (asset management and management performance) were employed to proxy the

Firm's performance. The independent variable is the internal control systems measured with internal audit and risk assessment.

Definition and Measurement of Independent Variables

Variables	Measurement
Dependent variable	Measured with management Performance
Firm's performance	
Independent variable	Measured by level of risk carefully to be accepted and maintained determined levels, that is, changes in operating environment, risk mitigation, Risk identification, defined and clear objectives, Corporate restructuring, Level of risk acceptable and maintained
Internal audit (Risk assessment system)	

Source: Author's Survey, 2018

3.9 Model Specification

The study adopted model of Hanif (2015). The model was presented as:

$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\beta_5X_5+\epsilon$

Where:

Y is Firm's Performance (Dependent Variable)

X_1 is Control Activities (Independent Variable)

X_2 is Control Environment (Independent Variable)

X_3 is Risk Assessment (Independent Variable)

X_4 is Monitoring (Independent Variable)

X_5 is Information and Communication (Independent Variable)

The model for this study is a modification of Hanif's (2015) model. The model of the present study is presented thus:

Firm's Performance $= f$ (Internal Control Systems)………………… (i)

The model was written in an explicit form as:

FP (Performance management PM) $= f$ (internal audit and Risk

Assessment)…………………………… (ii)

It was written in mathematical form as:

$$PM = \beta_0 + \beta_1 CA + \beta_2 CE + \beta_3 RA + \beta_4 MT + \beta_5 NC + \varepsilon \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(iii)}$$

Where:

PM= Performance Management

CA = Control Activities

CE = Control Environment

RA = Risk Assessment

MT = Monitoring

NC = Information and Communication

ε = error term

β_0=Intercept or constant of the coefficient

β_1= the parameter of the estimate

a priori expectation

The *a priori expectation* of the study is that $\beta_1 > 0$

CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF RESULT

This chapter has the objective of providing and discussing the result of the study, which includes survey responses and data cleaning which fundamentally concerns missing values and outliers. The chapter also discusses the basic assumption of structural equation modeling (PLS-SEM), analysis of the goodness of measures, such as descriptive statistics i.e., mean and standard deviation, profile of respondents. Additionally, it presents the correlation test, measurement and structural model for hypothesis testing as well as effect size (f^2) and predictive relevance (Q^2) respectively.

4.1 Preliminary Analysis of Data

4.1.1 Response Rate of Questionnaires Distributed

Following the suggestion from the literature that the common and the best prescription to minimize the effect of non- response rate on the result of a study is to increase the sample size of a study (Sekaran & Bourgies, 2010), the sample size of this study was increased to 125 from 112 to provide for likely non- response rate, as reported in the previous chapter (chapter three).

However, of this number, only 118 questionnaires were retrieved from the respondents. This represents approximately a 94% response rate. However, 11 out of the 118 questionnaires were badly completed, and, therefore, discarded as unusable questionnaires leaving 107 as usable. This represents 91% of total questionnaires administered but 94% of the desirable sample size of the study. Table 4.1.1 shows the distribution of the questionnaires among individual manager and head of internal audit in the microfinance banks in Kwara State.

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Table 4.1.1
Response Rate of the Questionnaires

Response	Frequency	Percentage (%)
No. of Questionnaires	125	100
Questionnaires returned	118	94
Questionnaires not returned	7	6
Questionnaires not Valid (Due to outliers, double ticking and incomplete)	11	9
Questionnaires Valid	107	91

Source: Author's Computation, (2018).

4.1.2 Data Coding

Data coding is the abbreviation of the constructs that are using for the analysis. It is mainly two categories. The first category assumes that the items should emerge to consistence to the constructs in the study i.e., every variable should have its own different section that asks questions about it and secondly, the code number be assigned to each construct for easy identification and hitch free analysis. The variables used in this study were coded as follows shown in the Table 4.1.2.

Table 4.1.2
Data Coding

Variables	Coding
Liquidity	LQ
Performance Management	PM
Control Environment	CE
Control Activities	CA
Information and Communication	NC
Risk Assessment	RA
Monitoring	MR

Source: Author's Computation, (2018).

4.1.3 Data Screening and Preliminary Analysis

Initial data screening is essential in any multivariate analysis because it assists researchers identify any possible violations of the key assumptions regarding the application of multivariate

techniques of data analysis (Hair *et al.,* 2007).Additionally, initial data screening helps researchers to better understand the data collected for further analysis.

Prior to initial data screening, all the 118 returned and usable questionnaires were coded and entered into the SPSS. In addition, all the negatively worded items in the questionnaires were reverse coded. Subsequent to data coding and entry, the following preliminary data analyses were performed: (1) missing value analysis, (2) assessment of outliers (Hair, Black, Babin, & Anderson, 2010).

4.1.4 Missing Value Analysis

In the SPSS dataset, out of the 18,734 data points, 4 were randomly missed. Specifically, PM1, LP4, MR3 and NC1 deviance had 4 missing values and no missing value was found in were found in other items. Although there is no acceptable percentage of missing values in a data set for making a valid statistical inference, researchers have generally agreed that missing rate of 5% or less is non-significant (Tabachnick & Fidell, 2007). In addition, researchers have suggested that median nearby point is the easiest way of replacing missing values if the total percentage of missing data is 5% or less. Therefore, missing values were replaced using median nearby point. Table 4.1.4 shows the total and percentage of randomly missing values in the present study.

Table 4.1.4
Replace Missing Values

	Result Variable	N of Replaced Missing Values	Case Number of Non-Missing Values		N of Valid Cases	Creating Function
			First	Last		
1	MP1_1	1	1	107	107	SMEAN(MP1)
2	LQ4_1	1	1	107	107	SMEAN(LQ4)
3	MR3_1	1	1	107	107	SMEAN(MR3)
4	NC1_1	1	1	107	107	SMEAN(NC1)

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4.1.5 Assessment of Outliers

Outliers are defined as observations or subsets of observations that are inconsistent with the remainder of the data. In a regression-based analysis, the presence of outliers in the data set can seriously distort the estimates of regression coefficients and lead to unreliable results (Verardi & Croux, 2008). In order to detect any observation which appears to be outside the SPSS value labels as a result of wrong data entry, firstly, frequency tables were tabulated for all variables using minimum and maximum statistics. Based on this initial analysis of frequency statistics, there was no any value found to be outside the expected range.

Furthermore, the data were examined for univariate outliers using standardized values with a cut-off of ±3.29 (p < .001) as recommended by Tabachnick and Fidell (2007). Going by the guideline of the prior studies for detecting outliers, only four (4) of the case was identified using standardized values as potential univariate outliers. Based on the multivariate outliers, it was also detected using Mahalanobis distance (D2). Tabachnick and Fidell (2007) defined Mahalanobis distance (D2) as the distance of a case from the centroid of the remaining cases where the centroid is the point created at the intersection of the means of all the variables. Based on 8 observed variables of the study, the recommended threshold of chi-square is 14.07 (p = 0.05). Mahalanobis values that exceeded this threshold were deleted. Following this criterion, seven multivariate outliers were detected and subsequently deleted from the dataset because they could affect the accuracy of the data analysis technique. Thus, after removing seven multivariate outliers, the final data set in this study was 107.

4.2 Descriptive Statistics

4.2.1 Demographic Information of the Respondents

This section describes the demographic profile of the respondents in the sample. The demographic characteristics examined in this study include gender, age, marital status,

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management level, academic qualification and working experience. Table 4.2.1 indicates the information about the respondents.

Table 4.2.1*Demographical Information of the Respondents*

S/N	Items	Frequency	Percentage (%)
1	Gender		
	Male	67	62.6
	Female	40	37.4
2	Age		
	Below 30yrs	6	5.6
	31 – 35yrs	49	45.8
	36 – 40yrs	24	22.4
	41 – 45yrs	18	16.8
	46yrs and above	10	9.3
2	Marital Status		
	Single	30	28.0
	Married	70	65.4
	Divorce	7	6.5
3	Management Level		
	Manager	45	42.1
	Head of Internal Audit	45	42.1
	Others	17	15.9
4	Academic Qualification		
	SSCE/NCE/OND	10	9.3
	HND/Degree	52	48.6
	Master/MBA	31	29.0
	ICAN/ANAN/CIBN	12	11.2
	Others	2	1.9
5	Working Experience		
	5 - 10yrs	14	13.1
	11 - 15yrs	45	42.1

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16 - 20yrs	38	35.5
21 yrs and above	10	9.3

Source: Author's Computation, (2018).

