

The Impact of Internal Control Systems on Organizational Performance: A Case Study of Buea Police Cooperative Credit Union Limited (BuPCCUL)

¹Nestone Munang Ndonwi, ¹Jude Sangwe Ngwamekeh, ¹David Ekeke Vevanje, ²Daniel Nyenty Obi, ³Lucas Bami Agwe, ^{4*}Harry Fon Mbacham.

¹Department of Accounting Cornerstone University and Theological Seminary Limbe, Cameroon,

²Department of Business and Management Science Cornerstone University and Theological Seminary Limbe, Cameroon,

³Department of Computer Science and Technology Cornerstone University and Theological Seminary Limbe, Cameroon,

⁴Department of Social Science Cornerstone University and Theological Seminary Limbe, Cameroon,

***Corresponding Author**

DOI: <https://doi.org/10.51244/IJRSI.2025.12040156>

Received: 20 April 2025; Accepted: 24 April 2025; Published: 24 May 2025

ABSTRACT

Internal control systems (ICS) play a critical role in ensuring the efficiency, integrity, and compliance of an organization. This study investigates the effect of internal control systems on the organizational performance of the Buea Police Cooperative Credit Union Limited (BuPCCUL), Cameroon. Adopting the COSO framework, the research examines how the implementation, effectiveness, and compliance of internal control systems influence various performance metrics, including financial reporting accuracy, risk management, fraud prevention, decision-making, and stakeholder trust. The methodology included a structured questionnaire distributed to 50 employees across BuPCCUL branches, analyzed using descriptive statistics. Results indicate a strong positive correlation between ICS and organizational performance. Descriptive analysis revealed that 100% of respondents acknowledged that ICS improve financial reporting accuracy, fraud prevention, and risk management. Additionally, 98% agreed that compliance with ICS enhances performance, and 68% strongly agreed that effective ICS led to measurable improvements in BuPCCUL's operations. There was a strong positive linear correlation between the availability of internal audit or internal control within BuPCCUL and improvement in organizational performance ($r = 0.731$), identifying areas of strength and weakness to compliance to internal control ($r = 0.682$) and identification areas of improvement within BuPCCUL ($r = 0.705$). The study underscores the importance of periodic audits, effective policy frameworks, and staff accountability. Emphasis on capacity building, technological investment in control tools, and continuous monitoring for improved governance are recommended. These findings contribute to the growing literature advocating the integration of internal control systems as a strategic tool for sustainable organizational success.

Keywords: Internal Control Systems, Organizational Performance, COSO Framework, BuPCCUL.

INTRODUCTION

Internal control systems (ICS) are fundamental components in the governance structure of any organization. They ensure that operations are conducted efficiently, financial reports are accurate, and legal and regulatory

compliance is upheld. ICS are particularly essential in financial institutions where the risk of fraud, error, and mismanagement can have serious repercussions (Robertson & Davis, 1988). According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013), ICS are composed of five interrelated components: the control environment, risk assessment, control activities, information and communication, and monitoring. These components together create a robust framework that guides organizations in achieving their strategic objectives.

A strong internal control framework helps mitigate risks, enhances transparency, and improves the quality of decision-making (Kinney & McDaniel, 2013). Furthermore, ICS play a significant role in enhancing stakeholders' confidence by ensuring reliability and accountability within the organization (Francis & Wang, 2011). For microfinance institutions (MFIs) such as the Buea Police Cooperative Credit Union Limited (BuPCCUL), ICS provide a safeguard against operational and financial vulnerabilities. Given the fiduciary nature of MFIs and their role in promoting financial inclusion, ensuring the integrity of financial systems is paramount (Alzeban et al., 2018).

Despite the growing emphasis on corporate governance and internal controls, many MFIs in developing countries still face challenges in implementing effective ICS. These challenges may include inadequate staff training, poor regulatory compliance, limited resources, and lack of technological infrastructure (Amudo & Inanga, 2009). This study is therefore timely as it seeks to evaluate how well ICS are implemented within BuPCCUL and how they influence overall organizational performance.

