Internal Controls, and the Incidence of Fraud in Microfinance Institutions in the Southwest Region of Cameroon

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Abstract

This paper aims at investigating how internal controls affect the incidence and the levels of fraud in selected microfinance institutions in Cameroon. The primary method of data collection was implemented where questionnaires were issued to employees of selected microfinance institutions. The Ordinary Least Square technique of data estimation was implemented from which a regression analysis was run. Correlation analysis and descriptive statistical analysis were also among the analytical tools used for the paper. The finding shows a statistically significant negative relationship between sound internal control and fraud management policies and the incidence of fraud in the microfinance institutions.

1. Introduction

Microfinance institutions are institutions that provide financial services to the poor and low income households in the society allowing them to better manage their risk achieve consistent consumption patterns and develop an economic base. According to Boateng et al (2014), Microfinance institutions (MFIs) play a significant role in providing credit to the active but poor and have also greatly contributed to the employment of many people within the economy.

However, the numerous failures of banks in the last decades have greatly provided microfinance intuitions with a great opportunity to penetrate the credit market in various countries. The increasing presence of microfinance institutions within the financial sectors has also been accompanied by increasing need for regulations to ensure that the sector operates within expected norms and standards. In fact Straddling the formal and informal financial sectors, the microfinance industry also recognizes the importance of effective internal control, and as microfinance institutions grow and move more towards regulated financial intermediaries, internal control becomes essential for long term institutional viability.

In Cameroon, Microfinance is very important, providing credit to most of the rural population. According to the IMF reports (2009, 2010), Cameroon has about 7.3 million living below the national poverty line. This rural population greatly relies on the microfinance institutions to provide them with credit which could enable them finance their micro enterprises as well as sustain their consumption patterns.

As far as regulation is concerned, the microfinance sector of Cameroon has as its main regulators, the Central African Banking Commission (COBAC) and the ministry of Finance (MINFI). These bodies set the rules and regulations that are to be implemented by the institutions.

Nevertheless, one of the most peculiar issues on the microfinance sector in Cameroon is that contrary to expectations this sector has become one of the most regulation needing industry. This increase regulation comes from the fact that the MFIs have considerably grown in size which can be seen from their increase deposits and loans and capital base. As these institutions become bigger and more complex their internal control processes are also becoming more complex and complicated. This view is held by Anita (2010), who explains that, microfinance institutions are not immune to the dangers of weak internal controls. She further argues that weak internal controls can also allow operational errors to remain uncorrected and that human or systems errors can result to the posting of figures of interest and other financial transactions into wrong accounts which can accumulate into a serious loss in the future. Responsibility Social Investments (2013), highlights that potential costs and benefits of fraudulent practices is highly influenced by regulatory framework and that most of the regulations provide for very low interest rates (lending rates by the institutions) which could potentially increase the probability of fraudulent activities due to loans rationing. In addition, the Board of Directors of most of the institutions seem to have an overbearing influence on both the lending and overall financial policy which most often misdirects and demotivates the employees which has a link with fraud. The internal and external audit functions also play key role in the verification and assurance of the accounting and financial information provided. The lack of resources of some of these institutions and the assumption that these institutions are just “micro” institutions has consistently resulted to a lack of interest on the part of these institutions to take these issues serious, thus leading to numerous questions relating to the effectiveness of the internal control processes in detecting and revealing fraudulent activities within these institutions.
This paper therefore aims at explaining how the internal control procedures and activities of selected microfinance institutions affect the occurrence and the levels of fraud in selected microfinance institutions.

The paper also further aims at;
- Examining the extent to which corporate policies and control environment effect fraud levels in the institutions.
- Also to evaluate the employees perception on the existence and effects of fraud and on the institutions’ sustainability, and
- Determining the most likely sources of fraud in the institutions.

The paper is build on the hypothesis that;

\( H_0 \): There exist no significant effect of corporate policies and activities on the occurrence and levels of fraud in the institutions.

\( H_1 \): There exists a significant effect of corporate policies and activities on the occurrence and levels of fraud in the institutions.

2. Literature Review

According to Holtfreter, (2014), Fraud from an organizational perspective is viewed as a form of employee dishonesty that causes losses to the organization. The author further explains that all forms of fraud are basically clandestine and are committed by employees for the purpose of direct or indirect financial benefit to the perpetrators forgetting that it usually causes the institutions to lose revenue, and assets of the value.

Nwankwo and Odi, (2013), studied the implications of fraud on commercial banks’ Performance. The study uses a secondary and quantitative research design where variable bank including cheaque clearing fraud, ATM fraud, forged cheques and many more were at the center of the research enquiry. The author used the ordinary Least Square (OLS) estimation techniques from which regression analysis and correlation analysis are conducted. The results of the results show a significant negative relationship between cheque clearing fraud, ATM fraud and Bank Performance.

