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Internal Control and Performance of Selected Thrift and Credit Cooperative Societies in Nigeria

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Abstract

The study empirically examined the impact of internal control on perforamcne of selected thrift and credit cooperative soceities in Nigeria. A study of Cross River State. The specific objectives were to: examine the impact of internal audit on performance of thrift and credit cooperatives, ascertain the impact of control activities on performance of thrift and credit cooperatives, determine the impact of communication and information on performance of thrift and credit cooperatives, find out the impact of monitoring activities on performance of thrift and credit cooperatives. This study made use of an ex-post facto research design. The population consists of forty (40) thrift and credit cooperatives in Cross River State. The study employed multiple regression analysis to measure the degree of relationship between variables tested in the study. Based on the analysis, the following findings were made; Internal audit had a significant impact on the performance of selected thrift and credit cooperatives; Control activities had a significant impact on the performance of selected thrift and credit cooperatives; Communication/information had a significant impact on the performance of selected thrift and credit cooperatives. And monitoring activities had a significant impact on the performance of selected thrift and credit cooperatives. The study recommended that emphasis should be placed on the control of presenting pay slip evidence before loan application is considered to ensure that members do not take loans that cannot be effectively repaid within the stipulated period. The Cooperative societies should have specific guidelines on the implementation of necessary internal controls on granting and repayment of loans.

Keywords: internal control, thrift and credit cooperative societies, internal audit, control activities, communication and information, monitoring activities

1. Introduction

In business and economic theory, the industrial revolution has some catalytic impacts. This led to the shift of focus from widening territorial boundaries to economic development in most organizations (Tapang & Oti, 2019). In addition to providing support and simply providing a conducive environment for business activities, management is also active in fraud prevention and control along with others. This agency strongly promotes efficient coordination and monitoring, making it necessary to recognize the level of results in performing delegated duties, testing organizational record manipulation and consistency.

Internal control is important to all business organizations and more so the cooperative sector whose business environment is prone to risks that must be mitigated for performance and profitability. External stresses in the corporate and social lives of people around the globe are immense. There are in reality disappointments in various relationships whether it is marriage, friendship or company. Man is insatiable and invents various strategies to defraud the organisations in which they operate in industry or in which they trade. Organizations are suffering market problems that are often manmade, and should be prevented.

Organizations with no internal checks or inadequate ones run the risk of collapse. This evidence is backed by the findings of the 1987 Tread way Commission Study in the United States which concluded that the lack of, or inadequate internal controls were the primary cause of many cases of false financial reporting by corporations. The 2002 Sarbanes-Oxley (SOX) Act was enacted in response to well-publicized 21st century accounting crises that Enron and WorldCom endured and forced all public corporations to publish internal financial management standards. Section 404 of SOX needs public sector management to file an internal control report under which they are responsible for ensuring appropriate internal controls and stating their efficacy (Asiligwa & Rennox, 2017).

Cooperative financing has been a major source of finance to many people in Nigeria especially salaried workers. Almost every tertiary institution in Nigeria has cooperative societies to cater for the financing need of their members. Different categories of staff were employed by these tertiary institutions which include academic staff, non-academic staff, technical staff and senior staff. These staff usually arranged themselves into different cooperative societies in order to save money for future capital budget such as paying their children school fees, buying cars, building houses, purchase of landed properties and so on. (Asiligwa & Rennox, 2017).

Internal control system in any cooperative society should evolve over time and should have positive effect on the cooperative society performance. However, not all cooperative societies in have efficient internal control measures in place and as such some are still struggling with liquidity problems, untimely financial reports, inefficient accountability for the cooperative’s financial resources, frauds and misuse of the cooperative’s resources as well as a number of decisions made not yielding the expected results (Ejoh & Ejom, 2014). The specific objectives are to:

1) examine the impact of internal audit on performance of thrift and credit cooperatives in Cross River State.
2) ascertain the impact of control activities on performance of thrift and credit cooperatives in Cross River State.
3) determine the impact of communication and information on performance of thrift and credit cooperatives in Cross River State.
4) find out the impact of monitoring activities on performance of thrift and credit cooperatives in Cross River State

2. Literature Review

Internal control means different things to different people. This causes confusion among business people, legislators, regulators and others resulting in miscommunication and different expectations from the various stakeholders in an organisation about what internal control really means (Alfia, 2015). The definition highlights four essential characteristics of internal control. These are: internal control as a process; People are crucial for strong internal controls; internal control systems only provide reasonable assurance; and that internal control has four main objectives which are: Accomplishment of firms’ mission and reach its objectives; Produce accurate, reliable data for decision-making; Comply with statutes, laws and policies; and Safeguard its assets.