As shown in Table 4.2.1, the majority of the respondents in the sample, that is 67 (62.6%), were males while the remaining 40, representing 37.4% were females. Previous studies have also demonstrated similar distribution regarding the gender of the respondents. Regarding the age group, 45.8% of the participants were in the age group of 31-35 years. This is followed by those in the age group of 36-40 years with 24 respondents, which accounted for 22.4% of the sample. In the age group of 41-45 years, there were 18 respondents, representing 16.8% of the sample. Followed by age group between 46years and above which is 10 respondents representing 9.3%. The smallest groups were below 30 years of age, which accounted for 5.6% of the total respondents.

In addition, in terms of marital status, Table 4.2.1 shows that 28% of the respondents married, followed by single (28%); however, only 7 respondents were divorce. In terms of working experience, only 13.1% of the respondents spent 5 -10 years working in microfinance bank, (42.1%) spent between 11- 15years, another 35.5% spent between 16 - 20 years working in the microfinance bank, while the remaining 9.3% had 21year and above in the microfinance bank.

Table 4.2.1 also shows the academic qualification of the respondents were degree holders, which accounted for 48.6% or 52 respondents. This is followed by (29%) with master degree, while the remaining 12, representing 11.2% were ICAN/ANAN/CIBN holders. The SSCE/NCE/OND holder are 10 respondents which representing 9.3% and finally, those hold other certificate were only 2%. Finally, Table 4.2.1 also shows that most of the respondents were manager and head of internal audit with 45 (76.2%) respondents, followed by other units in the microfinance bank which is 17 respondent equivalents to 20.4%.

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4.2.2 Statistics of the Variables

According to Sekaran and Bougie (2010) the most common measure of central tendency is the mean, which is referring to the average value of the data set. Standard deviation is a measure of spread or dispersion, which provides an index of variability in the data set. Both mean and standard deviation are fundamental descriptive statistics for interval and ratio scale. This study used five point Likert scale, and Nik, Jantan and Taib (2010) interpretation of the level of score is adapted. They recommended that scores of less than 2.33 are low level, 2.33 to 3.67 are moderate level, and 3.67 and above are regarded as high level.

4.2.3 Mean and Standard Deviation of Performance Management

The mean and standard deviation of asset management is shown in table 4.2.3. The highest mean score of items for Sound and sufficient procedures are available to register the microfinance bank's assets and properties (M = 4.37, SD = 0.734), whereas (The asset is assigned to a staff member to be responsible to safeguard it, and he will be held accountable for any defect due to negligence) recorded the lowest mean in the range (M = 4.14, SD = 0.693). In essence, (Sound and sufficient procedures are available to register the microfinance bank's assets and properties)is the item that represents asset management construct, because it is the item that characterized asset management of microfinance bank.

Table4.2.3*Performance management (PM)*

S/N	Items	Min	Max	Mean	S.Dev
1	The asset is assigned to a staff member to be responsible to safeguard it, and he will be held accountable for any defect due to negligence.	1	5	4.14	.693
2	Disposal of assets is undertaken based on reports from the department's chiefs committee and the top management approval on the raised	1	5	4.26	.793

	recommendation.				
3	Sound and sufficient procedures are available to register the microfinance bank's assets and properties.	1	5	4.37	.734
4	The microfinance banks perform periodical stock taking for its asset and reports are submitted to concerned parties.	1	5	4.18	.711
5	The bank has a financial planning process that affects the credibility of assets and equity.	1	5	4.30	.767

Source: Author's Computation, (2018).

4.2.4 Mean and Standard Deviation of Control Environment

The mean and standard deviation indicated in table 4.2.4 there are six items representing control environment. All the items recorded high levels of mean score. 'The microfinance bank has financial systems and instructions for internal control which enable the bank to find out the areas of non-compliance' recorded highest mean score (M = 4.36, SD = 0.768), whereas 'the microfinance bank has internal control tools on Human resources to evaluate the level of productivity, effectiveness and efficiency of its human resources' recorded a lowest mean score of (M = 4.13, SD = 0.848) respectively. This result shows that 'the microfinance bank has financial systems and instructions for internal control which enable the bank to find out the areas of non-compliance' is the main characteristic representing the control environment of microfinance bank.

Table 4.2.4 *Control Environment (CE)*

S/N	Items	Min	Max	Mean	S.Dev
1	The microfinance bank has a positive control environment that supports the administrative control and awareness.	1	5	4.27	.842
2	The control activities in the microfinance bank	1	5	4.21	.786

	assist to implement the management guidance.				
3	The microfinance bank management makes efforts to attract, develop, and retain the trusted and efficient employees.	1	5	4.16	.675
4	The management board via the audit committee participates in exercising and developing the internal control process.	1	5	4.28	.775
5	The microfinance bank has internal control tools on Human resources to evaluate the level of productivity, effectiveness and efficiency of its human resources.	1	5	4.13	.848
6	The microfinance bank has financial systems and instructions for internal control which enable the bank to find out the areas of non-compliance.	1	5	4.36	.768

Source: Author's Computation, (2018).

4.2.5 Mean and Standard Deviation of Control Activities

The mean and standard deviation indicated in table 4.2.5 there are eight items representing control activities. All the items recorded high level of mean score. 'The microfinance bank has procedures to recover the missed data or programmes' recorded highest mean score (M = 4.30, SD = 0.849), while 'the microfinance bank uses the complaints from other stakeholders as a tool of internal control' recorded a lower mean score of (M = 4.14, SD = 0.665) respectively. This result shows that 'The microfinance bank has procedures to recover the missed data or programmes' is the main characteristic representing the control activities of the microfinance bank.

Table 4.2.5 *Control Activities (CA)*

S/N	Items	Min	Max	Mean	S.Dev
1	The internal audit function as a tool is exercised by specialists in the microfinance banks.	1	5	4.21	.753
2	Access to data and computer special files are	1	5	4.25	.646

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	subject for control in the microfinance banks.				
3	Segregation of duties principle is considered in the microfinance banks transactions.	1	5	4.16	.803
4	The microfinance bank has its detailed and well prepared budget that illustrates the funding source which is a tool for internal control.	1	5	4.30	.827
5	Financial analytical mechanisms to identify the financial position and to understand other Financial aspects and how to control them are available which tools of internal control are.	1	5	4.17	.707
6	The microfinance bank can measure employees' individual performance, as tools of internal control, which assists the manager to monitor, follow, and compare with the targeted objective.	1	5	4.28	.737
7	The microfinance bank uses the complaints from other stakeholders as a tool of internal control.	1	5	4.14	.665
8	The microfinance bank has procedures to recover the missed data or programmes.	1	5	4.30	.849

Source: Author's Computation, (2018).

4.2.6. Mean and Standard Deviation of Risk Assessment

The mean and standard deviation indicated in table 4.2.6 there are eleven items representing risk assessment. All the items recorded high level of mean score. 'The microfinance bank has a risk analysis process that includes budget and monthly meeting to identify those risks and how to rectify any resulted risk' recorded highest mean score (M = 4.27, SD = 0.708), whereas 'the company has adequately implemented any inspection plans to reduce the inherent risks which are periodically revised recorded a lower mean score of (M = 3.79, SD = 1.289) respectively. This result shows that 'The microfinance bank has a risk analysis process that includes budget and

monthly meeting to identify those risks and how to rectify any resulted risk's is the main

characteristic representing the risk assessment of the microfinance bank.

Table 4.2.6 *Risk Assessment (RA)*

S/N	Items	Min	Max	Mean	S.Dev
1	The company regularly updates the risk register	1	5	4.15	.750
2	The company has a well-documented policy on risk management	1	5	4.20	.720
3	The microfinance bank has a risk analysis process that includes budget and monthly meeting to identify those risks and how to rectify any resulted risk.	1	5	4.27	.708
4	The company management encourage reporting of events in order to identify the risks	1	5	4.21	.740
5	The microfinance bank has specialized department to identify any material changes that might affect the internal control and comply with the IFRS.	1	5	4.16	.881
6	The company has a monitoring system that identifies potential risks	1	5	4.21	.813
7	The company has a risk review process after implementation of the mitigation measures/control for identification of risks	1	5	4.24	.750
8	The management adequately evaluates and records the risk when making important decisions	1	5	4.15	.775
9	The company has adequately implemented any inspection plans to reduce the inherent risks which are periodically revised.	1	5	3.79	1.289
10	There exists a Risk Management committee in the organization	1	5	4.09	.746

11	Recommendations by the Risk Management committee are reported directly to top management and the audit and risk sub-committee of the board	1	5	4.22	.850

Source: Author's Computation, (2018).