Previous research has shown mixed results regarding the impact of ICS on performance. Some studies affirm that robust ICS directly lead to improved performance outcomes, while others find only weak or indirect associations (Krishnan & Lee, 2009; Eze et al., 2017). This study aims to provide empirical evidence from BuPCCUL by exploring the relationship between ICS components and organizational performance metrics such as financial transparency, member satisfaction, operational efficiency, and compliance.

In doing so, this research not only contributes to the academic literature on internal control systems but also offers practical insights for policymakers, regulators, and practitioners seeking to improve the governance and performance of cooperative financial institutions in sub-Saharan Africa and beyond.

MATERIALS AND METHOD

Study Area

The study was conducted at BuPCCUL, headquartered in Great Soppo, Buea, Cameroon. BuPCCUL is a category one microfinance institution founded in 1967. With branches in Buea, Douala, Limbe, and Yaoundé, it serves over 11,000 members. The institution offers various financial services such as savings, loans, and Western Union transfers, guided by cooperative principles and community development goals.

Study Design and Population

This was a cross-sectional descriptive study targeting permanent staff of BuPCCUL across six branches from the 6th of January to the 14th of February. A total of 50 staff members participated.

Inclusion Criteria

Only permanent BuPCCUL staff members were eligible.

Exclusion Criteria

Interns and general members of the credit union were excluded.

Sampling Technique and Sample Size

Purposive sampling was used to select 50 staff members from different departments and branches for participation.

Data Collection Instrument

A structured, semi-closed questionnaire was used. It had four sections: demographics, implementation of ICS, effectiveness of ICS, and compliance impact. Likert-scale responses enabled quantification of perceptions and experiences.

Data Analysis

Descriptive statistics (frequencies and percentages) were used to analyze responses. Results were presented in tables and charts.

Administrative clearance and Ethical Considerations

An administrative authorization was obtained from Cornerstone university and theological seminary (CUTS), Cameroon while inform consent was issued to participants acceptance and inclusion into the study. The participant had the right to fill in the questionnaire by his or herself and also had the right to also decline from the study at any point when they felt uncomfortable. The data collected was unbiased and was obtained without any alliterative.

RESULTS

Socio-demographic characteristics of the study participants

The study involved 50 permanent BuPCCUL staff who consented to participant in the study. Among the 50 respondents the majority were female (56%), between the age group of 30–39 years (44%), married (54%), and had obtained bachelor's degree (62%). Loan officers constituted the highest single occupational category (14%) (Table 1).

Table 1: Socio-demographic characteristics of the study participants

Factor	Category	Frequency	percentage
Gender	Male	22	44
	Female	28	56
Age group (years)	20-29	17	34
	30-39	22	44
	40-49	10	20
	50 Above	1	2
Marital Status	Single	23	46
	Married	27	54
Longevity in Service	1-5 Years	18	36
	6-10Years	12	24
	11-15Years	14	28
	16 Above	6	12

Education Level	Diploma	13	26
	Bachelor's Degree	31	62
	Masters	5	10
	PHD	1	2
Position in the Institution	General Manager	1	2
	Assistant General Manager	1	2
	Branch Manager	5	10
	Internal Controller	1	2
	Accountant	2	4
	Loan Officer	7	14
	Operation Officer	1	2
	Cashier	6	12
	Others	26	52

Influence of implementation of internal control systems on organizational performance in BuPCCUL

This current study was meant to evaluate the influence of internal control systems on organizational performance. In general, all the participants attested that; the implementation of internal control systems lead to improved financial reporting accuracy and reliability (100%), fraud (100%) and risk management (100%) in BuPCCUL. Also, internal control increases transparency and accountability (94%; 47/50) within BuPCCUL (Figure 1).

