UNIVERSITY OF CAPE COAST

EFFECT OF INTERNAL CONTROL SYSTEMS ON THE PERFORMANCE OF SELECTED MICROFINANCE INSTITUTIONS IN THE CENTRAL REGION

BY

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DECLARATION

Candidate's Declaration

I hereby declare that this dissertation is the result of my own original research and that no part of it has been presented for another degree in this university or elsewhere.

Candidate's Signature: .... Date: ……………………

Name: Richard Agbigbi

Supervisor's Declaration

I hereby declare that the preparation and presentation of the dissertation were supervised in accordance with the guidelines on supervision of dissertation laid down by the University ofCape Coast.

Supervisor's Signature: ....Date: ....

Name:Dr. Clement Lamboi Arthur

ABSTRACT

The purpose of this study is to examine the effect of internal control practices on the performance of microfinance institutions in the Central Region of Ghana. Primary data was gathered using questionnaires on internal controls designed to meet the Committee of the Sponsoring Organizations of the Treadway Commission 1992 report for microfinance institutions.The study adopted a quantitative approach with a descriptive survey method. A primary data were collected using self-administered questionnaires. The study revealed that internal control systems of microfinance institutions are effective and integrated into the daily operations of these microfinance institutions. Another finding was that, microfinance institutions can only achieve their corporate objectives if the internal control systems are effective. Poor internal control systems are due to highcost involved in implementing it and small size of organization to have an internal audit department to ensure effective internal controls. The study recommended that there should be adequate segregation of duties in the control activities, adequate managerial oversight and proper policies and procedures for microfinance institutions to operate effectively to achieve their objectives.

ACKNOWLEDGEMENTS

My thoughtful appreciation goes to my supervisor, Dr. Clement Lamboi Arthur, whose supervision, direction and care led to the finishing point of this work. Thanks to all the management of the Microfinance Institutions that provided me with the relevant information needed for the success of this work. I also acknowledge all the lecturers of the Department of Business Studies for their support and the knowledge impacted for the purpose of this degree. Finally, I would like to express my appreciation to all those who in diverse ways helped me to make this dissertation a success.

DEDICATION

I dedicate this work to my lovely Mum and Dad, Mr. and Mrs. Emmanuel Agbigbi and my brothers, Daniel Agbigbi and Prince Agbigbi.

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LIST OF ACRONYMS

CEDCOM	Central Regional Development Corporation
CGAP	Consultative Group to Assist the Poor
COSO	Committee of the Sponsoring Organization of the Treadway Commission
FNGO	Financial Non-Governmental Organisation
ICS	Internal Control Systems
MDG	Millennium Development Goals
MFI	Microfinance Institution

CHAPTER ONE

INTRODUCTION

This chapter gives an overview of the research work. It gives brief background on internal control system and practices in general and limits it to microfinance institutions. Areas that can be seen in this chapter includes problem statement, research objectives and questions, significance of the study and how this research work have been organized.

Background to the Study

Part of the debate over the identification of services that qualify as microfinance has largely been put to rest and today, there is a consensus among microfinance stakeholders worldwide that the field now encompasses all financial services, including credit, savings, and insurance (Consultative Group to Assist the Poor, 2003). Moving away from the field's roots of providing solely microcredit to poor micro-entrepreneur has been the new development. This new development has been driven by a new emphasis on the use of non-credit services by the poor to build assets and financial security (Consultative Group to Assist the Poor, 2003).

There has been increased scrutiny of financial institutions internal control systems in recent years. Starting with Barings Bank's collapse in 1995; where Nick Leeson, a trader at the bank's Singapore office caused the insolvency of the bank. Nick Leeson was able to carry out this fraud because there was not adequate segregation of roles within his division. Jerome Kerviel of SocieteGenerale in 2008 caused his bank a loss of € 4.9 billion due to porous internal control systems. Likewise, KwekuAdoboli an employee at the Swiss Bank caused his bank $2 billion due to unauthorized trading (Fortado, 2015). Recently, the Bank of Ghana in 2015 issued a 90-day moratorium on DKM Diamond Microfinance restraining them from operating as a financial institution. Subsequent investigations by the Bank of Ghana reveal massive internal fraud perpetrated by the directors and employees of the company.As microfinance organisations expand, calls for financial discipline in corporate reporting has emerged with the emphasis on developing micro standards that will aid in good integrated reporting in the area of finance, accounting, social, and environmental issues. The emphasis is not only on corporate reporting, but to developviable internal control systems which ensure that savers moneys are kept well with much professionalism.

Internal controls have received much attention in the world of studies especially emerging markets. Millichamp (2002) defined internal control as a holistic system of controlling the financial and non-financial rules set up by management to safeguard assets, as well as ensure the complete and accuracy of records. This is expected to cut across the entire organisation and ensure communication from bottom-up and vice versa. Schroy (2010) similarly, defined internal control as a process put in place by organisations to structure work, authority flows and people and management information systems in order to help accomplish specific goals or objectives. Internal control systems are applicable to every key risks of the organization and embedded within operations. This will ensure that it is able to respond to changing risks within and outside the organisation (Cunningham, 2004).

Aryeetey (1994) stipulated that only 6% of the Ghanaians population have access to formal financial services such as commercial banks. In a changing financial sector, much effort is required for even microfinance to integrate into rural banks and even commercial banks. Financial irregularities among banks and financial institutions in Sub-Saharan Africa have reengineered central banks and regulatory bodies to tighten supervisions and sanctions in the micro level with the emphasis on structured internal control systems that detect fraud, misappropriation and fraudulent financial reporting.

Bank of Ghana (2007) working paper on microfinance development stated that since the beginning of government involvement in microfinance in the1950s, the sub-sector has operated without specific policy guidelines and goals.This partially accounts for the slow growth of the sub-sector, and the apparentlack of direction, fragmentation and lack of coordination. There has not been aconsistent approach to dealing with the constraints facing the sub-sector. Such constraints include inappropriate institutional arrangements, poor regulatoryframework, inadequate capacities, lack of coordination and collaboration, poor institutional linkages, lack of linkages between formal and informal financialinstitutions, inadequate skills and professionalism, and inadequate capital and poor internal control systems.

Bank of Ghana (2007) argued that traditional commercial banking approaches to microfinance deliveryoften do not work. According to traditional commercial banking principles, thecredit methodology requires documentary evidence, long-standing bankcustomerrelationship and collateral, which most micro and small businesses donot possess. The commercial banking system, which has about twenty-three (23)major banks, reaches only about 5% of households and captures 40% of moneysupply. Therefore there is room for expanding the microfinance sector in Ghana.

Expanding the microfinance sector in Ghana requires more institutional development, rapid growth, financial development and a reliable financial sector. The internal control framework underlying the activities of major microfinance organisations, banks, securities firms, and non-financial companies, and their auditors are designed by corporate directors of their various boards. Moreover, this internal control framework is consistent with the increased emphasis of banking supervisors on the review of a banking organisation's risk management and internal control processes. It is important to emphasize that it is the responsibility of a bank's board of directors and senior management to ensure that adequate internal controls are in place at the microfinance institutions and to foster an environment where individuals understand and meet their responsibilities in this area.

Internal controls and performance of organisations have been studied by few scholars. Gamage, Lock and Fernando (2014) on the state of commercial banks in Sri Lanka observed that an effective internal control system is a viable tool of achieving an organisational financial objectives and hence performance.Performance of microfinance institutions in Ghana is part of the financial sector development aimed at reducing poverty in Ghana. As microfinance institutions achieve their corporate objectives, much of their survivor depends on prudent financial reforms and effective and efficient internal controls designed to detect fraud, errors and money laundering by way of integration, placement and layering.

Statement of the Problem

Financial sector supervisors throughout the world have focused increasingly on the importance of sound internal controls. This heightened interest in internal controls is, in part, a result of significant losses incurred by several financialorganisations. An analysis of the problems related to these losses indicates that they could probably have been avoided had the financial institutions maintained effective internal control systems. Such systems would have prevented or enabled earlier detection of the problems that led to the losses, thereby limiting damage to the financial institution.

Gesare, Nyagol and Odongo (2016) observed that commercial banks in Kenya have recently reported losses arising from frauds and much of these frauds are due to poor or ineffective internal control systems. To deal with the inefficiency in the micro sector, it is important for an investigation in the microfinance sector. Ofori (2011) posits that risks as and when they happen threaten the achievement of objectives and minimizing it in order to achieve the organisation's mission should be the work of corporate directors.

Microfinance Institutions in Ghana have come under close scrutiny in recent years due to the frauds; embezzlement and scandal that have hit them in several years and call for tighter and proactive measures have been made. Stakeholders have initiated reforms aimed at cleaning up the microfinance sector and restoring confidence in the microfinance sector as a viable option to the traditional banking sector. Part of these reforms includes the promotion of a culture of compliance and accountability to internal processes in these institutions (Boateng, 2015). These reforms are also aimed at identifying risks activities and implementing measures to reduce them.

Despite the growing trend in internal control systems in financial institutions, there is little knowledge on the type of internal control practices that exist within Microfinance Institutions (MFIs) and how they influence their performance. It is against this background that the study set out to examine how internal control practices influence the performance of MFIs.

Purpose of the Study

The purpose of the study is to examine the internal control systems of Microfinance Institutions (MFIs) and evaluate how they contribute to the performance of MFIs.

Objectives of the study are to;

a. Ascertain the internal control systems that exist within the microfinance sector.
b. Determine how effectively these internal control processes are integrated into the day-to day operations of microfinance institutions.
c. Determine whether internal control systems influence the performance of microfinance institutions.

Research Questions

The research objectives are stated in a question form as;

a. What internal control systems exist within microfinance institutions located in the Central Region?
b. How effectively are internal control systems integrated into the day-to-day operation ofthe microfinance institutions?
c. Do internal control systems influence the performance of microfinance institutions in the Central Region?

Significance of the Study

Microfinance has emerged globally as a leading and effective strategy for poverty reduction with the potential for far-reaching impacttransforming the lives of poor people. It is argued that microfinance canfacilitates the achievement of the Millennium Development Goals (MDGs) as wellas National Policies that target poverty reduction, empowering women, assistingvulnerable groups, and improving standards of living (Bank of Ghana, 2007).

The present study makes two important contributions. First, it will provide literature on the internal control systems for microfinance institutions in the country. The study also provides some important policy recommendations for regulators and stakeholders on how to restore confidence in the microfinance sector. The research attempts to ascertain whether internal control systems are well integrated in the sampled organisations operations. The findings provide important details on how these practices are upheld in the microfinance sectors in the Central Region. This provides stakeholders with action plans on how to formulate policies aimed at strengthening internal control systems.

Delimitation

The present study will be limited to only microfinance institutions located in the Central Region. This geographical location is selected to minimise the cost and ensure that researcher's proximity to the geographical area.

Limitations

Due to the small and unique sample available for the study, results may not be generalised beyond the specific population from which the sample was drawn. Again, due to the failure of some sampled respondents to answer with candour, the results may not reflect accurately the opinions of all members included in the sample. This is likely to affect the findings in its application to all the microfinance institutions since we cannot infer beyond our sample area. Despite this limitation, the findings will provide some insight for all institutions.

Organisation of the Study

The study was divided into five chapters. This first chapter looked at the background of the study, objectives of the study and the research questions as captured in the introduction. Chapter two reviewed existing literature in the area of the study, while chapter three discussed the methodology applied in collecting and analysing the data. The processing and analysing of the data and the findings from the study follow this as the fourth chapter. The final chapter covered summary, conclusions, and recommendation.

CHAPTER TWO

LITERATURE REVIEW

Introduction

This chapter presents the literature review of the study. It first looked at the theoretical review and framework. This provides understanding on Microfinance institutions, internal controls and provides information on theoretical and empirical study. The conceptual framework to link internal control practices of MFIs to the performance of the MFIs is later shown in the chapter.

Theoretical Framework and Literature

Committee of the Sponsoring Organization of the Treadway Commission (COSO, 2011) stipulated that internal control is a process commissioned by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (1) effectiveness and efficiency of operations, and (2) reliability of reporting and compliance with applicable laws and regulations. KPMG (1999) described internal control systems as systems covering the policies, processes, tasks, behaviours and other aspects of a company that taken together, facilitate effective and efficient operations by enabling quick response to significant risk factors, enhance quality of internal and external reporting, ensure compliance with applicable laws and regulations, as well as internal policies.

Harrison and Horngren (1995) stated that internal control is the organisational plan and integrated framework that managers use to keep the entity under control. It is the plan and all the related measures adopted by an entity to;(1) safeguard assets, (2) encourage adherence to company policies, (3) promote operational efficiency, and (4) ensure accurate and reliable accounting records.