4.2.7 Mean and Standard Deviation of Information and Communication

The mean and standard deviation of information and communication is shown in table 4.2.7. The highest mean score of items for information and communication is 'the management passes the information and duties to its employees clearly and smoothly' (M = 4.20, SD = 0.829), whereas 'information are prepared, developed and reviewed in light of strategic plans' recorded the lowest mean in the range (M = 4.15, SD = 0.877). In essence, 'the management passes the information and duties to its employees clearly and smoothly' is the item that represents information and communication construct, because it is the item that characterized information and communication in the microfinance bank.

Table 4.2.7 *Information and Communication (NC)*

S/N	Items	Min	Max	Mean	S.Dev
1	The information are recorded and reported to all stakeholders on time and appropriate bases to perform the internal control responsibilities and other duties.	1	5	4.16	.803
2	Information are prepared, developed and reviewed in light of strategic plans.	1	5	4.15	.877
3	The microfinance banking information system provides the management with the required information that pertains to the strategies and objectives.	1	5	4.17	.818
4	The management passes the information and duties to its employees clearly and smoothly.	1	5	4.20	.829

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S/N	Items				
5	There are good communication channels between the staff and their departments that enable them to perform their tasks soundly and correctly.	1	5	4.16	.742
6	The microfinance bank communicates with external parties in respect of factors that might affect the internal control function.	1	5	4.16	.814

4.2.8 Mean and Standard Deviation of Monitoring

The mean and standard deviation indicated in table 4.2.8 there are four items representing monitoring. All the items recorded high level of mean score. The management board pays attention to the control environment and activities' recorded highest mean score (M = 4.50, SD = 0.705), whereas 'The received complaints are studied to find out its causes to take the appropriate actions' recorded a lower mean score of (M = 4.18, SD = 0.787) respectively. This result shows that 'management board pays attention to the control environment and activities' is the main characteristic representing the monitoring of the microfinance bank.

Table 4.2.8 *Monitoring (MR)*

S/N	Items	Min	Max	Mean	S.Dev
1	The microfinance bank has a box for complaints from clients which are handled seriously.	1	5	4.21	.740
2	The received complaints are studied to find out its causes to take the appropriate actions.	1	5	4.18	.787
3	The microfinance bank has internal auditors who follows up the internal control and raises reports about the application of it to the management.	1	5	4.20	.758
4	The management board pays attention to the control environment and activities in addition to conducting regular meetings with internal and external auditors as part of the control	1	5	4.50	.705

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4.3 Assumptions of PLS-SEM Assessment

The variables were checked for normality, linearity, multicollinearity and homoscedasticity to satisfy the basic and underlying assumptions of the Partial least square- structural equation modeling analysis in line with the suggestion by Hair *et al.,* (2010).

4.3.1 Normality

Prior study has traditionally assumed that PLS-SEM provides accurate model estimations in situations with extremely non-normal (Reinartz, Haenlein, & Henseler, 2009). However, testing for normality has been seen as an essential and common procedure in statistics tests and multivariate data analysis in which many tests have been proposed. Such tests include the use of visual tools, such as stem and leaf plots, normal Q-Q plot. Others are the use of skewness and kurtosis (Hair *et al.,* 2010). Lack of normality in variable distributions could distort the relationships between the variables of research and the significance of the results in multivariate analysis (Chernick, 2011). Therefore, it is important for researchers to examine the normality of their data distributions before proceeding to analysis stage (Hair *et al.,* 2014). As argued by Field (2009) that it is more important to look at the shape of the graphical distribution rather than looking at the value of the kurtosis and skewness statistics when a sample is 200 and above. According to Field, a larger sample decreases the standard errors which in turn inflate the value of the kurtosis and skewness statistics. The test for normality for this study was however carried out using histogram and the normal probability (Q-Q) plot, followed with skewness and kurtosis test.

The normal probability plot (Normal Q-Q plot) was done for the entire variable (constructs) of the model. The observed value for each score of the variable is plotted against the expected value from the normal distribution. A reasonably straight line suggests a normal distribution (Pallant,

2011). The normal probability plots indicated that all the research variables are normally distributed.
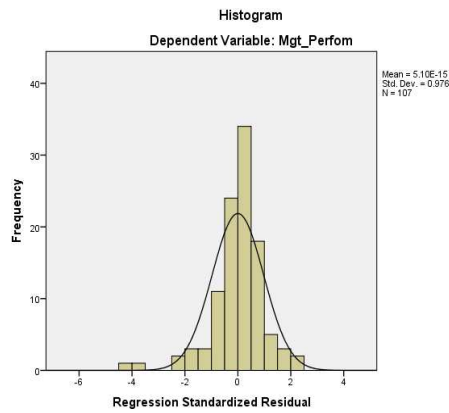
Figure 4.1*Histogram showing Normality Diagnostics Test*

On the other hand, normality test was conducted by examining the skewness and kurtosis of the distributions (Tabachnick & Fidell, 2007). When both skewness and kurtosis are close to zero (0), the distribution of the observations is considered to be normal (a situation unlikely to occur in human-centered research). As revealed in Table 4.3.1, the kurtosis and skewness values of the variables are within the ±2.58 acceptable range. Therefore the entire constructs are said to be normal.

Table 4.3.1 *Normality Test*

Variables	N	Skewness	Kurtosis
Perform. Management	107	-2.207	1.844
Control Environment	107	-2.537	2.031
Control Activities	107	-2.480	1.715
Risk Assessment	107	-2.354	2.365
Information and Communication	107	-2.410	2.284
Monitoring	107	-1.733	2.336

Source: Author's Computation, (2018).

4.3.2 Linearity

Linearity is one of the underlying assumptions of the technique used to know whether the relationship between independent and dependent variables is linear. However, correlation can only capture the linear association between variables. Therefore, if substantial non-linear relationships exist, they will be ignored in the analysis, which will in turn underestimate the actual strength of the relationship (Tabachnich *et al.,* 2007). The study used residual scatter plot, the residual ought to scatter around 0 and most of the scores should concentrate at 0 points (Flury & Riedwyl, 1998) cited in Ringim (2012). Figure 4.2 presents the scatter plot between internal control system and organizational performance. The assumption was not violated as the plot shows that residual scores converged at the center along the zero point, hence evidencing that the linearity assumption was fulfilled.
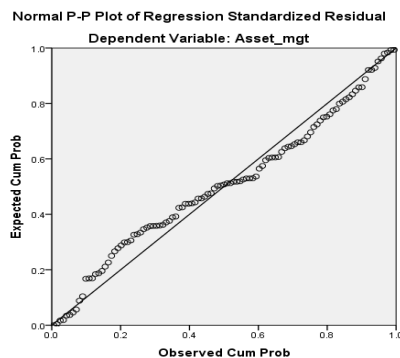
Figure 4.2*Histogram showing Linearity Diagnostics Test*

4.3.3Multicollinearity Test

Collinearity arises when two indicators are highly correlated and when more than two indicators are involved, it is called Multicollinearity. It arises in the context of structural model evaluation when more than two construct are highly correlated (Hair *et al.,* 2014).

The presence of multicollinearity among the exogenous constructs tends to increase the size of standard errors which often leads to confusing and misleading results as it distort the estimates of regression coefficients as well as their statistical significance test (Hair *et al.,* 2010; Tabachnick *et al.,* 2007). According to Hair *et al.* (2010), a correlation matrix of the exogenous latent constructs should also be examined and a correlation coefficient of 0.90 and above indicates multicollinearity between the exogenous variable. As shown in Table 4.3.3, the correlations between the exogenous latent constructs were sufficiently below the suggested threshold values of 0.9. This shows that internal control system and organizational performance are independent and were not highly correlated.

Table 4.3.3 *Pearson Correlation Analysis of the Variables*

Constructs	PM	CE	CA	RA	NC	MR
Perform. Management (PM)	1					
Control Environment (CE)	.826[**]	1				
Control Activities (CA)	.839[**]	.883[**]	1			
Risk Assessment (RA)	.759[**]	.771[**]	.874[**]	1		
Info. and Comm. (NC)	.842[**]	.827[**]	.877[**]	.905[**]	1	
Monitoring (MR)	.711[**]	.744[**]	.806[**]	.779[**]	.812[**]	1

Source: Author's Computation, (2018).

In addition, to assess the level of multicollinearity, researchers should compute for tolerance value and variance inflation factor (VIF) (Tabachnick *et al.*, 2007). Tolerance represents the amount of variance of a predictor variable not explained by the other predictor variables in a structural model while VIF is the degree to which the standard error has been inflated due to the presence of collinearity and therefore, it is the reciprocal of tolerance. A tolerance of 0.10 or lower and a VIF of 10 or higher suggest a multicollinearity problem. As shown in Table 4.15, all

the tolerance values exceeded 0.10 and the VIF values are less than 10 which is the recommended cut-off value multicollinearity issue in this study.