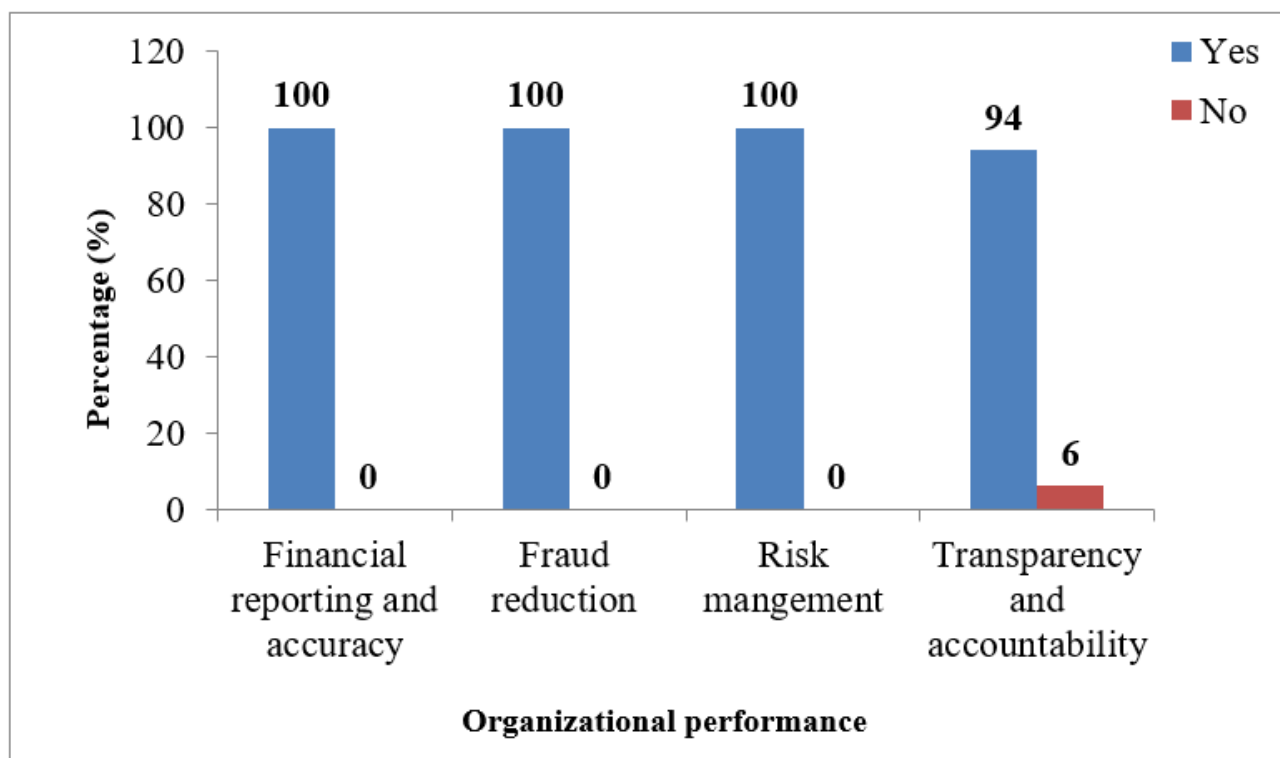


Figure 1: The impact of implementing internal control systems on organizational performance in BuPCCUL

Furthermore, the majority of respondents (98%) believe that compliance with internal control procedures improves organizational performance in BuPCCUL while just 2% didn't attest that it improves organizational performance. More so, all the participants attested that, implementation of internal control systems led to better decision-making processes (100%) and enhanced members trust and organizational reputation (100%) in BuPCCUL (Table 2).

Table 2: Participant's response to the impact of internal control systems on organizational performance in BuPCCUL

Question	Response	Frequency (n)	Percentage (%)
Does compliance with internal control procedures improve Organizational performance in BuPCCUL?	Yes	49	98
	No	1	2
Does the implementation of internal control systems lead to better decision-making processes in BuPCCUL?	Yes	50	100
	No	0	0
Does the implementation of internal control systems lead to enhanced members trust and organizational reputation in BuPCCUL?	Yes	50	100
	No	0	0

Evaluating the effectiveness of internal control systems and its impact on organizational performance in BuPCCUL

Figure 3 presents the participant's response to the effectiveness of regular audit within the financial institution (BuPCCUL). It was revealed that, 56% of participants (28) strongly agreed that BuPCCUL has a system in place to monitor and report effective internal control deficiencies while 40%, 2% and 2% of the participants "Agree", were neutral and disagree respectively.