The meaning of internal control systems points out internal control as an ongoing process of ensuring that rules are followed and compliance to organisational objectives is achieved. In addition, the ultimate responsibility of achieving internal control system objectives is rested on the board of directors and management who are expected to provide leadership for the organisation.

With much development in internal control systems and frameworks, Wells (2006) as cited in COSO (2011) report stated that an internal control system should consist of these five components:(1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. COSO (2011) established a common definition of internal control for assessing control systems, as well as determined how to improve controls.

According to the report, controls can serve many important purposes, and for this reason many businesses look at internal control systems as a solution to a variety of potential problems such as dealing with rapidly changing economic and competitive environments, as well as shifting customer demands and priorities.Effective internal control systems can help achieve business goals efficiently.

Approaches to Internal Control Systems

There are two main approaches to internal control systems. These are the structural and behavioural approach. The structural approach focuses on the communication and organisational structures that are required to instileffective control of organisational activities. On the other hand, behavioural approach focuses on the human aspect and interaction as a mechanism to instil necessary control over an organisation's operations (Ansari, 1977).

However, Ansari (1977) notes that focus on either of these approaches do not deliver the best result as it leads to a fragmentation. For instance, structuralisms treat communication and information as activities that occur in a rational environment. Therefore, little room is made for psychological and behavioural influences. On the other hand, behaviourists often argue that once measures are in place to check the actions of individuals, internal control is more likely to be successful. He proposed an integrated approach that incorporates both structural and behavioural approaches as more effective in delivering internal control objectives.

Internal Control Objectives and Principles

Internal control objectives are the expected goals of an action or work that leads from internal control measures. Mercer University provided the following objectives: (i) an authorisation objective which ensures that all transaction within the organisation receives the necessary approval from the required officer before it's undertaken, (ii) completeness that ensures there is no omission of valid transactions from the financial and accounting records of the organisation, (iii) accuracy that ensures that all the valid transactions are recorded accurately without mistakes or misrepresentation to ensure that it is consistent with the original data when the transaction took place, and (iv) validity and that all transactions that are undertaken satisfy all legal, economic as the organisation's regulatory requirement.

Others include (v) physical safeguards and security to help put restrictions on physical asset and information systems to prevent unauthorised access, (vi) Error handling objective that ensures that all errors detected are dealt with in a systematic and timely manner to prevent their recurrence, and (vii) Segregation of duties to make sure an employee does not have the sole responsibility of initiating and executing a transaction. There should be a separation of duties where the one who record a transaction, does not process it as well.

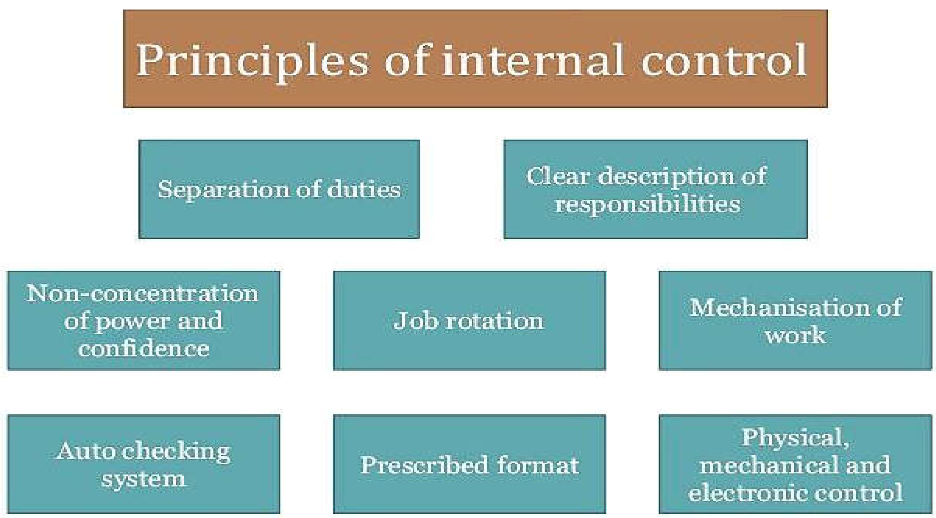

Figure 1: Principles of internal controls.
Source: Adapted from COSO (2011).

Internal Control Components

Corporate enterprise board of directors has the key responsibility to prevent fraud by examining and evaluating the adequacy and effectiveness of their internal control systems, commensurate with the extent of a potential exposure within the organisation. If managers, corporate finance officers and board of directors would meet their responsibilities, internal auditors that ensure that internal control practices are effective and efficient should consider the following elements stipulated by COSO (2011). Internal controls effectiveness in totality depends on how the various components will work together in a coordinated manner to achieve corporate objectives (Public Company Accounting Oversight Board, 2007). These components are stated as (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring.

The Control Environment

Hall (2004) posits that the control environment is the atmosphere created in the organisation in support of control objectives. The other four assume this environment. The control environment is identified as the bedrock of all other components of internal control. It sets the rhythm of the organisation and influences the behaviour of people (KPMG, 2009). It is the foundation for all the other internal control components and provides discipline and structure.

COSO (2011) revised modules provided the guidelines for the control environment. The report provided that control environment in one way or the other relies on at least one of the following principles: (1) the integrity, ethical values, and competence of an organisation's employees; (2) management's philosophy and operating style (3) the way management assigns authority and responsibility as well as organises and develops its employees; and (4) the attention and direction provided by the board of directors.

As cited in Gamage et al (2014),COSO (2011) provided five key components of control environment that help develop and enhance the other four components. These internal control environment components are the key directions of which all internal controls should adhere to for effective and efficient achievement of corporate objectives. The entire system works on people and it is the integrity of the people that will make internal control systems sufficient and reliable.

The COSO (2011) stated that a control environment comprise the following; (i) emphasis and prioritisation of ethics and integrity; (ii) an independent board of directors who play an oversight responsibility of management action regarding internal controls; (iii) management independence in setting up organisations, line of reporting, and appropriate authority and responsibility towards the objectives of the board which only has to play an oversight role; (iv) practical commitment to the recruitment, development and the retention of employees in line with organisation objectives; and (v) accountability for those entrusted with the responsibility for internal controls.

Rajkumar (2009) pointed out that effective internal control systems require that all material risks, internal and external, controllable and uncontrollable that could affect the achievement of the bank's objectives are recognised and continually assessed. Management must establish mechanisms to identify, measure, analyse and manage the various kinds of risks faced by the institution at all levels and in all departments including credit risk, country and transfer risk, market risk, interest rate risk, operational risk, liquidity risk, legal risk, reputational risk among others. The management needs to continually evaluate the risk profile in order to be aware of the risks faced by the banks and hence come up with effective controls to address the risks (Rajkumar, 2009).

Notwithstanding the various importance of the control environment, it is not likely to be effective in microfinance environment where regulatory authorities have relaxed a bit and the entire system is crowned with Ponzi scheme. An effective internal control environment should provide guidelines, rules, procedures and methods that help detect loopholes, errors, fraud and fraudulent reporting that inhibits some of the financial environment. Whiles MFIs help to restore economic security by providing credit and financial services to low-income and disadvantaged groups, their internal controls should help shape the system. Microfinance services other than credit, such as savings accounts and insurance, have as much if not more potential to help build social and economic security by helping people build assets and protect themselves against unforeseen crises. Savings and insurance services targeted to a microfinance clientele are likely to see further development as the sector matures.

Risk Assessment

Risk assessment is a necessary part of management's effort. It must identify, analyze, and manage risks, not just hope that nothing goes wrong. Wells (1995) stated that whiles it is not possible or even desirable to install controls for every possible risk or threat, the purpose of risk assessmentis to identify organisational risks, analyse their potential in terms of costs and likelihood of occurrence, and implement only those controls whose projected benefits outweigh their costs. Risk assessment is the identification and analysis of relevant risks to achievement of the objectives, forming a basis for determining how the risks should be managed. Because economic, industry, regulatory and operating conditions will continue to change, mechanisms are needed to identify and deal with the special risks associated with change.

COSO (2011) stated that for effective internal control systems, there should be; (i) clarity of organisation's objectives, (ii) Identification of each risk and an analysis of how they affect the organisation's objectives as well as how they would be managed, (iii) an examination of the likelihood of fraudulent activities that would derail the organisation's activities, and (iv) an ongoing reassessment of the internal control systems to see how changes in economic, operational and legal situations affect the organisation's objectives (COSO 2011).

Risk assessment is the process the board and management use to identify and analyse risks that could keep the bank from achieving planned objectives. The assessment should help determine what the risks are, how they should be managed, and what controls are needed. Risks can arise or change because of circumstances such as: (i) a change in the microfinance operating environment, (ii) new personnel, (iii) new or revamped information systems, (iv) rapid growth, (v) new technology, and (vi) new or expanded lines of business, product or activities. Microfinance institutions are not exempted from these development and they are prone to risk in diverse ways. It is the responsibility of those in charge to critically examine these risks and provide an appropriate concealment to such risks.

Organisations need risk management behaviour and attitude. It is the organisations' attitude to risk that pave way of its manageability. KPMG (1999) stated that corporate objectives and the environment in which companies operate are constantly evolving in the modern world. As a result, the risks facing companies are continually changing too. A successful system of internal control must therefore be responsive to such changes - enabling adaptation quicker than its competitors.

Effective risk management and internal control therefore reliant on a regular evaluation of the nature and extent of risks. Compliance with the spirit of the Turnbull guidance, rather than treating it as an additional layer of bureaucracy, will go a long way to realising the benefits of effective risk management and internal control systems.

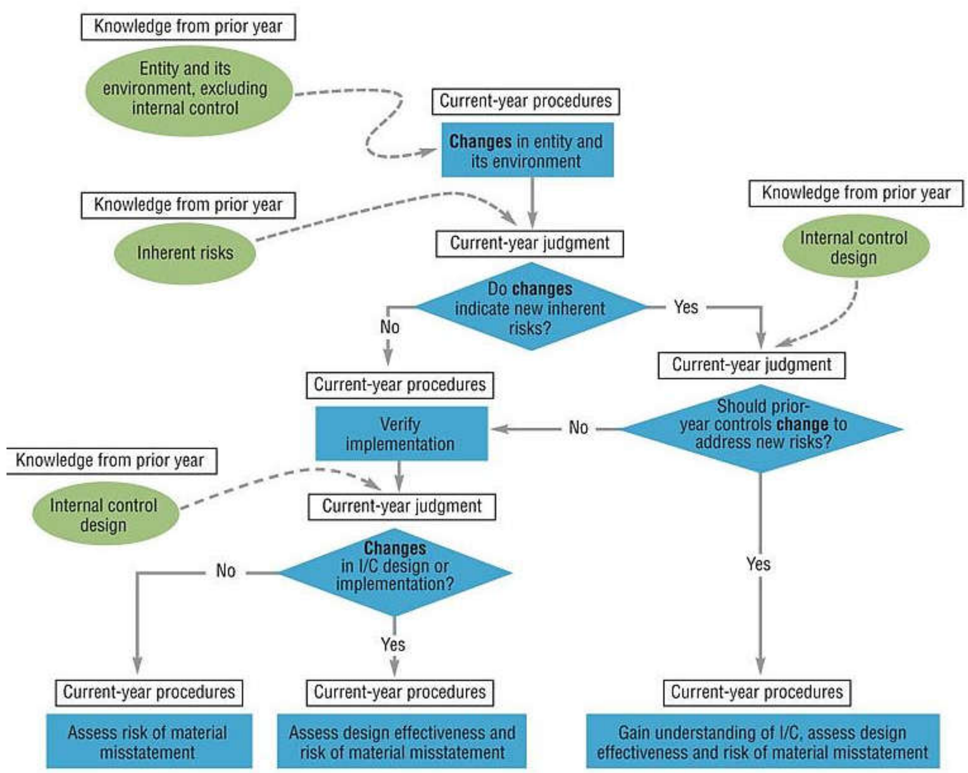

Figure 2: Changes in risk assessment in an organisation

Source: Adapted from Hannover Re Group on internal control, 2010.

Figure 1 provides information on how some corporate organisations assess their risks. Hannover Group has a system in place that helps trace areas of change that may serve as a threat to the organisation achieving its corporate objectives. Risk assessment is not one time process and therefore knowledge from prior year's risks can help mitigate current risks and even prevent future risks.

Control Activities

After careful identification and analysis of risk associated with an organisation, management must establish policies, structures, and procedures to ensure that the risks identified are mitigated if not eliminated. Control activities must permeate every level of the organisation from the top to the bottom to ensure all activities and procedures are captured. To achieve these, the organisation must (i) select and develop control activities that contribute to the mitigation of risk to a level acceptable by the organisation; (ii) select and develop control activities over technology to support the achievement of objectives and (iii) implement control activities with regards to what is expected (COSO 2011).