Table 4.3.3 *Multicollinearity Test*

Variables	N	VIF	Tolerance
Control Environment (CE)	107	0.201	4.965
Control Activities (CA)	107	0.120	8.350
Risk Assessment (RA)	107	0.148	6.736
Info. and Communication (NC)	107	0.128	7.796
Monitoring (MR)	107	0.301	3.321

Source: Author's Computation, (2018).

4.4 PLS-SEM Path Model Results

It is necessary to mention that a recent study conducted by Henseler and Sarstedt (2013) suggests that goodness-of-fit (GoF) index is not suitable for model validation. In the light of the recent development about the suitability of PLS path modeling in model validation, the present study adopted a two-step process to evaluate and report the results of PLS-SEM path, as suggested by Henseler, Ringle and Sinkovics (2009). This two-step process adopted in the present study comprises (a) the assessment of a measurement model, and (b) the assessment of a structural model.

4.4.1 Assessment of Measurement Model

An assessment of a measurement model involves determining individual item reliability, internal consistency reliability, content validity, convergent validity and discriminant validity (Hair *et al.,* 2014).

4.4.2. Internal Consistency Reliability

Internal consistency reliability refers to the extent to which all items on a particular scale are measuring the same concept (Sun *et al.,* 2007). Cronbach's alpha coefficient and composite reliability coefficient are the most commonly used estimators of the internal consistency reliability of an instrument in organizational research (Peterson & Kim, 2013). In this study, composite reliability coefficient was chosen to ascertain the internal consistency reliability of measures adapted. Two main reasons justified the use of composite reliability coefficient.

Firstly, composite reliability coefficient provides a much less biased estimate of reliability than Cronbach's alpha coefficient because the later assumes all items contribute equally to its construct without considering the actual contribution of individual loadings (Gotz, Liehr-Gobbers, & Krafft, 2010). Table 4.4.2 show the summary of measurement model for the entire constructs.

Table 4.4.2*The Measurement Model Summary*

Latent Variable	Indicator	Loading	Cronbach's Alpha	Composite Reliability	AVE	Discriminant Validity
Perform. Management	PM1	0.679	0.665	0.818	0.602	Yes
	PM3	0.803				
	PM5	0.833				
Control Activities	CA2	0.814	0.670	0.787	0.558	Yes
	CA4	0.755				
	CA8	0.660				
Control Environment	CE1	0.814	0.736	0.850	0.655	Yes
	CE3	0.823				
	CE5	0.827				
Risk Assessment	A1	0.731	0.672	0.802	0.504	Yes
	RA11	0.766				
	RA3	0.770				
	RA5	0.827				
	RA7	0.739				
	RA9	0.620				
Information Communication	NC2	0.837	0.719	0.833	0.565	Yes
	NC3	0.380				
	NC4	0.792				

	NC6	0.842				
Monitoring	MR1	0.877	0.737	0.884	0.792	Yes
	MR3	0.903				

As shown in Table 4.4.2, there is adequate convergent validity of the measures as their AVE values ranges from 0.504to 0.792. Which exceed the minimum acceptable level of 0.5 as suggested by Bagozzi and Yi (1988) and thus, indicating adequate convergent validity.Nevertheless, the interpretation of internal consistency reliability using composite reliability coefficient was based on the rule of thumb provided by Hair et al (2011), who suggest that the composite reliability coefficient should be at least .70 or more. The composite reliability coefficient of each latent constructs ranged from .787 to .884, with each exceeding the minimum acceptable level of .70, suggesting adequate internal consistency reliability of the measures used in this study (Hair *et al.,* 2011).

Furthermore, an examination of the loadings and cross loadings to be able to spot any problemwith the items which also serves as a pre-requisite for ascertaining the convergentvalidity was undertaken as shown in Table 4.4.2

Table 4.4.2 Cross Loadings and Factor Loadings

Items	CA	CE	LQ	MR	NC	RA	MP	PM
CA2	0.814	0.298	0.516	0.339	0.520	0.519	0.510	0.521
CA4	0.755	0.283	0.438	0.295	0.438	0.502	0.509	0.328
CA8	0.660	0.335	0.453	0.410	0.391	0.199	0.356	0.448
CE1	0.285	0.814	0.347	0.355	0.387	0.301	0.602	0.477
CE3	0.330	0.823	0.364	0.410	0.383	0.351	0.561	0.345
CE5	0.386	0.827	0.400	0.416	0.396	0.337	0.499	0.321
LQ1	0.408	0.320	0.672	0.326	0.426	0.327	0.302	0.361
LQ2	0.525	0.324	0.801	0.422	0.639	0.565	0.312	0.481
LQ4	0.536	0.299	0.787	0.331	0.589	0.547	0.374	0.431
LQ8	0.381	0.333	0.735	0.288	0.501	0.382	0.458	0.458
LQ9	0.428	0.394	0.635	0.395	0.425	0.364	0.383	0.455
MR1	0.413	0.454	0.406	0.877	0.233	0.207	0.462	0.426
MR3	0.418	0.405	0.454	0.903	0.385	0.331	0.354	0.342

NC2	0.484	0.295	0.538	0.250	0.837	0.679	0.310	0.454
NC3	0.433	0.379	0.452	0.621	0.380	0.216	0.244	0.436
NC4	0.421	0.405	0.510	0.161	0.792	0.622	0.375	0.241
NC6	0.429	0.310	0.578	0.060	0.842	0.599	0.355	0.538
RA1	0.408	0.355	0.447	0.248	0.494	0.731	0.520	0.452
RA11	0.485	0.308	0.519	0.152	0.619	0.766	0.367	0.510
RA3	0.346	0.325	0.422	0.247	0.540	0.770	0.478	0.578
RA5	0.476	0.347	0.510	0.269	0.630	0.827	0.435	0.447
RA7	0.398	0.270	0.447	0.263	0.560	0.739	0.381	0.519
RA9	0.319	0.173	0.380	0.197	0.461	0.620	0.380	0.422
PM1	0.679	0.385	0.349	0.433	0.217	0.384	0.310	0.679
PM3	0.807	0.433	0.433	0.455	0.294	0.414	0.355	0.807
PM5	0.833	0.484	0.434	0.470	0.349	0.458	0.308	0.833

Source: Author's Computation, (2018).

The measurement model and structural model for the management performance as dependent variable was assessed individually.

4.4.3 Discriminant Validity

Duarte and Raposo (2010) define discriminant validity as the extent to which a particular latent construct is different from other latent constructs. In the present study, discriminant validity was ascertained using AVE, as suggested by Fornell and Larcker (1981). This was achieved by comparing the correlations among the latent constructs with square roots of average variance extracted.

Furthermore, discriminant validity was determined by comparing the indicator loadings with other reflective indicators in the cross loadings table. First, as a rule of thumb for evaluating discriminant validity, Fornell and Larcker (1981) suggest the use of AVE with a score of .50 or more. To achieve adequate discriminant validity, Fornell and Larcker (1981) further suggest that the square root of the AVE should be greater than the correlations among latent constructs.

4.4.4 Assessment of Structural Model

The present study also applied the standard bootstrapping procedure with a number of 5000 bootstrap samples and 107 cases to assess significance of the path coefficients (Hair *et al.,* 2014). Figure 4.3 and Table 4.4.4 therefore show the estimates for the full structural mode.