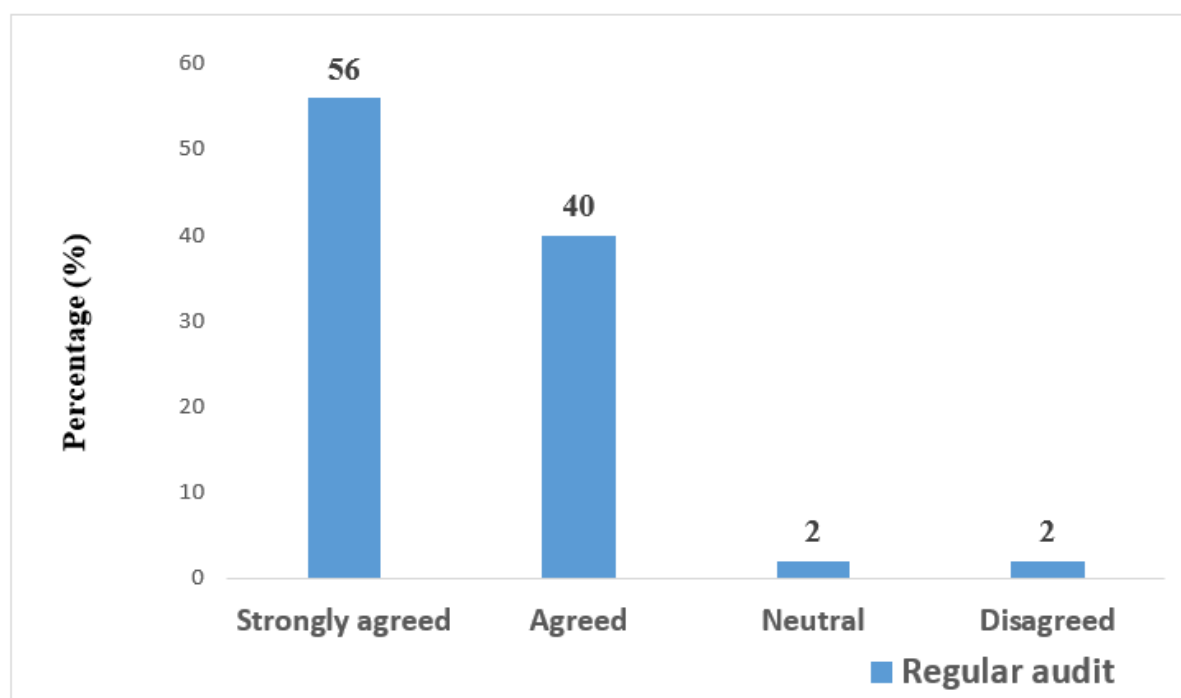


Figure 3: Availability of regular audit within the BuPCCUL

A likert scale was used to evaluate the effectiveness of internal control system and its impact on organizational performance. It was revealed that, 26 out of 50 respondents (52%) strongly agreed that regular internal audits are conducted to assess the effectiveness of internal control systems in BuPCCUL. On the other hand, 22 out of 50 respondents (44%) agreed on the fact that regular internal audits are conducted to assess the effectiveness of internal control systems in BuPCCUL while 2 out of 50 respondents (4%) were neutral. Furthermore, 58% of respondents strongly agreed that BuPCCUL has a designated person or team responsible for overseeing effective internal control activities, 40% also agree this fact while 2% (1/50) were neutral. More so, with respect to BuPCCUL's comprehensive system of policies and procedures, 54% (27/50) strongly agreed while 46% (23/50) agreed that BuPCCUL has a comprehensive system of policies and procedures in place to guide internal control activities (Table 3).

Table 3: Effectiveness of internal control systems and its impact on organizational performance in BuPCCUL.