Njeri (2014) further stated that, internal control is the process affected by an organization structure, work and authority flows, people and management information systems, designed to help the organization accomplish specific goals or objectives. He added that it is a means by which an organizations resources are directed, monitored, and measured; and plays an important role in preventing and detecting fraud and protecting the organisation resources, both physical and intangible (reputation or intellectual property such as trade mark).

Arens, Elder and Beasley (2003) argued that internal control mechanisms consist of policies and procedures designed to provide management with reasonable assurance that the company achieves its objectives and goals. These mechanisms are control environment, risk assessment, information and communication, control activities, and monitoring.

3. Credit and Thrift Co-Operative

Generally, a cooperative may be defined as an association of persons who pool their resources together on mutual basis to solve specific socio-economic problems, which may include income generating activities (Abia, 2000). A cooperative can also be seen as a self- help organization (Adebawojo, Enyi & Adebawo, 2015). These associations may be formed by either producers or consumers. The initiative to form such cooperatives usually arises from one or two people. These initiators then play an advocacy role and enlist other people to the co-operative.

Often, the initiators become the key drivers of these projects and reap the consequent benefits as managers of these ventures. There are several types of co-operative societies in Nigeria. These include: multipurpose co-operative societies, marketing co-operative societies, consumer co-operative societies, processing co-operative societies, Industrial co-operative societies, Supply/purchasing co-operative societies, Credits and thrift co-operative societies. Agwu (2006) also mentioned that, co-operative societies in Nigeria operate at three levels: the primary, secondary and tertiary level. The primary societies operate at the level of a community, the secondary society operate at the level of the local government area, while the tertiary or apex co-operative organization operates across the local government areas but within the state. All such co-operatives perform functions that are practically related (Nyele, 2011).

The core function is to improve access to credits at critical moments or more succinctly, financial intermediation. Principally, such co-operatives aim at making it easier for people (especially people with low income) to save, thereby increasing the amount of money available for lending to members. Loans and credits are provided to members at much more traditional and easier conditions than the methods adopted by commercial banks and other financial institutions (Otto & Okpere, 2011). The thrift and credits co-operative is the earliest of cooperatives to have been formed worldwide and also in Nigeria. According to Abia (2000), credit and thrift corporative is the bedrock of capital formation of the lower Cross River Region in Nigeria.

4. Performance of Credit and Thrift Co-Operative

Adebawojo, Enyi and Adebawo (2015), defined performance as the extent to which organisations, viewed as social systems, fulfil their objectives. Thus, performance can be viewed as a composite reflection of how well an organisation attains its objectives. Performance is the ability to operate efficiently, profitably, survive, grow and react to environmental opportunities and threats. Performance is doing today what will lead to measured valued outcomes tomorrow. In essence, performance is the result of organizational activities over a given period of time (Tunji, 2013).

Financial performance is often measured using various variables to determine how well an entity had attained its financial objectives over a period of time (Wainaina, 2011). To appreciate how financial performance is measured, it is important to understand what performance measurement is. Performance measurement is the process of quantifying the efficiency and effectiveness of past action. In more concrete terms, performance measurement is the process of measuring how well organizations are managed against their targets and the value they generate for their stakeholders. From a broader perspective, Upadhaya, Munir, & Blount (2014) pointed out that performance measurement is the process of collecting, analyzing and/or reporting information regarding the performance of an individual, group, organisation, system or component. It can involve studying processes/strategies within organisations, or studying engineering processes/parameters/phenomena, to see whether output is in line with what was intended or should have been achieved.

5. Internal Control Mechanisms and Performance

Internal control including internal audits are intended primarily to enhance the reliability of financial performance, either directly or indirectly by increasing accountability among information providers in an organization (Ejoh & Ejom, 2014). Internal control therefore has a much broader purpose such that the organization level of control problems associated with lower revenues, which explore links between disclosure of material weakness and fraud, earnings management or restatements internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue generation.