The measurement model and structural model for the asset management as dependent variable was assessed individually. The result of PLS-SEM was shown in the figure 4.3 below:
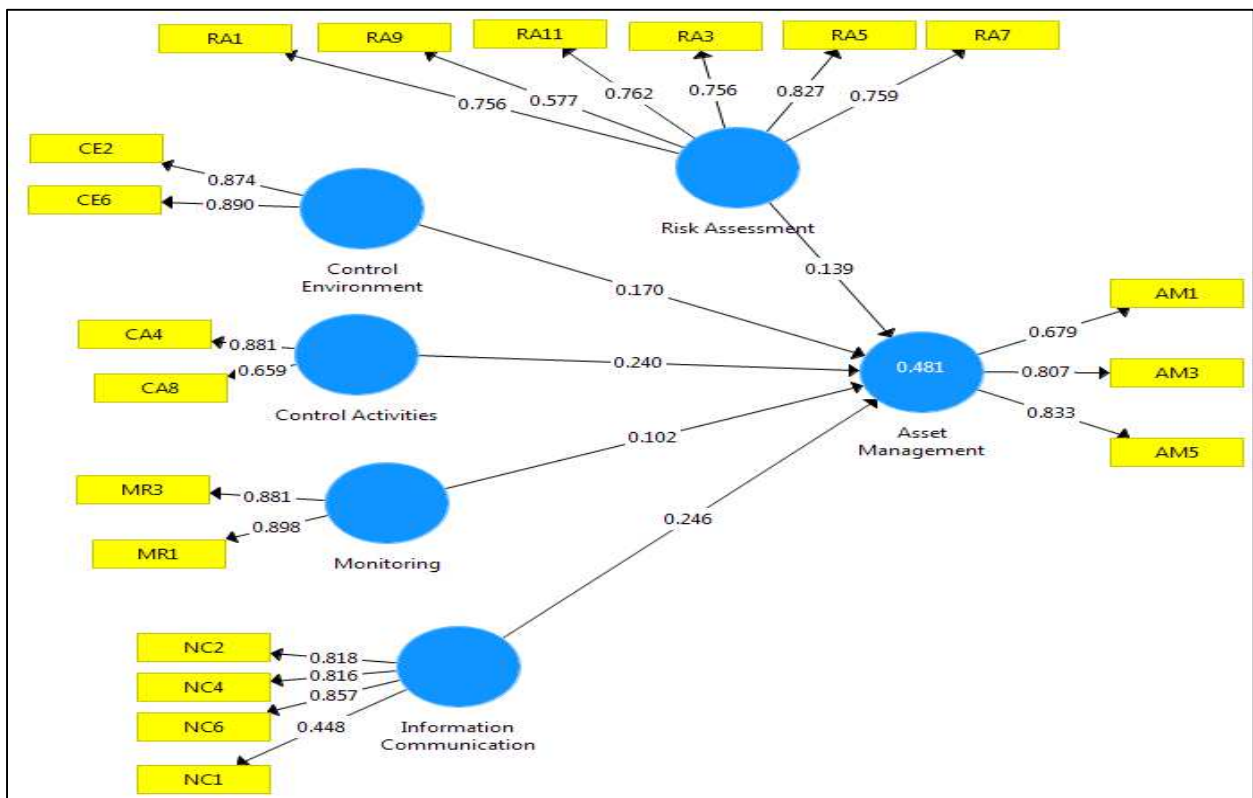
Figure 4.3*Result for Measurement Model Algorithm for Asset Management*

Table 4.4.5
*Discriminant Validity (*Fornell-Larcker Criterion)

	AM	CA	CE	NC	MR	RA
Asset Management	0.776					
Control Activities	0.562	0.778				
Control Environment	0.525	0.531	0.882			
Info. & Communication	0.583	0.490	0.528	0.753		
Monitoring	0.374	0.426	0.322	0.298	0.890	
Risk Assessment	0.541	0.485	0.466	0.715	0.302	0.744

Source: Author's Computation, (2018).

In Table 4.4.5, the correlations among the latent constructs were compared with the square root of the average variances extracted (values in bold face). Table 4.4.5 also shows that the square root of the average variances extracted were all greater than the correlations among latent constructs, suggesting adequate discriminant validity (Fornell & Larcker, 1981).

4.4.5 Assessment of Structural Model for Performance

The present study also applied the standard bootstrapping procedure with a number of 5000 bootstrap samples and 107 cases to assess significance of the path coefficients (Hair et al., 2014).

Figure 4.4 and Table 4.4.6 therefore show the estimates for the full structural model.

Figure 4.4
Structural Model

Table 4.4.6*Structural Model*

Constructs	Beta	Standard Deviation	T Statistics	P Values

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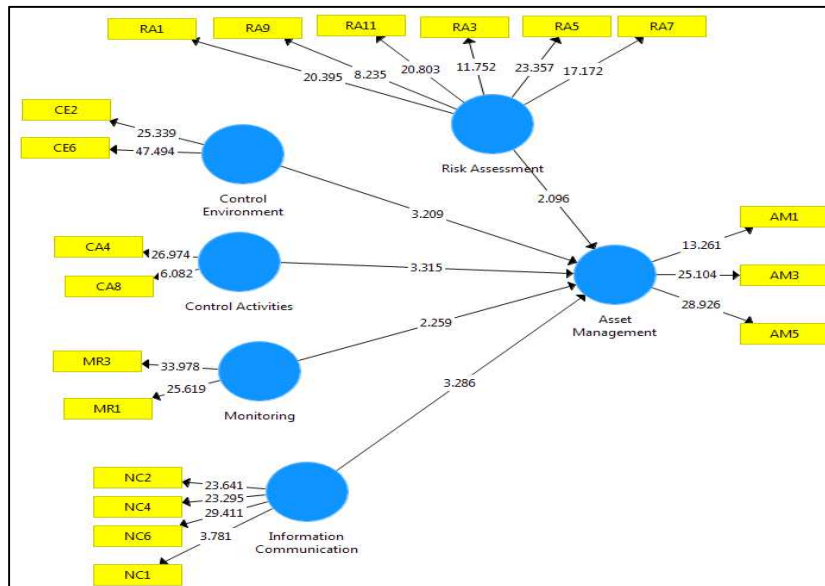|			
Control Activity-> MFB Perform.	0.240	0.072	3.315	0.002
Control Env.-> MFB Perform.	0.170	0.053	3.209	0.004
Info.Comm. ->MFB Perform.	0.246	0.075	3.286	0.016
Monitoring ->MFB Perform.	0.102	0.045	2.259	0.028
Risk Assess.->MFB Perform.	0.139	0.066	2.096	0.041

Source: Author's Computation, (2018).

Hypothesis (H_{01}) predicted that control activities are related to micro finance performance. Result revealed a significant positive relationship between control activities and asset management ($\beta = 0.240$, $t = 3.315$, $p < 0.002$), supporting Hypothesis 1.

Hypothesis (H_{o2}) predicted that control environment is related to micro finance performance. Result (Table 4.4.6, Figure 4.4) revealed a significant positive relationship between control environment and asset management ($\beta = 0.170$, $t = 3.209$, $p < 0.002$), therefore, the Hypothesis (H_2) is supported.

Hypothesis (H_{03}) predicted that risk assessment is related to micro finance performance. Result (Table 4.4.6, Figure 4.4) revealed a significant positive relationship between risk assessment and asset management ($\beta = 0.139$, $t = 2.096$, $p < 0.041$). In this regards, the hypothesis (H_3) is supported.

Hypothesis (H_{o4}) predicted that information and communication relate to micro finance performance. Result revealed a significant positive relationship between information and communication and asset management ($\beta = 0.246$, $t = 3.286$, $p < 0.016$), therefore, the Hypothesis (H_2) is supported.

Hypothesis (H_{o5}) predicted that monitoring is related to micro finance performance. Result revealed that there is a significant relationship between monitoring and micro finance performance ($\beta = 0.102$, $t = 2.259$, $p < 0.028$). In this regards, the hypothesis (H_3) is supported.

4.4.7 Coefficient of Determination (R^2)

One of the common argument for using PLS-SEM is its good prediction and all model estimations uses the R^2 values to characterize the ability of the model to explain as well as predict the endogenous latent variable (Lei & Chu, 2015). The coefficient of determination represents the exogenous latent constructs combined effects on the endogenous latent constructs. It is a measure of the goodness of fit against the empirically manifest items obtained with values ranging from 0 to 1.

According to W. W. Chin (1998b), R^2 value for endogenous latent variables are assess as 0.67 (substantial), 0.33 (moderate) and 0.19 (week). However, acceptability and non-acceptability of the R^2 value varies from one field of study to another. The higher the R^2 value, the bigger the percentage of explained variance (Hair et al., 2014). As shown in Table 4.4.7, the R^2 value for management performance and asset management are 0.577 and 0.481respectively. This indicated that the research model explains 57.7% of the total variance in management performance. That is, internal control system explains 57.7% of the variance of the management performance while 42.3% of the variance in management performance is explained by other factors which are not covered in this study. It is also evidence that the amount of variance in asset management and liquidity explained by internal control system are 48.1% and 61.4% respectively, which are moderate. Thus, this model has predictive accuracy and can be adjudge to be a good model.