Factor	Category	Frequency (n)	Percentage (%)
Regular internal audits are conducted to assess the effectiveness of internal control systems in BuPCCUL	Neutral	2	4
	Agreed	22	44
	Strongly Agreed	26	52
BuPCCUL has a designated person or team responsible for overseeing effective internal control activities	Neutral	1	2
	Agreed	20	40
	Strongly Agreed	29	58
BuPCCUL has a comprehensive system of policies and procedures in place to guide internal control activities.	Agreed	23	46
	Strongly Agreed	27	54

Impact of compliance with internal control system on organizational performance.

The participants were further evaluated on the impact of compliance to internal control system on organizational performance at BuPCCUL. It was strongly agreed (27/50; 54%) that, BuPCCUL has not experienced significant losses due to internal control failures in the past years. More so, 26% agreed, 16% were neutral while 4% strongly disagree that BuPCCUL has not experienced significant losses due to internal control failures in the past years (Figure 4).

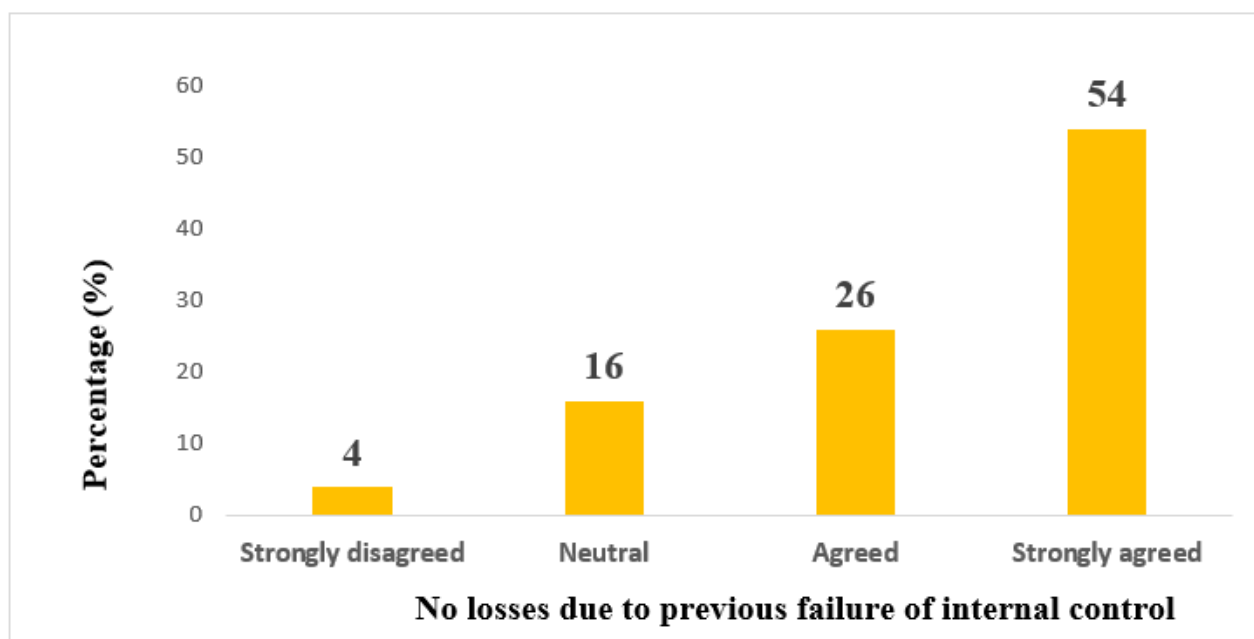


Figure 4: No previous losses due to failure of internal control

Notably, the improvement in organizational performance at BuPCCUL was evident, as 68% (34) of respondents strongly agreed that implementing or improving effective internal control systems has positively impacted the organization (BuPCCUL) while 32% (16) of respondents agreed. Also, it was deduced that the majority of respondents, 56%, agreed that conducting regular internal audits to assess compliance with internal control procedures can help identifying areas of strength and weakness in compliance to internal control in BuPCCUL. More so, 62% (31/50) agreed that, conducting risk assessments to identify compliance risks through internal control has a positive impact on organizational performance. Findings from the study also revealed that a significant portion of respondents agree (54%) that compliance with internal control procedures positively impacts organizational performance. Additionally, 50% strongly agreed that, engaging

external auditors to assess the compliance with internal control procedures in BuPCCUL can help to provide an independent evaluation of their impact on performance. Finally, most of the participants strongly agreed (54%) that establishing key performance indicators related to compliance with internal control procedure and tracking performance against these indicators can help BuPCCUL provide observations into the overall impact of compliance on organizational performance (Table 4).