Controlactivities have been categorised into computer controls and physical controls. Of particular important is how the controls differently designed work effectively to achieve the corporate objectives. The areas of control activities are stated as follows: (i) transaction authorisation; only valid, approved transactions should be recorded; (ii) segregation of duties; the same person should not be responsible for authorisation, recordkeeping, and custody of assets; (iii) supervision- when there are too few individuals to implement total segregation, the compensating control is good supervision, (iv) accounting records- implies the design and use of adequate documents and records to help ensure the proper recording of transactions and events; (v) access controls- assures that access to assets is permitted only in accordance with management's authorisation; and (vi) independent verification to check on the performance of individuals, the integrity of processing, and the correctness of data.

Control activities guide the entire organisation on what to do, how to do it and provide reasonable guidance for the entire implementation process. It is critical for micro organisations to strengthen their control activities in as much as doing so would not cost the organisation so much than the realised benefits. Looking at the small size of microfinance institutions in Ghana in terms of operations and capital, implementing an entire control system becomes difficult in terms of skills, resources, personnel and commitment.

Information and Communication Process

Necessary information are identified, gathered, and communicated to ensure that people undertake their responsibility effectively at this stage. It involves the design of information system that generates operational, financial as well as compliance-related information to ensure smoothly control of activities (COSO, 2011). Information must relate internally to operations and external influences that are likely to impact the organisation. This requires relaying information in a very clear and systematic manner to ensure that employees at all levels understand their responsibilities with regards to internal control (KPMG, 2009). In other words, employees must be aware of their control responsibility and how this is related to that of other employees. External parties like shareholders, suppliers and regulars must also be captured.

Information about daily activities may flow across the organisation from employees who develop the information to those who need the information. Problems may be identified at the lower levels of the organisation; if the information is not allowed to flow back up to those who are responsible for making corrections, managers will not receive needed information on time.

Control Monitoring Activities

The existence of control systems is not sufficient to guarantee that objective would be achieved. COSO (2011) captured internal control as a means to an end and end. To ensure efficient performance of the control systems, there must be a continuous evaluation to ensure that it is functioning as expected. These monitoring can be done separately or jointly with other activities. Findings from the evaluation must be communicated to the board of directors and senior management for the necessary actions to be taken.

Types of Internal Control

There are three main categories of internal controls. These are preventive, detective and corrective controls (COSO, 2011). Preventive controls are controls that avert risks from occurring. For instance authorisation controls should prevent fraudulent or erroneous transactions from taking place. Other preventive controls include segregation of duties, recruiting and training the right caliber of staff and having an effective control culture.

Detective controls are controls systems that identify if any problems have occurred; and are designed to pick up errors that have not been prevented. These could be exceptions reports that reveal that controls have been circumvented for example, large amounts paid without being authorised. Other examples could include reconciliations, supervision and internal checks.

Corrective controls are the control systems that address any problems that have already occurred; hence where problems are identified; the controls ensure that they are properly rectified. Examples include follow up procedures and management actions. The COSO (2011) the most potent of the control types is preventive control since it avoids the problems from occurring in the first place, rather than to detect or correct them after they have occurred.

Financial Controls

Block and Geoffrey (2008) that financial controls are the procedures put in place to protect assets and ensuring that all financial transactions are recorded to prevent and reduce errors and fraud. Financial controls and management practices involve procedures like providing reliable financial data, safeguard asset and resources, evaluating operational efficiency through budget, organisation control and ensuring adherence to policies and regulations.

Common practices include: (i) accuracy and reliability of financial data- this is the process of ensuring that transactions are recorded accurately and completely (Iddrisu & Anang, 2010),(ii) safeguard assets, (iii) controls over payments, organisations need to put in place strict controls over their payment systems to prevent unauthorised payment that may occur either by cash or bank payment (Millichamp, 2002), (iv) the bank reconciliation should be made by independent officials and anomalies investigated, and (v) prevention and detection of fraud and error which is directors role.

Internal Audit and Internal Control

Rittenberg and Schwieger (2001) also defined auditing as a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence and communicating the results to interested users. The auditing function operates on the assumption that financial statements and financial data are verifiable. There is no necessary long-term conflict between auditors and managers of organisations being auditors and managers of organisation being audited. A potential short-term conflict however may exist. Effective internal control structure reduces the probability of fraud or irregularities in an organisation. Application of generally accepted accounting principles result in fair presentation of financial statements. When examining financial data for the purpose of expressing an independent opinion thereon, the Auditor acts exclusively in the capacity of an Auditor.

The internal audit function in many financial institutions is there responsible to ensure that the internal control systems designed for the organisation work as determined. The concept is that an appraised internal audit function can help eliminate some of the financial malpractices that may erode corporate performance by way of achieving their objectives due to fraud, error or fraudulent reporting as people comprise internal controls. Internal audit objectives are geared towards ensuring that the internal controls work effectively and efficiently as intended for.

Legislation and Best Practices on Internal Control Systems

Series of business failures and corporate scandals in the United States of America and other advanced countries underscored the need for a global attention to internal control systems. This resulted in a number of regulations, to protect institutions from business failures due to weak internal control and governance systems. One of such landmark legislation is the Sarbanes-Oxley Act 2002.

Section 404 of the Sarbanes-Oxley Act fulfills one of the requirements of corporate Governance in Sarbanes- Oxley Act, which deals with the internal controls and how companies can take steps to mitigate losses resulting from lax internal control systems. This section requires that all firms provide a report in their annual report that detail the company's compliance with internal control standards as spelt out by best practices.

KPMG (1999) also notes that internal control system encompasses the policies, processes, tasks, behaviours and other aspects of a company that taken together:(i) facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives; (ii) ensure the quality of internal and external reporting; and(iii) ensure compliance with applicable laws and regulations, as well as internal policies with respect to the conduct of business.

KPMG (1999) also notes that entities are struggling to improve not only their business operations but also their internal processes and procedures recognising the increasing importance of establishing the best controls to strengthen their activities towards attainment of set goals and objectives. In the reports opinion, boards of directors have the sole responsibility for a company's system of internal control. However, employees are accountable to the board on policies of internal control systems and risk. As such, the operation and monitoring of the system of internal control should be undertaken by all who collectively possess the necessary skills, technical knowledge, objectivity, and understanding of the entity and the industries and markets in which it operates.

Internal Audit Agency Act 2003 (Act 658) also saw the important of internal control by enshrining it in the Act for public sectors organisations to have internal audit functions in various government levels. It also pointed out that internal control systems as comprising the control environment and control procedures and the plans of an organisation and all the methods and procedures adopted by management of an entity to assist in achieving management's objective of ensuring, as far as practicable, the prevention and detection of fraud and, the accuracy and completeness of the accounting records and the timely preparation of reliable financial information.

Over the years, the microfinance sector has thrived and evolved into its current state thanks to various financial sector policies and programmes such as the provision of subsidised credits, establishment of rural and community banks (RCBs), the liberalisation of the financial sector and the promulgation of PNDC Law 328 of 1991, that allowed the establishment of different types of non-bank financial institutions, including savings and loans companies, finance houses, and credit unions (Bank of Ghana, 2007).

Currently, there are three broad types of microfinance institutions operating in Ghana. These include: (i) formal suppliers of microfinance (i.e. rural and community banks, savings and loans companies, commercial banks); (ii) semi-formal suppliers of microfinance (i.e. credit unions, financial non-governmentalorganisations (FNGOs), and cooperatives; and (iii) informal suppliers of microfinance.

Internal Control and Performance

Godwin (2003) described performance as the measurement of actual output of an organisation against its expected outputs or goals. Financial performance of organisations helps motivate mangers in the operations of the business. Many measurement of performance are based on return on assets, return on capital employed, net profit margin. Managerial decision making is based on key financial indicators that help in the assessment of performance in corporations. Performance can also be defined as the ability to operate effectively, efficiently, profitably, survive, grow and react to the environmental threats and opportunities by capitalising on its strengths and weakness (Stoner, 2003).

The performance objectives of organisations can only be achieved when the control environment is active and backed by an appropriate control procedure, active risk assessment, information and communication and monitoring. Organisation performance objective is an important aspect that good corporate governance can help to achieve. 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, organisation or process. Organisation resources are driving forces that help firms to achieve their performance objectives. A good internal control practices can help safeguard these resources and help bring value to the firm.

Fraud, misappropriation of assets, and fraudulent financial reporting are factors that hinder performance and are the results of weak internal control systems. An efficient and effective internal control systems can improve organisational performance since fraud, fraudulent financial reporting and assets misappropriations would be minimize if not eliminated. Some non-financialperformances measures include; innovation, ability to attract, develop, and keep talented people, quality of management, quality of products or services, and community and environmental responsibility.

Empirical Review

Effective internal control systems and good functional internal audits are said to help to achieve the organisational objectives. The performance of organisations be it manufacturing, service, telecommunications, oil and gas development or even public sector enterprises performance depend on reliable and effective internal controls.

Simons (1987) investigated the interaction between internal control systems and organisational strategy. His study contributes to an ongoing debate in the literature on whether internal control systems should be dynamic and responsive to the business strategies or not. He collected data using interviews and questionnaire for two distinct firms: Prospectors and Defenders (in terms of their business strategy), to test the relationship between control systems and business strategy. The results showed that, prospectors pay more attention to control systems and change it to suit business strategy. Further, he finds that Defenders use internal controls less intensively and do not change it more often.

Cohen and Sayag (2010) investigated internal auditing in Israeli organisations. Their target population was the managers and internal auditors of selected Israeli organisations and the 292 respondents using a questionnaire. With independent variables such as quality of audit work, organisational independence, career and advancement as well as top management support, the study sought to find the effectiveness of internal auditing. The results indicate that there was top management support for internal auditing in most Israeli organisations. They also found internal audit units to be independent of management control.

Byanguye (2007) looks at how internal control practices create value for money. Using a cross sectional sample of public sector workers in the Kamuli District Local Government of Uganda, he finds a positive association between internal control components and value for money, Affum (2011) evaluated the effectiveness of internal control at Papso Ghana Limited and finds that Papso's internal control procedure comprises of authorisation and approval, segregation of duties, physical controls, arithmetical and accounting, management, organisation, supervision, personnel, and acknowledgement of performance controls. In addition, internal audit department plays a key role in the effectiveness of the organisation's internal control systems.

Akyaa (2011) assessed the effectiveness of financial control practices at New Juaben Senior High Commercial School and found that there is enough financial control procedures in place such as documentary backups for financial transaction such as cheques, purchase order and invoice. Receipts are also serialised to prevent fraud. The receipt books are also kept safely for onward audit. The study further revealed that the school in most instances exceeds its budget level with expenditure always exceeding revenue. Other findings by Akyaa (2011) are the existence of clear segregation of duties at the account department, regular reconciliation of accounts.

Badu (2011) also analysed the effectiveness of budgetary control systems at Ernest Chemist Limited. Using an interview technique to sample responses, he finds that Ernest Chemist has an appropriate budget procedure which involves the budgeting committee. In addition, the organisation adopts an incremental budgeting approach in preparing its budget statements. Internal control can help achieve the corporate objectives if properly designed and effected in the organisation and all the control environment work towards its fundamentals. Accounting practices such as approval of records, accounting information management, computerised accounting software, internal audit can be appropriate tools for internal accounting control mechanisms.

Siayor (2010) studied the impact of risks and internal control systems on the performance of DnB NOR ASA, a Norwegian financial institution. The study utilised a questionnaire as the data collection instrument. The study finds risk management and internal control systems as integral part of DnB NOR ASA. The internal control measures according to the study are important in instituting adequate checks and balance within the organisation. The internal control systems in the Bank contributed to their strong financial performance during the financial crisis between 2007 and 2009.

Yu and Kang (2015) examined the relationship between weaker internal control systems and opportunistic managerial earnings for mutual savings bank in Korea. They hypothesized mutual savings banks with weak control systems to be more able to exercise managerial discretions which in turn, increase earning. Their findings indicate that firms with weaker internal control systems are associated with higher discretionary loan loss allowance and these firms are also more likely to report false financial statements.

Ndamenenu (2011) studied at how internal control contributes to the organisational effective and efficiency of Ecobank Ghana Limited. He finds that there is management responsibility for internal controls within the organisation with strictly adhered control policies. In addition, he finds that the responsibility for monitoring internal controls is designated to the internal audit department. However to ensure independence, the internal audit department is separated from the other departments.

Ayagre, Appiah-Gyamerah and Nartey (2014) in a recent study examined the control environment and monitoring activities components of internal controls. The study which covered all banks registered in Ghana finds that, there is a strong commitment for promotion of internal control systems from the senior management staff of the banks. They also found that the internal audit departments are the main focus for monitoring activities and are often independent and objective in carrying out their responsibilities.