Alfia (2015), said that an effective internal control unequivocally correlates with organizational success in meeting its revenue target level. Effective internal control for revenue generation involves; regular a review of the reliability and integrity of financial and operating information, a review of the controls employed to safeguard assets, an assessment of employees' compliance with management policies, procedures and applicable laws and regulations, an evaluation of the efficiency and effectiveness with which management achieves its organizational objectives. Most organizations no longer set up internal control as a regulatory requirement but also because it helps in ensuring that all management activities are appropriately carried out.

Further, organizations are making it a point of duty to train, educate, and sensitize their employees on how to use this internal control system since its effectiveness depends on the competency and dependability of the people using it. All these control actions ensure that any risks that may affect the company's ability to achieve its goals are appropriately avoided and should occur at all levels and in all functions of the organization. There are three major classifications of internal controls; preventive, detective, and corrective. Preventive controls predict potential problems before they occur, make adjustments, and prevent an error, omission or malicious act from occurring (Babalola, 2013). The detective controls are used to detect and report the occurrence of an omission, an error or a malicious act. Finally, the corrective controls help in ensuring that the impact of a threat is minimized, identify the cause of a problem as well as the correct errors arising from the problem. Corrective controls correct problems discovered by detective controls and modify the processing to minimize future occurrence of the problem.

6. Theoretical Framework

This study is anchored on the system theory as propounded by Von Bertalanffy in 1968.

6.1 The System Theory

The early proponent of the system theory was Ludwig Von Bertalanffy, a biologist, and Kenneth Boulding, an economist. He developed the systems theory in response to the increasing fragmentation and duplication of scientific and technological research and decision making in the first half of the 20th century. The System Theory is a collection of ideas and principles of several theories of diverse disciplinary backgrounds; it has as its subject matter the formulation and derivation of those principles which are valid for "systems" in general.

System theory is a general science of "wholeness" which up till now was considered a vague, hazy, and semi metaphysical concept. The major aims (assumptions) of general systems theory are; there is a general tendency towards integration in the various sciences, natural and social, such integration seems to be centred in a theory of systems, such theory may be an important means for aiming at exact theory in the non-physical fields of science. Developing unifying principles running "vertically" through the universe of the individual sciences, this theory brings us nearer to the goal of the unity of science, this can lead to a much-needed integration in scientific education.

The systems theory is now generally used and applied in all aspects of life and virtually all disciplines. The general system theory views systems, whether biological, solar, physical or organizational, as a 'whole' even though they are made of various components. Thus, a system is a set of elements or components that are interrelated to one another in such a manner that they form a discernable whole and tend to achieve common objectives. We are interested in the general systems theory to obtain a better understanding of internal control which is a sub-system within a larger system the organization.

6.2 Empirical Review

A number of studies have been carried out on internal control and performance of organisations but just few have centred on credit and thrift corporative societies. Some of the studies reviewed are examined below with a view to relating them to the current study, establishing a common ground and identifying differences.

Eniola (2020) analyzed internal control procedures and the performance of the organization in Nigeria's south-west region. The study framework was developed on the basis of an in-depth review of the literature and in accordance with stakeholder theory. The analysis followed a qualitative approach to descriptive research design. Multiple regression models were used to check whether there is any impact on financial performance. The findings revealed that there is a positive relationship between internal audit control, risk management and monitoring practices.

Odek and Okoth (2019) analyzed the effects of internal control systems on financial performance of small and medium distribution companies. The study was anchored on Agency and Reliability theory, and a conceptual framework showing the interaction between internal control systems and financial performance. Correlational and case study design was adopted while employing census survey technique. Primary data was collected using questionnaires and secondary data was collected from relevant books, journals and periodicals. Descriptive statistics such as mean and standard deviation and inferential statistics such as Pearson's correlation and multiple regression analysis was employed to analyze the data. Presentation was done by the use of tables and charts. The results of the study may help identify gaps within the systems of internal control at Moon bluez Enterprises Limited and in the distribution industry at large especially among small and medium sized entities.