A Pearson's correlation analysis was performed to determine the relationship between presence of internal control system in BuPCCUL and improvement on organizational performance, identification of strength and weakness to compliance to ICS and identification of areas of improvement within BuPCCUL. It was revealed that, there was a strong positive linear correlation between the availability of internal audit or internal control within BuPCCUL and improvement in organizational performance ($r = 0.731$; $p < 0.001$), identifying areas of strength and weakness to compliance to internal control ($r = 0.682$; $p < 0.001$) and identification areas of improvement within BuPCCUL ($r = 0.705$; $p < 0.001$).

Table 4: Impact of compliance to internal control system on organizational performance

Factor	Category	Frequency	percentage
BuPCCUL has seen an improvement in organizational performance after implementing or improving effective internal control systems.	Agree	16	32
	Strongly Agree	34	68
Conducting regular internal audits can help BuPCCUL identify areas of strength and weakness in compliance	Neutral	2	4
	Agree	28	56
	Strongly Agree	20	40
Conducting risk assessments to identify potential compliance risks can help BuPCCUL arrange areas for improvement.	Neutral	3	6
	Agree	31	62
	Strongly Agree	16	32
BuPCCUL analyzes financial data to identify patterns or trends that may indicate the impact of compliance with internal control procedures on organizational performance.	Neutral	2	4
	Agree	26	52
	Strongly Agree	22	44
Engaging external auditors can help provide an independent evaluation which may impact performance.	Neutral	1	2
	Agree	24	48
	Strongly Agree	25	50
Establishing key performance indicators can help BuPCCUL provide observations into the overall impact of compliance on organizational performance.	Neutral	3	6
	Agree	20	40
	Strongly Agree	27	54

DISCUSSION

The results of this study offer strong evidence that effective internal control systems (ICS) significantly contribute to improved organizational performance, particularly in the context of microfinance institutions like BuPCCUL. This is consistent with the theoretical framework outlined by the Committee of Sponsoring Organizations (COSO), which emphasizes that internal controls are most effective when all five components; control environment, risk assessment, control activities, information and communication, and monitoring are functioning coherently (COSO, 2013).

The control environment sets the tone of the organization and influences the control consciousness of its people. A strong control environment at BuPCCUL, as evidenced by clear effective leadership, and well-defined responsibilities, correlates positively with operational effectiveness. Kinney and McDaniel (2013) noted that a culture of integrity and responsibility serve as a bedrock for any organization to function optimally.

Participants in the study overwhelmingly indicated that the implementation and adherence to ICS in BuPCCUL has led to better financial reporting, fraud prevention, risk management, and decision-making. These outcomes echo the findings of Krishnan and Lee (2009), who noted a positive relationship between robust internal controls and improved earnings quality. Similarly, Albrecht and Senn (1990) found that institutions with structured control environments are more likely to meet their operational objectives. The discussion also aligns with Ayagre et al. (2014), who highlighted that internal audits, when conducted regularly and independently, lead to operational efficiency and the early detection of errors or irregularities (risk assessment). More so, findings by Amudo and Inanga (2009), emphasizes that institutions with systematic risk assessment protocols report higher organizational resilience and efficiency.