Odogo, Gesare and Nyangol (2014) based on the objectives of the study, test of hypotheses and study findings, the study generally concluded that Internal Control System has the greatest influence on the management of fraud risk among banks in Kisii town. The study found out that there was a positive linear relationship between the independent variables of control environment, risk assessment and information and communication, and the dependent variable of fraud risk management in banks. This means that if the qualities of control environment, risk assessment and information and communication in the banks are strong then fraud risk management in the banks will be strong and if the variables are weak then it will translate to increased fraud.

Microfinance institutions in Ghana are not exempted from internal control practices since they are the gateway to financial sector development and hence their failure can affect the economy. Ghana's Millennium Development goals pave room for a structural development that helps reduce poverty and a good financial system to help provide financial services to the poor across the country. It is worth studying those financial service providers and internal controls help arrest those inequalities in the system. For microfinance to achieve results and their main objectives, internal control is one thing that they need not relegated because evidence supports that an effective internal control helps achieve organisational objectives of which performance is one key object.

Financial institutions have conceptualised internal control systems due to circumvention of the segregation of duties through collusion of staff, management override of controls, human ingenuity and potential human errors caused by work load stress, alcohol, carelessness and distraction (Tunji, 2013). Working conditions can reduce the effectiveness of internal control measures (Njanike et al., 2009). Staff constraints lead to the compromise of the dual control measures and the segregation of duties placed in order to prevent fraud occurrence (Mutesi, 2011).

On internal controls and performance, Khan, Channar and Shakri (2015) investigating the functionality of each of the five internal controls components, effectiveness of the control systems and their relationship with performance concluded that internal control effectiveness is strongest in private banks than public banks followed by Islamic banks and that internal control effectiveness has positive relationship with the financial performance of banks. Their study was based on the Indian Financial Sector and structured on a period of four years. The analysis was based on correlation test on the relationship.

Similar study was done in Kenya by Mugo (2013). Mugo (2013) seek to find the effect of internal control practices on technical training institutions in Kenya and realised that there is a significant relationship between internal control systems andfinancial performance. Internal control can help an entity achieve its performance and profitability targets, and prevent loss of resources. It can help ensure reliable financial reporting.

Muraleetharan (2012) studied the impact of internal control on financial performance of selected private and public organisations. The key findings he identified was based on the fact that internal control and financial performance are statistically significant in determining performance and that there is a positive relationship between internal control and financial performance, though there are no statistically significant relationship between control environment and information and communication and financial performance. The study recommended that keen attention should be paid on to adopt efficient management information system and training of staff to understand the principles of internal controls.

Ayom (2013) posits that internal control affects performance. Using data in Uganda Non-Governmental Organisations, Ayom (2013) stated that implementation of internal control systems be reviewed regularly to ensure high level of performance of organisations since it has positive relationship to performance of such organisations. On the same note, the study found that fraud can be mitigated by effective internal control systems.

There are problemsof restraining the flow of commercial financing into the microfinance sector; these problemsparticularly impede microfinance banks. Many micro banks have not seriously considered including commercialfinancing in their growth strategy. From a commercial-lending perspective, nonbank MFIs are oftenperceived as weak, highly risky institutions by many commercial funders. In actuality, however, nonbank MFIs often have exceptional growth rates and high-quality portfolios.

The significant improvement in economic growth, accompanied by sound social and economic policies on poverty under Ghana's Growth and Poverty Reduction Strategy has led to fall in poverty. Ghana did well hoping to become the first country in Africa to achieve the Millennium Development Goal (MDG) of halving poverty and hunger from 1990 levels by 2015. Poverty reduction in Ghana calls for financial sector expansion that will allow access to micro loans for trade and business.

Internal control practices in microfinance institutions are very important areas that require extensive study since the development in that sector is hindered due to fraud and misappropriation of funds.

The Agency Theory and the Need for Internal Control Systems

Agency theory has been applied in finance and economics literature due to its significant and how the theory has contributed in strengthening corporate governance. Jensen and Meckling (1976) originally developed the agency theory and its application in corporate governance. In the early 1980s, Fama and Jensen (1983) further explained the concept to make it more applicable and economic sense in areas of corporate governance.

The agency theory explains the concept of separation of powers and control. Whilst there is an agency relationship between owners of the firm and management, there should be proper guidelines to help management perform their duties so that they can be compensated for. In reality, both the managers and the owners of the firm are utility maximizers and because of that there is a good reason to believe that management may not act in the best interest of the owners (Baiman, 1990). The underlying assumption of this theory is that all individuals are considered to be motivated solely by self-interest. For Baiman (1990), it is always difficult to solve this self-interest individualistic problem since owners of the firm believe that management may not act in the best interest of the organisation.

These agency problems are always addressed through contracting arrangements and control mechanisms of the organisations. Today, corporate entities use internal audit agencies as checks on the activities of management and to some extent external auditors are hired to provide further assurance on the activities of management. In attempt to also deal with this problem, Fama and Jensen (1983) stated that owners of the firm should ensure that effective and efficient controls are put in place to help minimise the agency issues so that the owners can verify the activities of management.

Applying the work of Jensen and Meckling (1976) in corporate governance today, the theory has been adopted to manage the relationship between not owners and management, but also management and their subordinate employees. As the organisation grows, management have to implement effective and efficient control systems that will reduce losses and risk in the operating activities of the organisation. Watts and Zimmerman (1983) and Carcello, Hermanson (2005) have used the agency problem explains the need for internal controls in areas suchas financial statement audit, internal audit management and those who are responsible for ensuring effective and efficient internal control system in an organisation to help achieve the objectives of the organisation. This study used this theory a basis to examine the internal control systems of MFIs and its effect on performance of these MFIs.

Conceptual Framework

The conceptual framework of this study tends to link the internal control activities and how they can contribute to the achievement of the corporate objectives of the MFIs. The MFIs perform well enough if they achieve their corporate objectives. The internal control processes and practices of MFIs can reduce the risk of financial losses by eliminating significant fraud and errors that hinder the growth of MFIs. Conceptual framework is an analytical tool with several variations and contexts. It is used to make conceptual distinctions and organise ideas. With this application, the study adopt a generalised conceptual framework used by COSO (2011) to help provide a generalised view on internal control system and performance measured by way of the MFIs achieving their corporate objectives.

From the COSO (1992) report, performing organisations achieve their corporate objectives by ensuring that internal control practices and processes are well integrated in their system of operations and are reviewed frequently to represent modern way of doing business and also help to cater for new trends in risk management.Figure 3 gives the conceptual framework of internal control activities and performance.

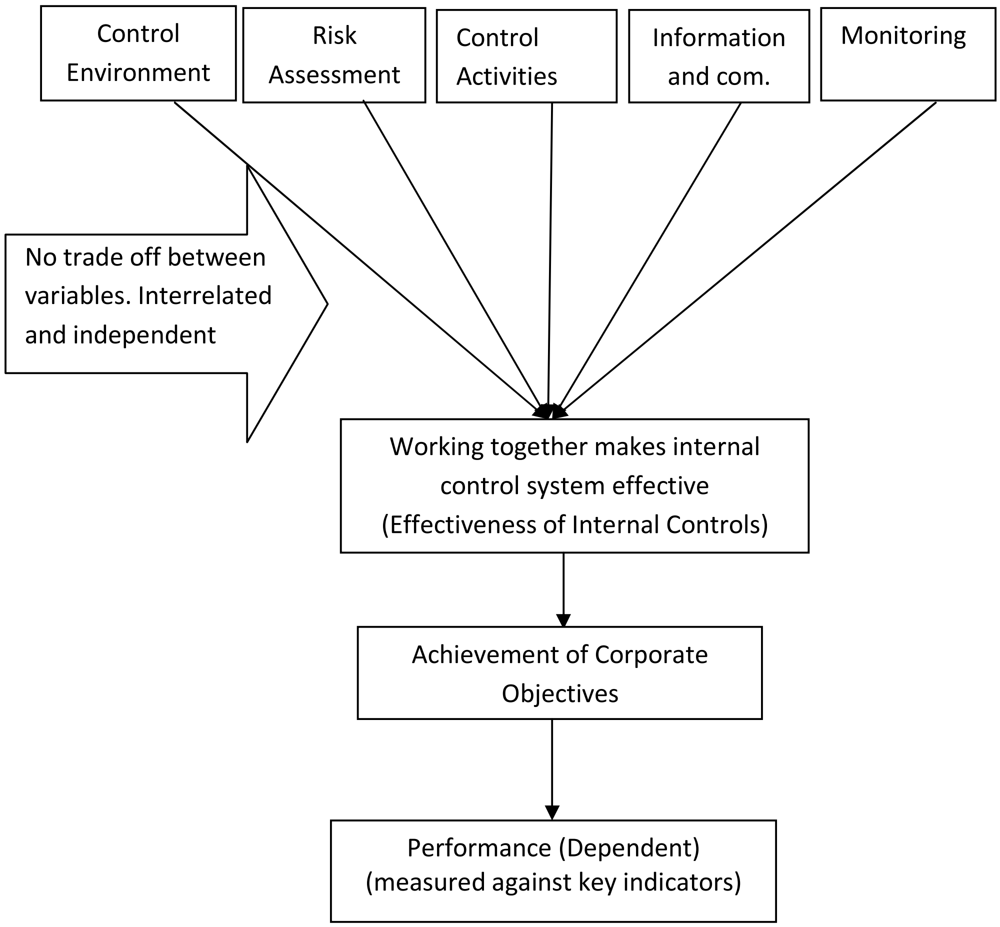

Figure 3:Working relationship between internal controls and performance.
Source: Adapted from COSO (2011) and Odogo, Gesare and Nyangol (2014)

Chapter Summary

The chapter threw light on MFIs and the performance of the MFIs. This chapter focused mainly on microfinance in the central region because it is one of the poorest regions in Ghana lacking development and lesser contributor to the country's economic growth. The review of related literature and theories suggest that internal controls have effect on performance. The vast studies on internal control systems and performance focused on commercial financial institutions and manufacturing enterprises with MFIs left in the gap.

CHAPTER THREE

RESEARCH METHODS

Introduction

The research approach, research design of the study, the population of the study, and the sample size used are addressed in this chapter. This chapter also provides information on the sampling technique that was employed and the type of instruments used to collect data from the respondents. The source of data for the study and how the data was analysed arealso covered. It also considers ethical issues with respect to data analysis and presentations.

Research Approach

Quantitative Research Approach guides this particular study. Quantitative Research Approach requires collecting data and converting them into numerical form so that statistical calculations can be made and conclusions drawn (Glass & Hopkins, 1984). Data is collected by a strict procedure using structured questionnaires and analysed to that effect. A simple relationship is used for the analysis. External factors that may affect the results are controlled. The emphasis will be based on deductive reasoning which moves from general to specific. The main reason for this quantitative approach is to help examine the association between performance and internal control of MFIs.The generalisation of the study will be based on the area and situation under study.

Research Design

This study uses descriptive research designed. Glass and Hopkins (1984) stated that descriptive research design involve gathering data that describe events and then organises, tabulates, depicts and describes the data collection. The researcher adopted graphs and charts to aid the understanding of the data distribution. Again, description would be used as a tool to organise data into patterns that emerge during the analysis. Because a quantitative approach is adopted, a survey method is used to collect the data for the analysis. The report would be based on summary data such as central tendency and deviance from the mean, percentages and correlation between variables. The present study assesses how internal control systems of selected microfinance institutions and how it influences their performance. The study sampled microfinance institutions located in Central Region of Ghana. Self-designed questionnaire is administered to respondents of the study. To the best of the researchers' knowledge, this is the first study to look at internal control systems of microfinance institutions in the Central Region of Ghana.

Study Area

The Central Region occupies an area of 9,826 square kilometres of 4.1% of Ghana's land area, making it the third smallest in area after Greater Accra and Upper East. As of the year 2010, the population was 2,201,863, which accounted for 8.9% of the population of Ghana (Ghana Statistical Service, 2010).

The types of occupation of person 15 years and older employed in the Central Region as at 2010 are as follows: (i) skilled agricultural, forestry and fishery workers form the largest occupations group in the region, employing 42.5% of all employed persons; (ii) service and sales workers (20.3%); (iii) 17% of the employed engaged in crafts and related trades; and (iv) managers, professionals, associate professionals and technicians altogether form 9% of employed persons (Ghana Statistical Service, 2010). Many of the self-employed are in the informal sector who have less knowledge in commercial banking. The main concern and area of interest is the fact that majority in the informal sector money ends up in many microfinance institutions and their money should be protected by international best practices engaged by these institutions. It is important that internal control practices in these institutions are well developed and enhanced.

Study Population

The population for this study is made up of both employees and managers of microfinance institutions located within the Central Region of Ghana. The research however, will concentrate on employees who work interfaces directly with internal control functions. Thus, the researcher will target employees in departments like accounting and finance, internal audit and control department as well as senior management positions. In addition, employees outside these departments will also be surveyed to provide some validity to our findings. The licensed microfinance institutions in Ghana by the Bank of Ghana specifically in the central region are used for the study.