Tapang and Oti (2019) examined internal audit and financial performance of micro finance banks in Nigeria. The study made used of secondary sources which were analyzed using the ordinary least square technique. The results revealed that the regression parameters estimated coefficient has a positive sign and is therefore consistent with our a-priori expectation.

Umar and Dikko (2018) examined the effect of internal control systems on the performance of commercial banks in Nigeria. A survey method was employed and the study used stratified random sampling. The findings of the study revealed that there is a positive and significant relationship between the four components of internal control (control environment, control activities, monitoring and risk assessment) and performance.

Eke (2018) observed that in the recent past, a number of organizations across the world failed irrespective of internal controls. This has raised concerns about the relevance and influence of internal control, especially as it affects the financial performance of an organization. As a result, she carried a study to determine the effect of internal control on financial performance of hospitality organizations in Rivers State adopting survey research design. The population of the study was made up of all hospitality organizations operating in Rivers State.

Convenience sampling technique was adopted in selecting twenty hospitality organizations that constitute the sample of the study and data collection was done primarily using structured questionnaire. The questionnaires were validated by her senior academic and professional colleagues. Data analysis was carried out using descriptive statistics of percentages, means and standard deviations. Linear regression and correlation analysis were used in testing the hypotheses postulated. The study found that internal controls to a significant extent influence financial performance of hospitality organizations and that a positive relationship exists between internal control and financial performance of hospitality organizations in Rivers State. The study concluded that the control environment affects total revenue as such influences the financial performance of hospitality organizations, nonexistence or inadequacy of internal control may spell doom for an organization.

7. Methods and Materials

This study made use of an ex-post facto research design. Ex-post facto is a systematic empirical enquiry in which the scientist does not have direct control of independent variables because they are inherently not manipulated. For this study, the researcher used the structured questionnaire. The regression model analysis was used to determine the effect of independent variables on dependent variables. The study adopted simple regression model stated thus:

$$SQ = \mathbf{b_0} + \mathbf{b_1}IA + \mathbf{b_2}CA + \mathbf{b_3}CIN + \mathbf{b_4}MA + u$$

Where:

SQ = service quality

IA = control Activities

CA = Control activities

CIN = Communication/information

MA = Monitoring Activities

b_0 = Regression coefficient

b_1 - b_4 =Regression parameters

u = Error term

it = Cross section (i) and Time (t)

The study employed multiple regression analysis to measure the degree of relationship between variables tested in the study.

8. Test of Hypotheses

Hypothesis one

H_O: Internal audit does not have significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

Independent variable: Internal audit

Dependent variable: Quality service

Test statistic: Least square regression statistic

The coefficient of internal audit is 0.422 and it has a positive effect on quality service. The analysis shows coefficient of determination (R-square) of 0.848, which implies that 0.85 percent of the response variation in the dependent variable was explained or caused by the explanatory variable; while 15 percent was unexplained. Thus, remaining 15 percent unexplained response could be caused by other factors or variables outside the model. Also, the value of R-square was high enough to indicate a good relationship between the dependent and independent variable. The Durbin Watson value was 0.196 which implies that the test fell within the range of autocorrelation 2.879 in conclusive region of D.W partition curve. In testing for statistical significance of the model, the F-statistic was adopted at 5 percent significant level. The computed value of the f-statistic was 1941.3 far greater than the tabulated value of f-statistic of 3.84 at df_1 = 1 and df_2 = 195. It was then concluded that internal audit has a significant impact on quality service of selected thrift and credit cooperatives in Cross River State.

Hypothesis two

H_O: Control activities do not have significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

Independent variable: Control

Dependent variable: Quality service

Test statistic: Least square regression statistic

The coefficient of control is 13.289 and it has a positive effect on quality service. The analysis shows coefficient of determination (R-square) of 0.848, which implies that 85 percent of the response variation in the dependent variable was explained or caused by the explanatory variable; while 15 percent was unexplained. Thus, remaining 15 percent unexplained response could be caused by other factors or variables outside the model. The value of R-square was high enough to indicate a good relationship between the dependent and independent variable. The Durbin Watson value was 0.196 which implies that, the test fell within the range of autocorrelation 2.879 in conclusive region of D.W partition curve. In testing for statistical significance of the model, the F-statistic was adopted at 5 percent significant level. The computed value of the f-statistic was 1941.3 far greater than the tabulated value of f-statistic of 3.84 at $df_1 = 1$ and $df_2 = 195$. With these it is concluded that control activities have significant impact on the quality service of selected thrift and credit cooperatives in Cross River State.