Table 4.4.7
Coefficient Determination of R^2

Variables	R^2	Adj. R^2
Asset Management (AM)	0.481	0.472

4.4.8 Effect Size (f^2)

Effect size(f^2) is the change in R^2 value when a specific exogenous variable is omitted from the model was also examined to know the effect size (f^2) which is the magnitude of the impact of a

particular exogenous variable on an endogenous variable (Gim, Desa, & Ramayah, 2015). Effect size serves as a practical guide to interpret the practical importance of a specific relationship. This is done by examining the effect size for each relationship. It indicates the contribution of each exogenous latent variable (internal control system) to the overall prediction of the endogenous construct (microfinance bank performance) (W. W. Chin, 1998b). It is calculated by omitting an exogenous construct from the model and re-specifying the structural model to determine the new R^2 on the endogenous construct. The difference between the R^2 when the exogenous construct of interest is included and the new R^2 when it is omitted shows the impact of the exogenous construct in the prediction of the endogenous construct under investigation. According to Cohen (1988) f^2 value is assessed as: 0.02 (small), 0.15 (medium), and 0.35 (large). Table 4.4.8 shows the effect sizes of the respective exogenous variables of the structural model.

Table 4.4.8
Assessment of Effect Size (f^2)

Variables	Effect size (f^2)	Decision
Control Activities	0.06	Small
Control Environment	0.27	Large
Info. & Communication	0.18	Medium
Monitoring	0.06	Small
Risk Assessment	0.01	None

Source: Author's Computation, (2018).

As indicated in Table 4.4.8, the effect sizes for the control activities, control environment, information and communication, monitoring, and risk assessment were 0.06, 0.27, 0.18, 0.06 and 0.01, respectively. Hence, following Cohen's (1988) guideline, the effects sizes of these five exogenous latent variables on microfinance performance can be considered as small, medium, medium, small, and none respectively.

4.4.9 Assessment of Predictive Relevance

The present study also applied Stone-Geisser test of predictive relevance of the research model using blindfolding procedures (Geisser, 1974; Stone, 1974). The Stone-Geisser test of predictive relevance is usually used as a supplementary assessment of goodness-of-fit in partial least squares structural equation modeling (Duarte & Raposo, 2010). Reflective measurement model "specifies that a latent or unobservable concept causes variation in a set of observable indicators (McMillan & Conner, 2003). Hence, because all endogenous latent variables in present study were reflective in nature, a blindfolding procedure was applied mainly to these endogenous latent variables.

Specifically, a cross-validated redundancy measure (Q^2) was applied to assess the predictive relevance of the research model (Geisser, 1974; Hair *et al.*, 2013). The Q^2 is a criterion to a measure how well a model predicts the data of omitted cases (Hair *et al.*, 2014). According to Henseler *et al.*, (2009), a research model with $Q2$ statistic (s) greater than zero is considered to have predictive relevance. Table 4.4.9 presents the results of the cross-validated redundancy Q^2 test.

Table 4.4.9
Predictive Relevant (Q^2)

Variables	SSO	SSE	$Q^2 = (1-SSE/SSO)$
Performance Management (PM)	921.000	683.196	0.258

As shown in Table 4.4.9, the cross-validation redundancy measure Q^2 for all endogenous latent variables were above zero, suggesting predictive relevance of the model (Henseler *et al.*, 2009).

4.5 Discussions of Findings

As shown in the analytical findings of this study, internal control system possess some potentialities to predict performance management of microfinance bank in Nigeria. This was

however empirically analyzed of which all the five hypotheses were supported the stated objectives and the findings provided a literature support. The findings on the five research objective were discussed below:

4.5.1 Control Activities and Performance

From the empirical analysis and hypothesis conducted, the study found that control activities have positive effect and significant at 0.05 level of significant on performance of micro finance banks. Result from the PLS analysis (t= 3.315, p-value<0.002). However, it provide support to the hypothesis one (H_01) on the influence of control activities and micro finance banks performance. The result is in line with the findings of (Khamis, 2017; Oyoo, 2016). They found out that control activities have significant positive effect on micro finance banks performance. However, the finding is in contrast with the results of Munene, 2013; Mwakimasinde, Albert and John, 2014 where results showed control activities has no significant positive relationship with micro finance banks performance. The result is in concur with the assumption of the system theory as it suggested that the key identifiable organization variables, based on system theory were the people, leadership, structures, processes, resources. The theory upholds the idea that the different part of an institution should not be managed in isolation Result also concurs with the a priori expectation that, control activities would extremely reduce the problem of micro finance banks performance.

4.5.2 Control Environment and Performance

The second objective of this study is to examine the relationship between control environment and performance of micro finance banks. In pursuant of this objective, the hypothesis was tested and bootstrapping was run in SmartPLS 3 to determine the relationship between the control environment and performance of micro finance banks. Result from the PLS analysis (t= 3.209, p-value<0.002). However, it provide support to the hypothesis one (H_02) on the influence of control

activities and micro finance banks performance. The result is in line with the findings of (Morteza, Parviz & Shima, 2015Oyoo, 2014; Njoki, 2015).   They found out that control environment have significant positive effect on micro finance banks performance. However, the finding is not in line with the results of Kinya, Gakure, Gekara and Orwa, 2015; Abdullahi & Muturi, 2016 where results showed control environment has no significant positive relationship with micro finance banks performance. The result is in concur with the assumption of the system theory as it suggested that the key identifiable organization variables, based on system theory were the people, leadership, structures, processes, resources. The theory upholds the idea that the different part of an institution should not be managed in isolation Result also concurs with the a priori expectation that, control activities would extremely reduce the problem of micro finance banks performance.

4.5.3   Information Communication and Performance

From the empirical analysis and hypothesis conducted, the study found that information communication have positive effect and significant at 0.05 level of significant on performance of micro finance banks. Result from the PLS analysis (t= 3.286, p-value<0.002). However, it provide support to the hypothesis one ($H_0$3) on the influence of information communication and micro finance banks performance. The result is in line with the findings of (Magu *et al.*, 2016; Kinyua, 2016). They found out that information communication have significant positive effect on micro finance banks performance. However, the finding is in contrast with the results of Munene, 2013; Mwakimasinde, Albert and John, 2014 where results showed control activities has no significant positive relationship with micro finance banks performance. The result is in concur with the assumption of the system theory as it suggested that the key identifiable organization variables, based on system theory were the people, leadership, structures, processes, resources. The theory upholds the idea that the different part of an institution should not be managed in isolation Result

also concurs with the a priori expectation that, information communication would extremely reduce the problem of micro finance banks performance.

4.5.4   Monitoring and Performance

The fourth objective of this study is to examine the relationship between monitoring and performance of micro finance banks. In pursuant of this objective, fourth hypothesis was tested and bootstrapping was run in SmartPLS 3 to determine the relationship between the monitoring and performance of micro finance banks. Result from the PLS analysis (t= 3.259, p-value<0.028). However, it provide support to the hypothesis one (H_04) on the influence of control activities and micro finance banks performance. The result is in line with the findings of (Niaz & Masoud, 2017;Kasemi & Kazemi, 2016; Ngari, 2017). They found out that control environment have significant positive effect on micro finance banks performance. However, the finding is not in line with the results of Abdullahi & Muturi, 2016 where results showed monitoring has no significant positive relationship with micro finance banks performance. The result is in concur with the assumption of the system theory as it suggested that the key identifiable organization variables, based on system theory were the people, leadership, structures, processes, resources. The theory upholds the idea that the different part of an institution should not be managed in isolation Result also concurs with the a priori expectation that, monitoring would extremely reduce the problem of micro finance banks performance.

4.5.5   Risk Assessment and Performance

The fifth objective of this study is to examine the relationship between performances of micro finance banks. In pursuant of this objective, fifth hypothesis was tested and bootstrapping was run in SmartPLS 3 to determine the relationship between the risk assessment and performance of micro finance banks. Result from the PLS analysis (t= 2.096, p-value<0.041). However, it provide support to the hypothesis one (H_02) on the influence of control activities and micro finance banks

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performance. The result is in line with the findings of (Morteza, Parviz & Shima, 2015Oyoo, 2014; Njoki, 2015). They found out that risk assessment have significant positive effect on micro finance banks performance. However, the finding is not in line with the results of Unam, 2014; Mungai & Muturi, 2017where results showed risk assessment has no significant positive relationship with micro finance banks performance. The result is in concur with the assumption of the system theory as it suggested that the key identifiable organization variables, based on system theory were the people, leadership, structures, processes, resources. The theory upholds the idea that the different part of an institution should not be managed in isolation Result also concurs with the a priori expectation that, risk assessment would extremely reduce the problem of micro finance banks performance.