Sample and Sampling Technique

The Bank of Ghana has licensed 25 MFIs in the central region which are in good standing.24 of the MFIs are selected for the study. The selection was based on the MFIs which have operated in the central region for the past two years and beyond. The manager and the finance officer were selected for the study because they oversight responsibility of the internal control systems of the institutions. The study is thus limited to managerswho oversee the day-to-dayactivities of MFIs and finance officers who implement the internal control systems. This type of probability sampling is based on a stratified sampling. The choice of this technique can help to get the require responses needed for the study since these staff have knowledge in internal control systems.

Sources of Data

Primary data are used for the study. The primary data are collected using a self-administered questionnaire as the main instrument used for study. The researcher adopted close-ended questions in soliciting information from the respondents (MFIs). Close-ended question does not allow respondents to express their opinion, but to answer the questions provided.

Research Instruments

A questionnaire is simply a tool for collecting and recording information about a particular issue of interest. With this objective in mind, the researcher adopted questionnairesfor the study. The questionnaires used for the study are made up of a list of questions with clear instructions and space for answers and administrative details.

Questionnaires were designed with definite purpose that is related to the objectives of the research, and it is clear from the outset. Structured questionnaires are issued for the study to achieve the specific objectives of the study and because the research approach is quantitative and needs to find some association.

Data Processing and Analysis

Data collected from the field was edited and some instruments that were not completed were returned to be completed by the respondents. The researcher ensured that information imputed were accurate. All the instruments used were serially numbered to enhance easy identification and correction in the event of any wrong entry into the software for the analysis. Data were sorted, edited, coded and analysed with the Statistical Product and Service Solution, SPSS 21.0 after which data was presented in frequencies, percentages and charts for interpretation and results tested.

Ethical Issues

The moral practices and values that influence the way a researcher undertakes research activities is referred to as ethics. The findings of this study have been objectively and honestly reported as these are the most significant and valuable aspect of business ethics. The results of the test are not distorted to fit the purpose it is intended for.

Chapter Summary

This chapter provided the research methods adopted for the study and the relevance of the selected methods. In general, a quantitative approach was used supported by a descriptive survey method used in the presentation and the analysis of data. A brief background of the study area was given to help better understand the characteristics of the study area. A total of 24 out of 25 MFIs were sampled for the study and the selection was based on MFIs licensed by Bank of Ghana and have operated for more than two years.

CHAPTER FOUR

RESULTS AND DISCUSSION

Introduction

Thechapter presents detailed presentations, analysis of data and the discussion of the findings of this research work. The comprehensive findings in this chapter are based on both primary and secondary data gathered from the Microfinance institutions. The analysis is based on descriptive analysis and the results are presented in tables. The discussion is based on the objectives of the research work that was altered into the research questions. The analyses were presented in accordance to the research objectives.

Background and General Information of MFIs

To be able to have a fair idea of who the MFIs of this research were, the background and general information of the MFIs are first established. The distribution of the survey by years of operation is achieved first. The number of years in operation is important because that can tell the maturity of some of these microfinance institutions. On the issue of operating years, 12 (50 percent) of the microfinance institutions have existed for more than five years, 10 (41.7percent) of them also have being business for close to five years and only 2 (8 percent) have being in business for the last three years.

Table 1:*Number of Years in Operation*

Operating years	Frequency	Percent
1-3 years	2	8.3
4-5 years	10	41.7
More than 5 years	12	50.0
Total	24	100.0

Source: Field Survey

The risk of doing business in the financial sector increases day in and day out. That is to say that microfinance can be exposed to risks frequently in the sector that they operate and these risks are also changing continuously. An effective internal control system may help in monitoring and controlling these risks if not eliminating them in totality. The monitoring of internal controls requires frequent review of the internal control practices to identify potential risks and sealed them and not when suspicious transactions are identify in the control environment due to weakening activities. Evaluating the quality of the system performance with passage of time requires these microfinance institutions to incorporate internal controls reviews into their frequent activities.

To be able to know how effective these institutions are monitoring their control activities, the researcher solicited information from the respondents on the frequency of review of internal controls. Table 2 shows that effects.

Table 2:*Frequency of Review of the Internal Control System*

Review	Frequency	Percent
Semi-annually	12	50.0
Annually	6	25.0
Every five years	2	8.0
When need arise	4	17.0
Total	24	100.0

Source: Field Survey

Table 2 shows how the respondents reacted to the frequency of review. 12 (50 percent) of the respondents review their controls semi-annually, 6 (25 percent) of the respondents do so annually and 2 (8 percent) do so every five years. Another interesting findings was that, 4 (16 percent) do review their internal control systems when the need arise. Those with these responds do not have stipulated time for the review of controls and in that case they may do them monthly, quarterly or even weekly. It does not necessarily meantheir internal control system is weak.

One key component of internal controlsystems is the control environment that encompasses the structures and values within the organisation. Controls designed to generate reliable financial reporting are more likely to succeed if the company's culture, including the "tone-at-the-top" established by senior management, reflects the importance of integrity and ethical values and a commitment to reliable financial reporting. Some indicators of a positive control environment include statements and actions of the board of directors and senior management that demonstrate support for effective controls; issuance and enforcement of an appropriate corporate code of conduct; and training programs that equip employees to identify and deal with ethical issues.

To be sure that managers and accountants/internal auditors have knowledge on internal control since they implement the control systems, the results stated in table 3. Out of the 48 active respondents, 36 (75 percent) have reasonable knowledge in internal control systems and how it works, 12 (25 percent) responded of no knowledge in internal control systems. These results are quite good since majority of the respondents' knowledge in the control systems can help ensure its effectiveness.

Table 3: *Knowledge of Internal Control Systems of Microfinance Institutions*

Reasonable Knowledge	Frequency	Percent
Yes	36	75.0
No	12	25.0
Total	48	100.0

Source: Field Survey

Because internal audit department has an active role in ensuring effective internal controls, the researcher sought to find whether these microfinance institutions have internal audit. Out of 24 microfinance institutions, 17 representing 70.8 percent agreed to the fact that they have internal audit department and 7 representing 29.2 percent have no internal audits department as indicated in table 4.

Table 4: *Internal Audit of Microfinance Institutions*

Internal Audit	Frequency	Percent
Yes	17	70.8
No	7	29.2
Total	24	100.0

Source: Field Survey

The 70.8 percent who claim they have internal audit departments provided some of these reasons: (i) to make sure that all the systems of the internal controls are working effectively as expected, (ii) to ensure checks and balances of the structures of the organisation, (iii) to audit the various branches of the institution, (iv) to ensure compliance with the institution's policies and regulations, and (v) internal audit department is responsible for monitoring and evaluating the adequacy of the internal controls of the organisation. With those that do not have internal audit department, these are some of the reasons provided: (i) high cost of implementing internal audit and (ii) the organisation is too small to have internal audit department. As part of ensuring effective internal control systems, board of directors of organisations is advised to create audit committees. The audit committee's activities usually include discussing with management of significant control deficiencies and their potential impact on performance after review and assessment. If an organisation has an internal audit, its work often includes testing controls and informing the audit committee of its findings.

Implementing internal controls is not an easy task since it has its own challenges. Small organisations are frequently victimised and tend to suffer disproportionately large losses from ineffective internal control systems. Implementing properly designed controls with limited resources can be challenging, however, not addressing the deficiencies can expose the business to operational and financial risks and losses. On the issues of challenges affecting the internal controls of the microfinance institutions, 76 percent blame poor or lack of segregation of duties, 72 percent also claim inadequate policies and procedures, with 82 percent blaming managerial oversight. For an effective internal control, these challenges need to be addressed vigorously by audit committees or internal audit department. Table 5 shows how the respondents reacted to the various challenges presented to them.

Table 5:*Challenges Affecting the Implementation of Internal Control Systems*

Internal Control Challenges	Responses
Lack of segregation of duties	38(76%)
Inadequate policies and procedures	36(72%)
Inadequate supporting documents	27(54%)
Managerial oversight and review of controls	41(82%)

Source: Field Survey

What Internal Control Systems Exist Within the Microfinance Institutions?

COSO (2011) developed the internal control component and stated all the five components should be interrelated in their implementation to properly affirm that internal control exist in organisations and are actually effective. Gamage et al (2014)posited that the working relationship of the control components is an indication that the internal control systems are effective. Rajkumar (2009) stated that the entire control system cannot be said to be effective if there is no link between it and the achievement of the objectives of the firm. Based on these related findings, the study adopted the COSO 1992 framework of internal controls to examine the internal controls of MFIs.

The 1992 COSO Report gave these factors for control environment: (i) the integrity, ethical values and competence of an organisation's employees; (ii) management's philosophy and operating style; (iii) the way management assigns authority and responsibility as well as organises and develops its employees; and (iv) the attention and direction provided by the board of directors.

To be able to evaluate the effectiveness of the control environment, the basic components of the control environment were used. Table 6 contains the responses.When it comes to an effective controls, commitment and attitude of the employees and management towards internal controls is an important area of concern. An organisation can have all the controls running but if management and employees don't show or demonstrate their commitment to its running, the objectives of the controls will not be achieved. Out of the 48 active respondents 11 (22.9 percent) are of the view that they strongly agree to the fact that there is commitment to the effective implementation of the internal controls, 24 representing 50 percent agree and 12.5 percent disagree with 14.6 percent failing to disagree or agree to that management commitment. Management integrity and ethical values also shape the control environment. On that note 15 (31.3 percent) of the respondents strongly agree that the organisation and its management demonstrate commitment to integrity and ethical values, 27 representing 56.3 percent agreed, 10.4 percent were neutral and 2.1 percent disagree. Simons (1987) conclusions affirm this finding. Cohen and Sayag (2010) observed that effective internal control systems are linked to working control environment.

Segregation of duties in an organisation and for that matter microfinance institution can be great task due to the less number of employees in these institutions. In a typical organisation, management has defined roles they perform and designated responsibilities designed for the staff of the organisation. Having a defined roles and responsibilities ensure order of work and help determine people who fail to perform their task as scheduled. Where there are no cases of segregation of duties, internal controls become difficult to operate. Based on this, the respondents in their attempt to appreciate the concept decided as follows, 11 out of the 48 respondents strongly agreed that there is a clear defined roles and responsibilities with appropriate authorities, 29 (58 percent) agreed and only 6.3 percent disagree that there are segregation of duties in their organisation.

Simons (1987) and Cohen and Sayag (2010) argued that internal control system effectiveness depend on a good control environment and provided some guidelines to assess the control environment in line with the COSO 1992 framework. This study tends to agree with the findings of Simons (1987) and Cohen and Sayag (2010). The control environment is firmly active in microfinance institutions.

Table 6: *Respondents Reactions to the Element of Control Environment*

Control environment item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Commitment to integrity and ethical values	15(31.3%)	27(56.3%)	5(10.4%)	1(2.1%)	-
2. Board of Directors demonstrate independence of management	17(35.4%)	23(47.9%)	12(12.5%	2(4.2%)	-
3. Management commitment	11(22.9%)	48(50%)	7(14.6%)	6(12.5%)	-
4. Appropriate authorities and responsibilities	11(22.9%)	29(58%)	5(10.4%)	3(6.3%)	-
5. Individuals held accountable for internal control	14(29.2%)	25(52.1%)	5(10.4%)	2(6.3%)	1(2.1%)
6. Management oversight structures and clear reporting lines	8(16.7%)	28(58.3%)	9(18.8%)	2(4.2%)	2(2.1%)
7. Codified standards of conduct to guide behaviour and activities	8(16.7%)	20(41.7%)	14(29.2%)	5(10.4%0	1(2.1%)
8. Policies and procedures for all activities	8(16.7%)	28(58.3%)	9(18.8%)	2(4.2%)	1(2.1%)

Source: Field Survey

Also, 17 (35.4 percent) believed that board of directors independence is an important tool to ensure that the system works effectively, 23 (47.9 percent) agree and 12 (12.5 percent) decided to remain neutral or fail to agree or disagree to such response. The independence of board of directors helps to allow management to fully implement and monitor a control system that is designed based on the advice of the audit committee and or the internal auditors. Management responsibility to avoid fraud and errors in a running control system can be welcome when the independence of management is achieved.

Because responsibilities and authorities come with accountability, on whether these people can account for their responsibilities, 14 (29.2 percent) strongly agree that they are held accountable for their roles and responsibilities in the organisation, 25 (52.1 percent) agree, 5 (10.4 percent) neither agree nor disagree with only 2.1 percent strongly disagree. Holding individuals accountable for breach of internal controls can ensure its effectiveness. 8 out of the 48 respondents representing 16.7 percent strongly agree that management establishes with the supervision of the board and appropriate structures and reporting lines. 58.3 percent agree and 4.2 percent disagree whiles 18.8 percent did not agree or disagree to the statement. Management should do their best to ensure that the appropriate reporting lines are clear enough to report suspicious transactions as when they arise.