Hypothesis three

H_O: Communication/information does not have significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

Independent variable: Communication/Information

Dependent variable: Service quality

Test statistic: Least square regression statistic

The coefficient of communication/information is .291 and it has a positive effect on quality service. The analysis shows coefficient of determination (R-square) of 0.848, which implies that 85 percent of the response variation in the dependent variable was explained or caused by the explanatory variable; while 15 percent was unexplained. Thus, remaining 15 percent unexplained response could be caused by other factors or variables outside the model. The value of R-square was high enough to indicate a good relationship between the dependent and independent variable. The Durbin Watson value was 0.196 which implies that, the test fell within the range of autocorrelation 2.879 in conclusive region of D.W partition curve.

In testing for statistical significance of the model, the F-statistic was adopted at 5 percent significant level. The computed value of the f-statistic was 1941.5 far greater than the tabulated value of f-statistic of 3.84 at $df_1 = 1$ and $df_2 = 195$. With these, it was then concluded that communication and information has a significant impact on service quality.

Hypothesis four

H_O: Monitoring activities does not have significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

Independent variable: Monitoring activities

Dependent variable: Service quality

Test statistic: Least square regression statistic

The coefficient of monitoring activities is 0.400 and it has a positive effect on quality service. The analysis shows coefficient of determination (R-square) of 0.848, which implies that 85 percent of the response variation in the dependent variable was explained or caused by the explanatory variable; while 15 percent was unexplained. Thus, remaining 15 percent unexplained response could be caused by other factors or variables outside the model. The value of R-square was high enough to indicate a good relationship between the dependent and independent variable. The Durbin Watson value was .0196 which implies that, the test fell within the range of autocorrelation 2.879 in conclusive region of D.W partition curve. In testing for statistical significance of the model, the F-statistic was adopted at 5 percent significant level. The computed value of the f-statistic was 1941.3 far greater than the tabulated value of f-statistic of 3.84 at $df_1 = 1$ and $df_2 = 195$. With these, it was then concluded that Monitoring activities have significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

9. Summary of Findings

Based on the analysis, the following findings were made;

1) Internal audit has a significant impact on the performance of selected thrift and credit cooperatives in Cross River State.
2) Control activities have a significant impact on the performance of selected thrift and credit cooperatives in Cross River State.
3) Communication/information has a significant impact on the performance of selected thrift and credit

cooperatives in Cross River State.

4) Monitoring activities have a significant impact on the performance of selected thrift and credit cooperatives in Cross River State.

10. Conclusion and Recommendations

The study portrays the impact of internal control on performance of selected thrift and credit cooperative societies in Cross River State. The study revealed that internal audit, control activities, communication and information, monitoring activities have a significant impact on performance of selected thrift and credit cooperative societies in Cross River State. Internal control is important to all business organizations and more so the cooperative sector whose business environment is prone to risks that must be mitigated for performance. Cooperative financing has been a major source of finance to many people in Nigeria especially salaried workers. Internal control system in any cooperative society should evolve over time and should have positive effect on the cooperative society performance. These cooperative societies therefore must be well managed and well-structured in order to prevent embezzlement and mismanagement of contributed funds so that the cooperative society can meet the aspirations of their founding members and those who will later join the society. The following recommendations were proffered;

(1) Emphasis should be placed on the control of presenting pay slip evidence before loan application is considered to ensure that members do not take loans that cannot be effectively repaid within the stipulated period.

(2) There should be a proper implementation of guiding principles of cooperative societies in tertiary institutions with respect to mode of loan repayment, and other qualifying measures for cooperative membership. This is expected to guarantee proper accountability and also guide against possible default situations that may arise from some members.

(3) The Cooperative societies should have specific guidelines on the implementation of necessary internal controls on granting and repayment of loans.

(4) Management should implement effective policies in order to reduce the possibility of error, fraud or the manipulation of accounting records.

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