At BuPCCUL, the presence of a designated internal audit team reflects global best practices and ensures that policies and procedures are continuously reviewed and improved. The audit team help in controlling the activities of the organization. Control activities, comprising policies and procedures, ensure that directives are carried out effectively. The existence of segregation of duties and authorization protocols at BuPCCUL enhances compliance and operational accuracy. Francis and Wang (2011) argue that such control activities significantly improve the reliability of financial reporting, contributing to transparency and trust among stakeholders. Furthermore, the study highlights that compliance with internal control systems fosters a culture of accountability and transparency. This is supported by Cohen et al. (2010), who argued that organizations that institutionalize internal controls are better positioned to manage external scrutiny and regulatory requirements. In the BuPCCUL context, compliance has also strengthened member trust and serves as a key performance indicator in cooperative financial institutions.

Although this study did not evaluate aspects of information and communication, Eze et al. (2017) affirm that effective communication ensures that relevant information reaches appropriate personnel, fostering sound financial and strategic decisions. Also, monitoring ensures the consistent and effective functioning of all other controls within a financial institution. Regular audits and performance evaluations at BuPCCUL can help identify anomalies early, ensuring corrective actions are taken promptly. This directly contributes to financial accuracy and performance improvement. Alzeban et al. (2018) emphasize that robust monitoring mechanisms correlate with reduced financial misstatements and better compliance with regulatory standards.

However, despite the positive outcomes, the study also acknowledges that ICS are not without limitations. Challenges such as management override, collusion among employees, lack of training, and resistance to change can weaken even the most sophisticated control systems (Amudo & Inanga, 2009). Therefore, the sustainability of ICS at BuPCCUL depends on continuous training, technological upgrades, and routine evaluations to adapt to emerging threats and operational dynamics. Moreover, Francis and Wang (2011) emphasize the importance of aligning internal controls with strategic goals. The findings from this study suggest that BuPCCUL's ICS are not just reactive but also strategically aligned to enhance member satisfaction, reduce costs, and improve competitiveness. To note, internal control systems are not merely tools for compliance but strategic instruments that enhance organizational performance.

CONCLUSION

The study reveals a significant positive relationship between internal control systems (ICS) and organizational performance at BuPCCUL. All indicators; from fraud prevention, financial reporting accuracy, to stakeholder trust, demonstrate that well-implemented ICS contribute to organizational success. The COSO framework proved a reliable guide in assessing the components and effectiveness of ICS within the institution. The findings underscore the importance of regular internal audits, management oversight, and staff accountability as key enablers of performance.

However, the study is not without limitations. First, the analysis focused solely on a single cooperative credit union, limiting the generalizability of the findings to other institutions or regions. Second, data collection relied heavily on self-reported measures through questionnaires, which may be subject to social desirability

bias. Third, the cross-sectional design restricts the ability to infer causality between internal control systems and performance outcomes over time.

Given these limitations, future research could pursue a comparative study involving multiple cooperative credit unions across different regions or countries to examine variations in internal control implementation and their respective impacts. Additionally, a longitudinal approach would allow for the assessment of how improvements or regressions in internal control practices influence performance over time. Incorporating qualitative methods such as interviews and case studies could also offer deeper insights into the contextual factors affecting internal control effectiveness. These avenues would contribute to a more comprehensive understanding of the role of internal controls in financial institutions and support the development of targeted strategies for organizational improvement.

RECOMMENDATIONS

- Regular workshops to build capacity and awareness of ICS procedures.
- Automate ICS functions to improve monitoring and reduce human error.
- Increase Frequency of Internal Audits
- Use performance indicators tied to ICS to guide decision-making.
- Promote ethical behavior and accountability among staff.

ACKNOWLEDGEMENTS

The authors appreciate the support and cooperation of all the BuPCCUL staff who participated in the study. We also appreciate the Cornerstone University and Theological Seminary, Cameroon for giving us the opportunity to carry out this project.

Author contributions

NMN conceived, designed and supervised the study. JSN participated in designing the projected and carried out data collection in the field. DEV, DNO and LBA contributed in the revision of the manuscript. HFM provided the major contributions, performed statistical analysis and drafted manuscript. All authors read and approved the final manuscript.

Funding

- No special funding was received for this research.

Availability of data and materials

- All datasets generated and analyzed during the study are presented in the paper

Competing interests

- The authors declare that they have no competing interests.

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