While it is not possible or even desirable to install controls for every possible risks or threat, the purpose of risk assessment is to identify organisational risks, analyse their potential in terms of costs and likelihood of occurrence, and implement only those controls whose projected benefits outweigh their costs. A general rule is: the more liquid an asset, the greater the risks of its misappropriation. Microfinance institutions have greater percentage of their assets in liquid form and as per the general rule they are prone to misappropriation of assets. COSO 1992 Report stressed that, to compensate for the increased in risks, internal controls are required. COSO 2004 Enterprise Risk Management Framework observed that for an enterprise to manage its risk effectively it has to set objectives and do event identification and risk response since they may deal with a variety of uncertainties because many events are beyond the control of management.

The study also investigated the risk assessment of the microfinance institutions based on the COSO 1992 Report on Risk Assessment and the 2004 COSO Enterprise Risk Management Report. To deal with efficiency, profitability and performance of firms, risk is not neglected. According to table 7, 27 (56.3 percent) agree that the organisation has specify objectives for the purpose of risk assessment, 13 representing 27.1 percent strongly agree and the whiles 8.3 percent disagree to that fact with 4.2 percent strongly disagreeing. The low response in those that strongly agree as against agree is something that management is required to do something about it. That is, the objectives should be clear enough for easy understanding and interpretation. A good specification should lead to the identification of risk and the assessment of its potential threat to the performance of the enterprise, majority of the respondents agreed to that effect representing 23 (47.9 percent), 13 (27.1 percent) strongly agree and 7 (14.6 percent). Those that disagree mean that even if there is an objective it is not clear enough for risk identification and assessment. Microfinance institutions should work on this.

Risk mitigation is desirable so management must put mechanisms in place for its identifications and prevention. On the issue of whether there are mechanisms in place for mitigating risks related to fraud and fraudulent reporting, 11 (22.9 percent) strongly agree 26 (54.2 percent) agree and 14.6 percent disagree with 2.1 percent strongly disagree and 6.3 percent decided not to comments. Due to this risk mitigation factor again, 10 (20.8 percent) are of the view that they strongly agree that there are clear reporting lines for reporting suspicious transactions as and when they arise, 27 (56.3 percent) agreed and 10.4 percent disagree and 12.5 percent remaining neutral. Those that disagree may mean that even if there these reporting lines it is not clear enough to track suspicious transactions. Table 7 has the details of these results or findings.Byanguye (2007) recommended that effective internal control systems that create value for money should be seen as effective risk analysis. What Siayor (2010) found is evidence in the microfinance institutions. Risk affect performance and the ineffective of the control systems can contribute to the poor performance of financial institutions (Siayor, 2010).

Table 7: *Risk Assessment Attitude of Microfinance Institutions*

Risk Assessment Attitude		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Objectives Specification with Clarity	13(27.1%)	27(56.3%)	2(4.2%)	4(8.3%)	2(4.2%)
2.	Objectives Clarity enables identification of risk	13(27.1%)	23(47.9%)	4(8.3%)	7(14.6%)	1(2.1%)
3.	Clear lines for reporting suspicion transactions	10(20.8%)	27(56.3%)	6(12.5%)	5(10.4%)	0(0%)
4.	Criteria for fraud assessment	11(22.9%)	26(54.2%)	3(6.3%)	7(14.6%)	1(2.1%)

Source: Field Survey

How effectively is Internal Control Systems Integrated in MFIs

Ayagre, Appiah-Gyamerah and Nartey (2014) examined financial institutions' internal control systems the how integrated they are in the operating activities of the banks. For Ayagre, Appiah-Gyanerah and Nartey (2014), an internal control system is well integrated when the control activities, information and communication and monitoring is able to detect risk in the control environment and eliminate them. This study adopted their approach. Internal control is a system structured within the organisations whose goals are to raise efficiency and effectiveness of activities, communication and information and the monitoring of these activities. The integration processes ensure that all the designs are working as expected.

The control activities can be integrated in the daily activities of microfinance institutions when the organisation selects and develops control activities, 16 (33.3 percent) strongly believe that the organisations select and develop control activities, 22 (45 percent) agree, 5 (10.4 percent), neutral, 3 (6.3 percent) disagree and 2 (4.2 percent) strongly disagree. Control activities should contribute to risk mitigation, on the average 13 (27.1 percent) strongly agree, 27 (56.1 percent) agree, 4 (8.3 percent) neutral, 2 (4.2 percent) disagree with 2 (4.2 percent) strongly disagree. Also, policies and procedures should exist to prevent alteration or inceptions of records and this should be part of the objectives and plans for the organisations at the inception of the year, 17 (35.4 percent) strongly agree, 21(43.8 percent) agree, 8 (16.7 percent) neutral and 2 (4.2 percent) disagree with none strongly disagree. On the accounts of whether the organisation deploys control activities as manifested in the organisation's policies documents, 17 (35.4 percent) strongly agree, 20 (41.7 percent) agree, 5 (10.4 percent) chose to remain neutral and 5(10.4 percent) disagree whiles the 2.1 percent strongly disagree. It can be noted that control activities are integrated from the responses but not highly integrated in the daily operations of microfinance institutions. Table 8 shows that information.

Table 8: *Control Activities as System Integration*

Control Activities	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Organisation selects and develops control activities	16(33.3%)	22(45%)	5(10.4%)	3(6.3%)	2(4.2%)
2. Control activities contribute to risk mitigation	13(27.1%)	27(56.1%)	4(8.3%)	2(4.2%)	2(4.2%)
3. Procedures and polices exist to prevent interception of records	17(35.4%)	21(43.8%)	8(16.7%)	2(4.2%)	------
4. Organisation deploys control activities as manifested in policies	17(35.4%)	20(41.7%)	5(10.4%)	5(10.4%)	1(2.1%)

Source: Field Survey

Table 9 looks at how the microfinance institutions deal with generating and using relevant information to support internal control processes as well as communicating it when necessary. Managers must inform employees about their roles and responsibilities pertaining to internal control systems or even giving them documents such as policies and procedures manuals.On the average,13 (27.1 percent) strongly agree, 24 (50 percent) agree, 10 (20.4 percent) neutral, 2.1 percent disagree and none strongly disagree. On similar note 11 (22.9 percent) strongly agree, 17 (35.4 percent) agree and 2 (4.2 percent) and 17 (35.4 percent) remaining neutral on account that the organisation generates enough information for communicating internal control practices to external parties such as external auditors, who have roles in a good internal control systemsbased on the recommendations they provide, 13 (27.1 percent) strongly agree, 24 (50 percent) agree, 7 (14.6 percent) neutral, 3 (6.3 percent) disagree and only 1 (2.1 percent) strongly disagree.

Table 9: *Information and Communication as System Integration*

Information and Communications	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Organisation generates information on internal process	11(22.9%)	17(35.4%)	17(35.4%)	2(4.2%)	1(2.1%)
2. Relevant information to support other components	13(27.1%)	24(50%)	10(20.8%)	1(2.1%)	------
3. Matters affecting internal controls are communicated to external parties	13(27.1%)	24(50%)	7(14.6%)	3(6.3%)	1(2.1%)
4. Individuals responsible for coordinating controls	7(14.6%)	20(41.7%)	12(25%)	8(16.7%)	1(2.1%)

Source: Field Survey

Internal control monitoring practices require ongoing evaluations, separate evaluations or a combination of both to determine whether the other components are functioning as expected. Managers at various levels in the organisation must evaluate the design and operation of controls and then initiate corrective actions when specific controls are not functioning properly. Out of the 100 percent respondents, 24 (50 percent) agree, 11 (22.9 percent) strongly agree, 9 (18.8 percent) neutral and 4 (8.3 percent) disagree that the organisation has installed on going evaluations to ascertain functionality of internal controls. 12 (25 percent) strongly agree that the organisation evaluates control deficiency in a timely manner, 24 (50 percent) agree, 3 (6.3 percent) remained neutral, 8 (16.7 percent) disagree and 2.1 percent strongly disagree. Timely nature of correcting deficiencies is important to prevent reoccurrence of errors which may affect the objectives of the business. Internal audit role in controls monitoring requires their independence to extent, on issue of independence of internal audit in evaluating controls, 11 (22.9 percent) strongly agree, 23 (47.9 percent) agree, 9 (18.8 percent) neutral and 3 (6.3 percent) strongly disagree. Microfinance institutions should resource their internal audit department to ensure effective monitoring and evaluations. Table 10 shows the details.

Yu and Kang (2015) conceived that weaker internal control systems may be as a result of poor internal control integration in the operations of the organisations. From this analysis, the study discovered that internal control is integrated in the system of operations of microfinance institutions and that is because they have effective controls. Odogo, Gesare and Nyangol (2014) and

Mutesi (2011) confirm the study of Ayagre, Appiah-Gyamerah and Nartey (2014) observations in the banking sector. With this approach, it largely agreed that internal control systems are integrated in MFIs operating activities

Table 10: *Internal Control Monitoring and System Integration*

Monitoring Controls	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Organisation select and on-going evaluations to ascertain functionality of controls	11(22.9%)	24(50%)	9(18.8%)	4(8.3%)	------
2. Organisation evaluates control deficiencies in a timely manner	12(25%)	24(50%)	3(6.3%)	8(16.7%)	1(2.1%)
3. Organisation communicates internal control deficiencies in timely manner	14(29.2%)	22(45.8%)	6(12.5%)	3(6.3%)	3(6.3%)
4. There is independent internal audit unit	11(22.9%)	23(47.9%)	9(18.8%)	2(4.2%)	3(6.3%)
5. Senior management board of directors are involve in the process	9(18.8%)	32(66.7%)	3(6.3%)	3(6.3%)	1(2.1%)

Source: Field Survey

Do Internal Control Systems influence the Performance of Microfinance Institutions?

For Sollenberg and Anderson (1995), performance is measured by how efficient the enterprise uses its resources to achieve its objectives. Babatunde and Shakirat (2013) observed that effective internal control systems play a vital role in ascertaining financial accountability and that there is significant relationship between accountability and effective internal control systems. If an organisation is able to achieve its objectives then, it is performing well. So, the study wanted to know whether internal control systems can help microfinance institutions to achieve their corporate objectives. Byanguye (2007) stated that as the financial sector grows, the risk of doing business also increases and as a result, the performance of the individual institutions in the sector is at stake. Despite the numerous control systems put in place by microfinance institutions, these institutions may still face inefficient allocation of resources, fraud and malfunctioning of internal controls that may affect the institutions as they strive to achieve their financial objectives.

To examine whether the control environment contribute to the performance of MFIs by help them achieve their corporate objectives, MFIs were asked to rate the element of the control environment to the extent that they contribute to performance. From a scale of Very High to Very low the responses of the MFIs showed that the elements in the control environment contribute to their performance. Sollenberg and Anderson (1995) used the same elements and came out with resultconsistent to these. With a mean score of 1.85 and standard deviation of 0.272, MFIs asserted that organisational commitment to integrity and ethics help them achieve their corporate objectives. Likewise Shakirat (2013) also showed that the independence of board of directors from management operations contribute to the success of their operations. Board of directors' independence seem to help MFIs to achieve their objectives. The mean score for the independence of the directors as a contribution to the achievement of organisational goals was1. 85 with a variation of 0.922 which is more close to what Shakirat (2013) found.

Should management have enough authority to carry out their mandate? For COSO (2004) as cited in Abbas and Iqbal (2013) and Affum (2011) indicated that where management lack the require authority and capacity to function it affects the performance of the organisations. With respect to COSO (2004) and Afum (2011), MFIs were assessed based on the require authority to function. The average score was 1.81 and deviation from the mean of 0.704 indicating that authority to function does help to achieve corporate objectives. On the issue of accountability of individuals to internal control activities, it was found that where managements are held accountable for internal control activities, the objectives of MFIs can be achieved hence performance. Good corporate governance was also a factor that contributes to the achievement of MFIs objectives. The descriptive statistics can be seen in Table 11.