4.6 Summary of the Hypotheses Tested

In this chapter, the justification for using PLS path modeling to test the theoretical model in this study was presented. Following the assessment of significance of the path coefficients, all of the hypotheses were supported and the key findings of the study were presented. Table

Table 4.6 *Summary of Hypotheses Testing*

Hyp.	Relationship	T – value	P –value	Decision
H_{01}	Control Activities -> MFB Perform.	3.315	0.002	Supported
H_{02}	Control Environ ->MFB Perform.	3.209	0.002	Supported
H_{03}	Info.Comm. ->MFB Perform.	3.286	0.002	Supported
H_{04}	Monitoring ->MFB Perform.	2.259	0.028	Supported
H_{05}	Risk Assessement->MFB Perform.	2.096	0.041	Supported

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter discusses summary, conclusions and recommendations of the study. The chapter is divided into sub-sections. It begins with the introduction of the chapter. Follow by the summary to the study. Next section provides the conclusion, recommendation, suggestions for further study, contribution to knowledge. Final section presents the limitation and delimitation of the study

5.1 Summary

There have been controversies as to why there is a declining firms' survival trend in the world. This has been largely blamed on ineffective internal control systems put in place by firms in the world for core processes (Kinyua, 2015). As a result of this, organizations face external and internal forces that call for a plan to help them continue to be relevant and competitive Management's ability to accomplish its goal with respect to remaining relevant and competitive rests largely on the policies as well as the effectiveness of procedures established to safeguard its operations (Chebungwen & Kwasira, 2014). Recently a number of financial scandals have been witnessed in quoted companies both in local and international scenes. For example in America, investors lost $180 billion in World Com Scandal of 2002, $150 million in Tyco Scandal of 2002, $1.4 billion in Heath South Scandal of 2003 (the largest publicly traded company) and $3.9 billion in America international Group (AIG) scandal of 2005, among several financial fraudulent activities affecting publicly quoted companies.

The study reviewed literatures on internal control system and firm performance. The reviews were divided into three; the conceptual review; theoretical framework and empirical review. The study vividly examined the concept of internal control system; measurement of internal control, financial performance, asset management and management performance. This study was guided by the agency theory, theory of institutional, and system theory. Therefore, the system theory was grounded theory for this study. The results of the previous studies were empirically reviewed and were divided into international and local studies. The international studies were

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further divided into developed and developing nations for easy understanding and to bring out lacuna on previous studies about tax compliance.

The study adopted survey research design. The sample frame which form the population for this study are all micro finance banks in kwara state. The sample size was determined using Taro Yamane formular. The study employed purposive sampling technique so as to enable researcher to use his/her judgments to select targeted respondents. The sample size of the study was 186 Micro finance banks staff in kwara state. The data were sourced through self-administered questionnaires and was analysed with the descriptive and inferential statistics. The hypotheses formulated were tested using Partial Least Square (PLS). The study adapted the model of Hanif (2015).

The major findings from the investigations in the study are discussed in accordance with the objectives of the study stated in chapter one

The results of the PLS-SEM for objective one show that internal control systems have significant influence on management performance of microfinance bank. The joint significance of the model measured by coefficient determination (R^2) shows a value of 57.7%. Control activities, control environment, risk assessment and information and communication are the variables that have significant impact on management performance of microfinance bank (with p-values of 0.000). Whereas only monitoring were not significant with management performance in the microfinance bank in Kwara state.

The results of the PLS-SEM (Bootstrapping) for objective one show that internal control systems have significant influence on asset management of microfinance bank. The joint significance of the model measured by coefficient determination (R^2) shows a value of 48.1%. Control activities,

control environment, risk assessment and information and communication and monitoring are the variables that have significant impact on asset management of microfinance bank (with p-values of 0.000).

5.2 Conclusions

The following conclusions were made from the result of the study to evaluate the system of internal control of microfinance banks in kwara state Nigeria:

The statistical analysis of the first objective showed clearly that the presence of internal control system and the effectiveness in the management of microfinance banks are perfectly and positively related to management performance. The banks rely heavily on the internal control system on the implementation of policies and procedures. The study revealed that reliance can be placed on the internal control system of microfinance banks in Nigeria.

The statistical analysis of the second objective showed that the presence of internal control system and the efficiency in the operations of microfinance banks are perfectly and positively related asset management. This revealed that the presence of Internal Control system in the banks has provided reasonable assurance regarding the effectiveness and efficiency of operations of banks in Nigeria, the reliability of financial and management reporting and guarantees compliance with applicable laws and regulations.

The study showed that the presence of internal control system and the compliance by microfinance banks with applicable laws and regulations.

The study further concluded that there exists a high positive correlation between internal control system and performance of the microfinance bank. There are internal control departments in all microfinance banks in Nigeria. In most of the banks, the department is headed by very senior officers not below the rank of Assistant General Manager.

5.3   Recommendations

It is belief that internal control is an essential prerequisite for efficient and effective management of all microfinance banks in Nigeria. The microfinance banks should note that a good internal control system is sacrosanct to the success of any organization particularly the banks. No bank can do without a good internal control system. Absolute compliance with operational guidelines and regulations are essential for staffs of microfinance banks. Every bank has its operational guidelines concerning general Internal Control activities, risk assessments, Accounting, Information and communication, monitoring, personnel, wages and salaries, cash and cheques received and paid, etc. These policies should be strictly followed irrespective of who is involved. A situation where a loan is approved for the relation of the Managing Director without proper documentation and collateralization should not be acceptable. The following are the recommendations made base on the results of the study:

1. The study recommended that board of directors should understanding and put in place control environment that will enhance performance of the microfinance banks.

2. Findings of the study suggest that performance is adversely affected by the control activities of MFB. Thereby, the study recommends that control activities should uphold with integrity.

3. Risk assessment should be conducted at the level of individual businesses and across the wide spectrum of activities and subsidiaries of the consolidated banking organization.

4. The study further recommended that, reliable information and communication systems should place that cover all significant activities of the microfinance bank. .

5. Finally, the study recommended that effectiveness of the bank's internal controls should be monitored on an ongoing basis.

5.4   Suggestions for Further Studies

i. This study used quantitative research design such as survey research design. Future research may employ triangulation type of research (mixed mode).

ii. This study is cross-sectional in nature, therefore, future studies should consider longitudinal research design, where the data will be collecting over an extended period of time.

iii. Finally, this study focuses mainly on the microfinance sector; the future research needs to be conducted to cut across the other banking sector of the economy for effective generalization.

5.5 Contributions to Knowledge

This section presents areas in which this study contributes to internal control system literature.

i. Differently from prior studies that proxy internal control system with two variables such as control environment and control activities, the study seems to be the first to use control environment, control activities, risk assessment, information and communication and monitoring to investigate the effect of internal control system on micro finance bank performance in kwara state.

ii. Most studies that examined the impact of internal control system on performance of micro finance bank in kwara state, Nigeria have used pool OLS, Multiple regression, Logit and Probit estimation. This may, however, lead to a spurious result due to variables involved which are latent in nature. Therefore, the study used Partial Least Square structural equation model which can cater for such bias and short comings.

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5.6   Limitation and Delimitation of the Study

The current study is subject to a number of limitations. The sample of this study may not be fully representative of the population of various banking industry in Nigeria. Thus, any generalization of the results of this study cannot be made without caution. The data was collected at one point in time rather than longitudinally. Thus, the research could not account for time-lag effects of how the effective internal control system may reduce the fraud risk and increase the microfinance bank performance. The limitations addressed above do not contradict the results and findings of the study. Despite these limitations, the results have extended our understanding of the implementation of internal control system in Nigerian microfinance banks.

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APPENDIX A
ACADEMIC RESEARCH QUESTIONNAIRES

Department of Accounting and Finance
College of Humanities, Management and Social Sciences,
Kwara State University, Malete,
Kwara State.

Dear Respondent,

REQUEST FOR RESPONSE TO RESEARCH QUESTIONNAIRE

I am a student of the Department of Accounting and Finance, Kwara State University, Malete, conducting a research on the "Impact of Internal Control System on Financial Performance of Microfinance Banks in Kwara State" in partial fulfillment for the award of Master of Science in Accounting. I will be highly appreciated, if you can respond to these questions sincerely and objectively. Be assured that all the information provided shall be treated with utmost confidentiality and will be used for the purpose of the research only.

Your prompt response to this questionnaire will be highly appreciated.

Thanks in anticipation.

Yours faithfully,

Lukman Lawal Adekunle.

0803245659

INFORMATION

The questionnaire comprises two parts. Part I represents the demographic information while Part II (Sections A-F) consists of questions on financial performance, control activities, control environment, risk assessment, monitoring and information and communication.