Table 11: *Descriptive Statistics on Control Environment for the Achievement of objectives*

Control Environment	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
1. Commitment to Integrity and ethics	1.85	.272	1.131	.343
2. Independent of the board	1.85	.922	.980	.343
3. Designation of authority for mgt	1.81	.704	.282	.343
4. Accountability of individuals	1.73	.610	.798	.343

Source: Field Survey

Risk assessment when done purposely can reduce the potential risk of the business that threatens its performance and survivor. A good risk assessment is said to boost performance of microfinance institutions.From table 12, an average of 1.85 and a deviation of 0.746 is a good case to tell that risk assessment in microfinance institutions allows them to achieve their corporate objectives. On clarity of organisation's objectives with respect to risk assessment, an average score of 1.98 and a standard deviation of 0.758, a mean of 1.79 and a standard deviation of 0.683 of the level of risk identification within the organisation is a good case of risk assessment contributing to the performance of the organisations. Organisations' attitude to risk is in with respect to how it responses to potential risk. A mean score of 1.79 and standard deviation of 0.798 was recorded. What this tells is that, the more microfinance institutions observe risk assessment, the higher they perform. Microfinance institutions if they will perform would be based on how they handle their risk.

Table 12:*Descriptive Statistics of Risk Assessment and Performance*

Risk Assessment	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Clarity of objectives	1.98	.758	.648	.343
Level of risk identification	1.79	.683	.706	.343
Response to risk	1.79	.798	.924	.343

Source: Field Survey

Control activities as a component of internal controls work well to the achievement of the objectives of the organisation. Microfinance institutions are likely to tighten their control activities so long as it contributes to the performance of the institutions. The results for the descriptive statistics are exhibited in table 13. The selection and development of control activities such as ensuring a good segregation of duties from table 13 had a mean score of 1.77 and a standard deviation of 0.592. Organisation's control activities should mitigate its potential risks. On that note, its contribution to the achievement of objective showed an average of 1.75 and a variation of 0.601. Also a mean score of 2.04with a standard deviation of 0.683 went in for organisation control over its technology.

Table 13: *Descriptive Statistics for Control Activities*

Control Activities	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Selection and development of controls	1.77	.592	.097	.343
Control activities and Risk mitigation	1.75	.601	.153	.343
Control over technology	2.04	.683	-.052	.343

Source: Field Survey

Table 14 shows how the respondents reacted to information and communication of internal control systems to the achievement of corporate objectives. From table 14 it can be stated that indeed communication and information of internal controls help achieve the corporate objectives of the firm. From a mean score of 1.83 and a standard deviation of 0.519 indicate that the process of generating and processing information on internal control systems contribute to achievement of corporate objectives. Again, on the issue of the use of relevant and quality information to support other components of internal controls, an average of 1.77 with a standard deviation of 0.641 was reported. The communication of internal control information across the organisation helps the organisation to appreciate the internal control processes, its average score was 1.86 and standard deviation of 0.734. It can be concluded that communicating internal controls leads to performance as organisations achieve their objectives.

Table 14:*Descriptive Statistics of Information and Communication as a Control Component*

Information and Communication of internal controls	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Information gathering	1.83	.519	-.229	.343
Use of relevant information	1.77	.641	.126	.381
Communication of controls	1.86	.734	.286	.412

Source: Field Survey

Monitoring activities of the internal controls of microfinance institutions require that management evaluates control activities, communicates deficiency and provides appropriate corrective measures. From table 15, it is evidenced that an average of 1.83 of the responses indicates that management monitor controls which contributes to their achievement of their objectives. On the communication of deficiencies an average of 1.85 is high enough to tell how management respond to deficiencies and correct them to achieve the objectives of the study. All these monitoring of activities work well to achieve the organisational objectives and performance.

Table 15: *Monitoring Activities and Performance*

	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Std. Error
Controls evaluation	1.83	.724	.616	.343
communication	1.85	.684	.608	.343
Corrective measures	1.73	.644	.315	.343

Source: Field Survey

To conclude, internal control systems components contribute to the achievement of corporate objectives and hence performance. Ndamenenu (2011) and Ayagre, Appiah-Gyamerah and Nartey (2014) found that effective internal controls improve the performance of financial sector firms. Odogo, Gesare and Nyangol (2014) stated that effective internal controls contribute to the achievement of corporate objectives and enhance firm value of banks in Kenya.

Table 16: *Internal Control Components contribution to Performance*

Components of Internal Controls	Mean	Standard Deviation
Control environment	1.81	0.627
Risk assessment	1.85	0.746
Control activities	1.85	0.625
Information and communication	1.82	0.631
Monitoring of controls	0.8	0.684

Source: Field Survey

Control is effective when all the five components have been actively integrated into the systems of the business and are functioning to prevent fraudulent reporting, misappropriation of assets, corruptions and fraud related activities. Respondents were asked to rate from a scale of 1 to 7, from 1 poor to 7 outstanding. On the average, the effectiveness of the internal control systems of microfinance institutions was rated 5. Only 2 rated outstanding and 4 as poor. This suggests that the internal control systems of microfinance institutions are effective but not outstanding. Again, the maximum rating was 7 as outstanding, but only 4.2 percent of the respondents claim they have an outstanding performance with the least rating being 3 and also only 4.2 percent rated their effectiveness of internal control in this regard.

Table 17: *Descriptive statistics for the Effectiveness of Internal Control Systems*

Statistics	Score
Mean	4.94
Mode	5
Std. Deviation	.885
Range	4
Minimum	3
Maximum	7

Source: Field Survey

Performance of microfinance institutions in Ghana are influenced by the effectiveness of internal controls systems. Microfinance institutions should initiate corrective actions only if corrective controls are in place. Good corrective controls should remedy problems it discovers by the detective controls and help the performance of the institution. In as much as preventive controls cannot stop possible problem from occurring, microfinance institutions also need such detective controls to alert managers when the preventive controls fail.

Microfinance institutions may have different or unique accounting system; there are no standardised control procedures that will work for all microfinance institutions. This means that each institution designs and implements specific controls based on its particular needs and potential risk level. However, certain control activities are common to every organisation's internal control systems and microfinance institutions have to emulate: (i) a good audit trail, (ii) sound personnel policies and practices, (iii) segregation of duties, (iv) physical protection of assets, (v) internal reviews of controls, and (vi) timely performance report. These basic control activities will enhance the performance of the microfinance institutionsif handled effectively.

To sum up, internal control components are effective in microfinance institutions since the various components are working towards the achievement of corporate objectives. Also, microfinance institutions documentation of internal control systems is evidenced in the evaluation process of the internal control systems as the components of effective internal controls cannot be achieved if there are no standard evaluation procedures. Siayor (2010) on Norwegian financial institutions observed that internal control systems contributed to the performance of the banks during the financial crisis between 2007 and 2009. Because Yu and Kang (2015) found that weaker internal control system contributed to higher discretionary loan losses and false financial reporting, it recommended that MFIs should strengthen their internal control systems though this study finds that it is effective and properly integrated.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The study was aimed at investigating the effects of internal control systems on the performance of twenty four (24) selected microfinance institutions in the Central Region of Ghana. This chapter summarises the research findings and how the primary data were obtained for the study. It further gives the conclusion of the study and offers some recommendations in line with the objectives of the study. The chapter thus draws a conclusion of the findings of the research and makes the necessary recommendations to help ensure that internal controls work effectively in microfinance institutions to boost their performance.

Summary of Findings

The objectives of the study were to examine the internal control systems that exist within the microfinance sector, to determine how effectively these internal control processes are integrated into the day-to day operations of microfinance institutions and to determine whether internal control systems influences the performance of microfinance institutions. The study adopted a descriptive survey method for the analysis using 24 licensed MFIs in the Central Region. The findings of this study is summarised in the proceeding paragraphs.

The study reveals that internal control systems in microfinance institutions are improving despite challenges in implementing effective internal controls. About 50 percent of the respondents review and evaluate their internal control systems semi-annually and 25 percent annually.

Also,further analysis reveals that 75 percent of the respondents have knowledge in internal control practices and actively participate in the implementation of the internal control systems to ensure its effective running in the organisation. Because internal control systems are not easy task when it comes to their implementation, majority of the respondents stated these challenges as hindrance in the course of implementation of controls: lack or poor segregation of duties, inadequate policies and procedures, inadequate supporting documents and literature on internal controls, managerial oversight and review of controls and user access rights for every information.

The study also reveals that 70.8 percent of the respondents had internal audit department. This is good for effective implementation of internal controls. With those that do not have internal audit cited these as the main causes; cost involve and the small nature of microfinance institutions to have internal audit. Control environment in microfinance institutions is working effectively with respect to the elements of the control environment andas a result, an average of 65 percent of the respondents agreed to the fact that the control environment is effective with respect to the elements. The study again pointed out that the risk assessment among microfinance institutions is high as an average of 73 percent agreed to that effect.

Internal control systems integration in the microfinance institutions were assessed by the control activities, information and communication of internal controls and the monitoring of internal controls based on the COSO 1992 and 2004 Framework. It was revealed that these internal control components are functioning well. An average percentage of 74 percent was recorded for the performance of the internal control activities for microfinance institutions, 67 percent for communication and information of internal controls and average of 64 percent for monitoring of activities. The more the system is integrated, the more effective is its functioning. Microfinance institutions should do their best to ensure that the system is properly integrated to ensure its effectiveness and smooth running toward the achievement of the objectives of microfinance institutions.

Furthermore, the study revealed that effectiveness of the components of the internal control systems affects the financial objectives of the microfinance institutions. Using the internal control components to assess the performance of microfinance institutions, an average of 1.81 and a standard deviation of 0.627 were recorded for the control environment's contribution to the achievement of the objectives of microfinance institutions from a scale of 1 to 5 ranging from very high 1, high 2, moderate 3, low 4, and very low 5. On similar case, the risk assessment had a mean score of 1.85 and a standard deviation of 0.746.

The other components reported a mean score and standard deviation as follows; 1.85 and 0.625 for control activities, 1.82 and 0.631 for information and communication of internal controls and 1.8 and 0.682 for monitoring of activities. The high contribution of the various components to the contribution of the achievement of the objectives and hence performance of microfinance institutions is something that needs much attention from both management and board of directors. If microfinance would achieve results from their operations, internal controls should not be relegated.

The study also reveals that the effectiveness of internal control systems among microfinance institutions is good based on the rating that they gave on the performance of the internal control systems. From a scale of 1 to 7, from poor to outstanding, the respondents averagely chose 5 to rate the effectiveness of their internal control systems with a standard deviation of 0.885. The least among them was 3 and a maximum of 7. It can be stated that internal control is indeed effective in microfinance institutions. Microfinance institutions should tighten their control systems to ensure high performance.

Conclusion

It is believed that some interesting synergies may have happened as result of companies becoming Sarbanes Oxley Acts complaints. The purpose of the act was to improve transparency and accountability in business processes and financial accounting. For this to happen, internal auditors and management of corporate entities are required to study their internal processes very carefully by ensuring that their internal control systems work effectively to detect fraud and error or even to prevent them. Microfinance institutions should stress on internal controls to improve their operations.

Again, it is evidenced that internal control systems influence the performance of microfinance institutions. Microfinance institutions should develop optimal internal control package by applying the cost-benefit concept and analysis. The control procedures expected to be implemented should be based on cost-benefit analysis. Thus, compares expected cost of designing, implementing, and operating each controls to the control's expected benefit. Those controls whose benefits are expected to be greater need than or at least equal to the expected costs must be implemented. Microfinance institutions are expanding and the risk of doing business in the industry is high.

The short comings which surround internal controls implementation among microfinance institutions make it difficult for these institutions to actually benefit from the internal control components they implement and sometimes become unprofitable to these microfinance institutions. But microfinance institutions appreciate the importance of effective internal control systems and are working hard to ensure it effect on performance.

Recommendations

The findings of this research havebrought to the fore the merits that effective internal controls have on the performance of microfinance institutions in terms of achieving their corporate objectives. The analysis clearly shows that internal control effectiveness influences performance of microfinance institutions. Some of the measures to ensure effective internal control systems and performance of financial institutions from literatures and the findings of this study are stated below.

i. Microfinance Institutions should assign different people the responsibilities of authorising transactions, recording transactions, maintaining custody of related assets, and reconciling accounts to provide effective internal controls. Employee of MFIs should have specific job responsibilities, preferably defined in writing.

ii. MFIs should provide effective policies and procedures which help align business objectives and help establish best practices and operating procedures. Although each business is different, these common processes are important to define and document: sales and accounts receivables, cash management and banking, financial statement closing and reporting, payroll and human resources. MFIs documentation of key controls in each of these cycles can provide transparency and consistency and allow for specific roles to be easily assigned to specific individuals.

iii. Furthermore, MFIs should maintain adequate supporting documentation since they form part of the foundation for developing an effective internal control framework within an organisation. Proper documentation can also make it easier and more efficient to research and respond to questions from customers, management and auditors. By emphasizing the importance of maintaining proper evidence, the management team helps reduce risks to employees and to the business.

iv. Management of microfinance institutions are often involved in the strategic and operational goals of the institutions that is difficult to also pay enough attention to basic internal control monitoring procedures. Proper oversight by Bank of Ghana is essential to the internal control framework and an important aspect of fraud prevention and detection.

v. Finally, employees are often granted more access to information systems than they actually need to perform their job responsibilities. This may be done for ease of application or because the person granting access does not fully understand the new employee's role. However, providing such access can expose the business to additional risks that business leaders may not be aware of. Microfinance institutions should start employees with limited access to information systems with only the rights to perform functions that are essential to the user's work. As the employee's workload expands, additional access rights may be granted. All users' access rights should be reviewed on a periodic basis to ensure that there is a legitimate business purpose for the access granted to each user. This can enhance the system of controls and security in place.

Suggestion for Further Studies

The study only focused on the MFIs in the Central region. A more appropriate study to overcome this delimitation is recommended. That is a study to include MFIs in Ghana. Moreover, the study used descriptive survey and I suggest that a more concentrated study to use causality analysis can be adopted by new researchers.

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APPENDICES

APPENDIX A

University of Cape Coast

College of Distance Education

Dear Finance Officer/Accountant/Internal Audit,

Questionnaire to investigate the effect of internal control systems on the performance of selected microfinance institutions in the Central Region.

Confidentiality Statement: your responses will be confidential and we do not collect identifying information such as your name, email address. We will do our best to keep your information confidential. To help protect your confidentiality, the surveys will not contain information that will personally identify you. The results of this study will be used for scholarly purposes only.

Please, respond by ticking (√) in the appropriate box, the extent of which you strongly agree, agree, neutral, disagree and strongly disagree to the following questions.

General Information

1. Number of years in operation
   a. Less than 1 year [ ]
   b. 1 to 3 years [ ]
   c. 4 to 5 years [ ]
   d. More than 5 years [ ]
2. How frequently does your company review its internal controls?
   a. Half yearly [ ]
   b. Annually [ ]
   c. After every 5 years [ ]
   d. When the need arise [ ], other, please specify.........................
3. Do you have reasonable knowledge in internal control practices?
   a. Yes [ ]
   b. No [ ]
4. Which of these challenges affects your company in implementing internal control systems? Tick as many as apply.
   a. Lack of segregation of duties [ ]
   b. Inadequate policies and procedures [ ]

c. Inadequate supporting documents and literature on internal control [ ]
d. Managerial oversight and review of internal control [ ]
e. User access rights for every information [ ]

Other, please specify

....

....

....

5. Please you are required to provide responses to the following by ticking the appropriate box to the extent of which you strongly agree, agree, neutral, disagree and strongly disagree.

a. Control Environment: These are the set of standards, processes and structures that provide basis for carrying out internal control across the organisation. These are supposed to be championed by the board of director and management.

	Control Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Control Environment					
1.	The organisation demonstrates commitment to integrity and ethical values					
2.	The organisation's decisions at all times are in the interest of the wider stakeholders					
3.	The board of directors demonstrate independence of management					
4.	The board of directors has oversight for the development and performance of internal control functions.					
5.	Management establishes, with board oversight, structures, reporting lines					
6.	Management have appropriate authorities and responsibilities in the pursuit of objectives					

7.	The organisation a commitment to attract, develop and retain competent individuals in alignment with objective					
8	The organisation holds individuals accountable for their internal control responsibilities in pursuit of objectives.					

Risk Assessment: This is the process of identifying and assessing risks to the achievement of objectives. It forms the basis for which risk will be identified.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Risk Assessment					
1.	The organisation specifies objectives with sufficient clarity.					
2.	The clarity of objectives enables the identification and assessment of risks					
3.	The organisation identifies risks to the achievement of its objectives across the entity					
4.	The organisation analyses risks as a basis for determining how risk should be managed.					
5.	The organisation considers the potential for fraud in assessing risks to the achievement of objectives.					
6.	The organisation identifies and assesses changes that could significantly impact the system of internal control.					

Control Activities: These are the activities established through policies and procedures that help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Control Activities					
1.	The organisation selects and develops control activities					
2.	Control activities contribute to the mitigation of risks to the achievement of objectives to acceptable levels.					
3.	The organisation selects and develops general control activities over technology to support the achievement of objectives.					
4.	The organisation deploys control activities as manifested in policies that establish what is expected.					

Information and Communication: This deals with generating and using relevant to support internal control processes as well as communicating it when necessary.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Information and Communication					
1.	The organisation obtains and generates information on internal processes					
2.	The organisations uses relevant and quality information to support the functioning of other components of internal control					
3.	The organisation internally communicates information including objectives and responsibilities for internal control.					
4.	The internal communications are necessary in supporting the functioning of other components of					

	internal control.					
5.	The organisation communicates with external parties regarding matters affecting the functioning of other components of internal control.					

Monitoring Activities; It involves ongoing evaluation, separation evaluations or a combination of both to determine whether the elements of internal control are functioning as expected.

		Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	Monitoring Activities					
1.	The organisation selects and develops on-going evaluations to ascertain whether other components of internal control are present and functioning.					
2.	The organisation evaluates internal control deficiencies in a timely manner.					
3.	The organisation communicates internal control deficiencies in a timely manner					
4.	The organisation undertakes corrective actions in response to deficiencies.					
5.	These processes deeply involve senior management and board of directors					

Internal Control and Performance

	Control environment and performance	**Very High**	**High**	**Neutral**	**Low**	**Very Low**
	Overall, how do you think the following control environment features contribute to the achievement of organisation's objectives?					
1.	The organisation's commitment to integrity and ethics					
2.	The independence of the board of directors from management.					

3.	The designation of authority to management to carry out objectives.					
4.	The accountability of individuals to internal control responsibilities.					

	Risk assessment and performance	**Very High**	**High**	**Neutral**	**Low**	**Very Low**
	Overall, how do you think the following risk assessments features contribute to the achievement of organisation's objectives?					
1.	The clarity of organisation's objectives					
2.	The level of risk identification within the organisation.					
3.	The organisations response to risks identified.					

	Control activities and performance	**Very High**	**High**	**Neutral**	**Low**	**Very Low**
	Overall, how do you think the following control activities features contribute to the achievement of organisation's objectives?					
1.	The selection and development of control activities.					
2.	Control activities contribution to the mitigation of risks.					
3.	The organisations control over technology.					

	Information &Communicationand performance	**Very High**	**High**	**Neutral**	**Low**	**Very Low**
	Overall, how do you think the following control activities features contribute to the achievement of organisation's objectives?					
1.	The process of generating and					

	processing information on internal control systems.					

	Monitoring activities and performance	**Very High**	**High**	**Neutral**	**Low**	**Very Low**
	Overall, how do you think the following monitoring activities features contribute to the achievement of organisation's objectives?					
1.	The evaluation of existing internal control process.					
2.	The discussion of internal control deficiencies.					
3.	The communication of internal control system deficiencies.					
4	The corrective measures to deficiencies identified.					

Overall, how would you rank the effectiveness of internal control system to the achievement of organisation objectives?

Poor	1	2	3	4	5	6	7	Outstanding

APPENDIX B

University of Cape Coast

College of Distance Education

Dear Manager,

Questionnaire to investigate the effect of internal control systems on the performance of selected microfinance institutions in the Central Region.

Confidentiality Statement: your responses will be confidential and we do not collect identifying information such as your name, email address. We will do our best to keep your information confidential. To help protect your confidentiality, the surveys will not contain information that will personally identify you. The results of this study will be used for scholarly purposes only.

Please, respond by ticking (√) in the appropriate box, the extent of which you strongly agree, agree, neutral, disagree and strongly disagree to the following questions.

General Information

6. Do you have Internal Audit Department? a, Yes [ ] b. No [ ]

Please provide reasons for choice of answer

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....

7. Number of years in operation

e. Less than 1 year [ ]

f. 1 to 3 years [ ]

g. 4 to 5 years [ ]

h. More than 5 years [ ]

8. How frequently does your company review its internal controls?

e. Half yearly [ ] c. Annually [ ]

f. After every 5 years [ ] d. When the need arise [ ],

Other, please specify...

9. Do you have reasonable knowledge in internal control practices?

c. Yes [ ] b. No [ ]

10. Which of these challenges affects your company in implementing internal control systems? Tick as many as apply.

f. Lack of segregation of duties [ ]

g. Inadequate policies and procedures [ ]

h. Inadequate supporting documents and literature on internal control [ ]

i. Managerial oversight and review of internal control [ ]

j. User access rights for every information [ ]

k. Please rank the following statements in each area on internal control system on Likert scales ranging from strongly disagree to strongly agree to the extent of which you agree or disagree to the following questions.

	Control Item	**Strongly Agree**	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	Control Environment					
1.	The organisation demonstrate commitment to integrity and ethical values					
2.	The organisations decisions at all times are in the interest of the wider stakeholders					
3.	The board of directors demonstrate independence of management					
4.	The board of directors have oversight for the development and performance of internal control functions.					
5.	Management establishes, with board oversight, structures, reporting lines					
6.	Management have appropriate authorities and responsibilities in the pursuit of objectives					
7.	The organisation a commitment to attract, develop and retain competent individuals in alignment with objective					
8	The organisation holds individuals accountable for their internal					

	control responsibilities in pursuit of objectives.					

Risk Assessment: This is the process of identifying and assessing risks to the achievement of objectives. It forms the basis for which risk will be identified.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Risk Assessment					
1.	The organisation specifies objectives with sufficient clarity.					
2.	The clarity of objectives enables the identification and assessment of risks					
3.	The organisation identifies risks to the achievement of its objectives across the entity					
4.	The organisation analyses risks as a basis for determining how risk should be managed.					
5.	The organisation considers the potential for fraud in assessing risks to the achievement of objectives.					
6.	The organisation identifies and assesses changes that could significantly impact the system of internal control.					

Internal Control System Integration

Control Activities: These are the activities established through policies and procedures that help ensure that management directives to mitigate risks to the achievement of objectives are carried out.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Control Activities					
1.	The organisation selects and develops control activities					
2.	Control activities contribute to the mitigation of risks to the achievement of objectives to acceptable levels.					
3.	The organisation selects and develops general control activities over technology to support the achievement of					

	objectives.					
4.	The organisation deploys control activities as manifested in policies that establish what is expected.					

Information and Communication: This deals with generating and using relevant to support internal control processes as well as communicating it when necessary.

		Strongly Agree	**Agree**	**Neutral**	**Disagree**	**Strongly Disagree**
	Information and Communication					
1.	The organisation obtains and generates information on internal processes					
2.	The organisations uses relevant and quality information to support the functioning of other components of internal control					
3.	The organisation internally communicates information including objectives and responsibilities for internal control.					
4.	The internal communications are necessary in supporting the functioning of other components of internal control.					
5.	The organisation communicates with external parties regarding matters affecting the functioning of other components of internal control.					

Monitoring Activities; It involves ongoing evaluation, separation evaluations or a combination of both to determine whether the elements of internal control are functioning as expected.

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
	Monitoring Activities					
1.	The organisation selects and develops on-going evaluations to ascertain whether other components of internal control are present and functioning.					
2.	The organisation evaluates internal control deficiencies in a timely manner.					
3.	The organisation communicates internal control deficiencies in a timely manner					
4.	The organisation undertakes corrective actions in response to deficiencies.					
5.	These processes deeply involve senior management and board of directors					

Internal Control and Performance

	Control environment and performance	Very High	High	Neutral	Low	Very Low
	Overall, how do you think the following control environment features contribute to the achievement of organisation's objectives?					
1.	The organisation's commitment to integrity and ethics					
2.	The independence of the board of directors from management.					
3.	The designation of authority to management to carry out objectives.					
4.	The accountability of individuals to internal control responsibilities.					

	Risk assessment and performance	Very High	High	Neutral	Low	Very Low
	Overall, how do you think the following risk assessments features contribute to the achievement of organisation's objectives?					
1.	The clarity of organisation's objectives					
2.	The level of risk identification within the organisation.					
3.	The organisations response to risks identified.					

	Control activities and performance	Very High	High	Neutral	Low	Very Low
	Overall, how do you think the following control activities features contribute to the achievement of organisation's objectives?					
1.	The selection and development of control activities.					
2.	Control activities contribution to the mitigation of risks.					
3.	The organisations control over technology.					

	Information &Communicationand performance	Very High	High	Neutral	Low	Very Low
	Overall, how do you think the following control activities features contribute to the achievement of organisation's objectives?					
1.	The process of generating and processing information on internal control systems.					

	Monitoring activities and performance	Very High	High	Neutral	Low	Very Low
	Overall, how do you think the following monitoring activities features contribute					

	to the achievement of organisation's objectives?					
1.	The evaluation of existing internal control process.					
2.	The discussion of internal control deficiencies.					
3.	The communication of internal control system deficiencies.					
4	The corrective measures to deficiencies identified.					

Overall, how would you rank the effectiveness of internal control system to the achievement of organisation objectives?

Poor	1	2	3	4	5	6	7	Outstanding