PART I

DEMOGRAPHIC INFORMATION

Please tick ☐ the option that correctly and accurately describes your profile:

1. Age:
   Below 30 years   ( )   30 -35 years   ( )   36-40 years ( )
   41-45 years   ( )   46 years and above   ( )

2. Gender:
   Male ( )   Female ( )

3. Marital Status:
   Single ( )   Married ( )   Divorced ( )   Widow ( )

4. Management Level:
   Manager ( )   Head of Internal Audit ( )   (iii)

5. Working Experience:
   5-10 years   11-15 years ( )   16-20 years ( )   21 years and above

6. Qualification:
   SSCE/OND/NCE   ( )   HND/B.Sc.   ( )   M.Sc./MBA   ( )
   ICAN/ANAN/CIBN   ( )   Others, specify _____

SECTION A: Control Environment

GUIDELINES: In section A, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO.	Paragraph	Level of agreement				
		SD	D	AM	D	SD
1.	The microfinance bank has a positive control environment that support the administrative control and awareness.					
2.	The control activities in the microfinance bank assist to implement the management guidance.					
3.	The microfinance bank management makes efforts to attract, develop, and retain the trusted and efficient employees.					
4.	The management board via the audit committee participates in exercising and developing the internal control process.					
5.	The microfinance bank has internal control tools on Human resources to evaluate the level of productivity, effectiveness and efficiency of its human resources.					
6.	The microfinance bank has financial systems and instructions for internal control which enable the bank to find out the areas of non-compliance.					

SECTION B: Control Activities

GUIDELINES: In section B, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO	Paragraph	level of agreement				
		SD	D	AM	D	SD
1.	The internal audit function as a tool is exercised by specialists in the microfinance banks.					
2.	Access to data and computer special files are subject for control in the microfinance banks.					
3.	Segregation of duties principle is considered in the microfinance banks transactions.					
4.	The microfinance bank has its detailed and well prepared budget that illustrates the funding source which is a tool for internal control.					
5.	Financial analytical mechanisms to identify the financial position and to understand other Financial aspects and how to control them are available which tools of internal control are.					
6.	The microfinance bank can measure employees' individual performance, as a tools of internal control, which assists the manager to monitor, follow, and compare with the targeted objective.					
7.	The microfinance bank uses the complaints from other stakeholders as a tool of internal control.					
8.	The microfinance bank has procedures to recover the missed data or programmes.					

SECTION C: Risk Assessment

GUIDELINES: In section C, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO	Paragraph	level of agreement				
		SD	D	AM	D	SD
1.	The company regularly updates the risk register					
2.	The company has a well-documented policy on risk management					
3.	The microfinance bank has a risk analysis process that includes budget and monthly meeting to identify those risks and how to rectify any resulted risk.					
4.	The company management encourage reporting of events in order to identify the risks					
5.	The microfinance bank has specialized department to identify any material changes that might affect the internal control and comply with the IFRS.					
6.	The company has a monitoring system that identifies potential risks					
7.	The company has a risk review process after implementation of the mitigation measures/control for identification of risks					
8.	The management adequately evaluates and records the risk when making important decisions					
9.	The company has adequately implemented any inspection plans to reduce the inherent risks which are					

NO						
	periodically revised.					
10.	There exists a Risk Management committee in the organization					
11.	Recommendations by the Risk Management committee are reported directly to top management and the audit and risk sub-committeeof the board					

SECTION D: Information and Communication

GUIDELINES: In section D, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO	Paragraph	level of agreement				
		SD	D	AM	D	SD
1.	The information are recorded and reported to all stakeholders on time and appropriate bases to perform the internal control responsibilities and other duties.					
2.	Information are prepared, developed and reviewed in light of strategic plans.					
3.	The microfinance banking information system provides the management with the required information that pertains to the strategies and objectives.					
4.	The management passes the information and duties to its employees clearly and smoothly.					
5.	There are good communication channels between the staff and their departments that enable them to perform their tasks soundly and correctly.					
6.	The microfinance bank communicates					

	with external parties in respect of factors that might affect the internal control function.					

SECTION E: Monitoring

GUIDELINES: In section E, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO	Paragraph	level of agreement				
		SD	D	AM	D	SD
1.	The microfinance bank has a box for complaints from clients which are handled seriously.					
2.	The received complaints are studied to find out its causes to take the appropriate actions.					
3.	The microfinance bank has internal auditors who follows up the internal control and raises reports about the application of it to the management					
4.	The management board pays attention to the control environment and activities in addition to conducting regular meetings with internal and external auditors as part of the control activities.					

SECTION F: Asset Management

GUIDELINES: In section F, please rate your level of agreement with the following statements. All questions have the same options (1= Strongly Disagree (SD), 2 = Disagree (D), 3 = Agree Moderately (AM),4 = Agree (A), 5 = Strongly Agree (SA)):

NO	Paragraph	Level of agreement				
		SD	D	AM	D	SD
1.	The asset is assigned to a staff member to be responsible to safeguard it, and he will be held accountable for any defect due to negligence.					
2.	Disposal of assets is undertaken based on reports from the department's chiefs committee and the top management approval on the raised recommendation.					
3.	Sound and sufficient procedures are available to register the microfinance bank's assets and properties.					
4.	The microfinance banks perform periodical stock taking for its asset and reports are submitted to concerned parties.					
5.	The bank has a financial planning process that affects the credibility of assets and equity.					

Any additional comments that you have :

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THANKS FOR YOUR COOPERATION

	NAMES OF MICROFINANCE BANKS	ADDRESS OF MICROFINANCE BANKS
1	AJASE IPO MICROFINANCE BANK	Ajasse-Ipo, Beside Total Petrol Station, Ilorin Road, Ajasse-Ipo, Kwara State
2	MagajiN-GIri MFB	Ago Market, Behind Emir's Palace, Ilorin, Kwara State
3	AJIKOBI MFB,	13 Ajikobi Street, Ilorin, Kwara State
4	APEKS MFB,	2nd Floor, Ghalib House 24, AbdulwahabFolawiyo Road, Ilorin, Kwara State.
5	AZABE-ZINARIYA MFB,	Phase 2, Ultra-Modern Market, Western Resevoir Road, Ilorin, Kwara State
6	BLUCON MFB,	Ahmadu Bello Way, Opposite Kwara Hotel, Ilorin, Kwara State
7	BRIGHTWAY MFB,	17, New Market Road, Baboko, Ilorin, Kwara State
8	CITIZEN TRUST MFB,	No 52, Olofa Way, Beside GTBankPlc, Offa, Kwara State
9	FIRST HERITAGE MFB,	Opposite C.C.C., Oro-Ago, Ifelodun LGA, Kwara State
10	KCMB MFB, KWASU MFB,	159 Ibrahim Taiwo Road, Ilorin, Kwara State.
11	OMU-ARAN MFB,	92, Aperan Road, P.M.B 1037, Omu-Aran, Kwara State.
12	OSI MFB,	Egbe Road, Osi, Ekiti Local Govt Area, Kwara State
13	OURS MFB,	23/25 Olofa Way, Offa, Kwara State
14	SINCERE MFB,	145, Olofa Way, Offa, Kwara State.
15	STOCKCORP MFB,	95, Olofa Way, Offa, Kwara State
16	UNILORIN MFB,	Permanent Site of University of Ilorin, Kwara State
17	WELFARE MFB,	24, Abdulwahab Folawiyo Road, Ilorin, Kwara State
18	KWASU MICRO FINANCE BANK	Kwara State University, Malete, Moro Local Government Area, Kwara
19	: IBOLO MFB,	No 86 Olofa Way, Offa, Kwara Stat
20	AJASSE-IPO MFB,	Ajasse-Ipo, Beside Total Petrol Station, Ilorin Road, Ajasse-Ipo, Kwara State
21	GAA-AKANBI MFB,	Bola Saadu House, 10, Ahmadu Bello Way, Gra, Ilorin, Kwara State
22	GLOBAL HERITAGE MFB,	No 156, Ibrahim Taiwo Road, Ilorin, Kwara State
23	HERITAGE MFB,	Opposite C.C.C., Oro-Ago, Ifelodun LGA, Kwara State
24	IJOMU-ORO MFB,	Opposite The Town's Market, Ijomu-Oro, Kwara State
25	ILOFA MFB,	Ilorin/Lokoja Federal Highway, Iloffa, Oke-EroLga, Kwara State
26	ILORIN MFB,	Along Kuntu Street, Oppo. HiwanuLgea School, Ilorin, Kwara Stat
27	ILUDUN-ORO MFB,	: Iludun Oro, Irepodun Local Govt. Area, Kwara State
28	IYERU-OKIN MFB,	Olofa Way, Offa , Kwara State
29	JANMAA MFB,	No 1, Jebba Junction, Eiyenkorin, Ilorin, Kwara State
30	BALOGUN FULANI MFB,	No 9 Balogun Fulani Rd. Ilorin, Kwara State
31	BALOGUN GAMBARI MFB	Ojagboro, Ilorin, Kwara State

Source: www.directory.org.ng