Moreover, Oguda et al, (2015), carry out a study on the effects of internal controls on fraud prevention and detection. The authors make use of a primary method of data collection, where closed ended questionnaires were issued to a wide range of respondents. Using both inferential and descriptive statistical approaches, the findings indicated that there is a statistically significant and positive relationship between the adequacy of internal control systems and fraud prevention and detection.

In relation to internal control, Ahmad, (2010), investigated whether control environment and fraud affects employee output. The writer implements a primary method of enquiry where a total of 450 questionnaires were issued and the attitudes of the employees were gauged based on a six point likert scale. Using a regression analytical technique, it was found that the control environment has an influence on both fraudulent behaviours and counter workplace behavior.

As far as board oversight is concerned, there have been concerns over the relevance of the composition of independent members on the board. Skousen, Smith, & Wright (2008), conclude that internal versus external ownership of shares and control of the board are linked to increased incidence of financial statement fraud. In addition, their results reveal that expansion in the number of independent members on the audit committee is negatively related to the occurrence of fraud; this view is similar to other works such as the reports produced by the Cadbury Committee (1992), Turnbull (1999) and King (2002) which equally advocate for more independent members on the audit committee.

On the contrary, Schnatterly, (2003), investigated whether firms’ governance systems influence the probability of white-collar crime. The author concludes that board or CEO-level variables such as CEO compensation or percentage of outsiders on the board do not have any impact on white-collar crime. Meanwhile, a firm’s clarity of policies and procedures, formal communication, and contingent pay for employees are associated with less white-collar crime as well as audit committees, contingent pay for board members, and codes of conduct.

Furthermore, Welch et al (1996), Coran, Ferguson (2006), in similar studies on internal audit and fraud, conducted a survey using a sample including members of the Association of Fraud Examiners (ACFE), and all found out that there exists a significant positive relationship between an organization that has an internal audit function and the level of fraud detection, and that the existence of internal audit also reduces the duration of fraud in the organization.

Owolabi, (2010), fraud and fraudulent practices in Nigerian banking industry. The data for the paper was collected through various secondary data sources, and implementing a trend analysis and a decretive analysis, the findings indicated a very high involvement of employees in fraud between 2004 and 2006, and an increasing trend of fraud amongst employees up to 2010. The major fraudulent employee activities detected were, Granting unauthorized loans, posting of fictitious credit, fraudulent withdrawals and forged cheques.
3. Methodology

The data collection for the paper was done through the use of structured questionnaires at the center of the instruments used to collect the data from the respondents. This method of data collection was used due to the delicate nature of fraud information as well as the need to get opinions of the respondents on the major fraud dynamics within their respective institutions.

The Sample design included a total of 8 microfinance institutions within Buea was selected and using a stratified and convenience sampling where a majority of the institutions were chosen from the Molyko vicinity given the high level of concentration of both the microfinance institutions and the population within this area. From the selected institutions, a simple random sample technique was then implemented to select a sample of 100 personalities. The focus was on employees of the respective institutions. The stratified and convenience sampling techniques were implemented so as to be able to chose a concentrated area of both the microfinance institutions and the population. While the simple random sample technique was used to ensure that there is no bias in the choice of respondents chosen. This also greatly helped to ensure the validity of the results of this paper.

To analyze the data, we implemented both the descriptive and inferential statistical methods of data analysis. These methods were used mainly due to the primary nature of the data collected. Correlations analysis was used to verify the relationship between the dependent variable and the independent variables as well as the between the independent variables themselves. Also, regression analysis was implemented to verify the level of impact the independent variables had on the dependent variable. Questionnaires for the paper were designed using a likert scale which greatly helped to draw out respective opinions of the respondents.

The Ordinary Least Squares (OLS) method of estimation was also implemented in the paper. This technique was used because it provides the best unbiased results compared to other techniques of data estimation. The probability Value (P-value) test and the F-Statistic test were also used to validate the results of this paper. Other tests that were carried out to ensure the stability of the data and hence results includes; Test for heteroskedasticity, data reset test, and test for serial correlation.

3.1 Model

The Model that was used for this paper included a series of variables generated from the COSO model on internal control. The model was stated as follows;

\[ FI = f \{ I&E, HRP, BOD, PR, RC \} \]

Thus, the relationship between the incidence of fraud and internal controls can be estimated as follows;

\[ FI = \beta_0 + \beta_1 I&E + \beta_2 HRP + \beta_3 BOD + \beta_4 PR + \beta_5 RC + \mu \]

Our a priori expectation is stated as follows;

\[ \beta_1 < 0, \beta_2 < 0, \beta_3 < 0, \beta_4 < 0, \text{and } \beta_5 < 0 \]

In this Model;

- \( FI \) = Fraud incidence measured by the number of frauds detected
- \( I&E \) = Integrity & ethics
- \( HRP \) = Human resource policies
- \( BOD \) = Board oversight
- \( PR \) = Performance Reviews,
- \( RC \) = Reconciliation of accounts,
- \( \beta_0 \) = Constant term
- \( \mu \) = Residual Error term

4. Results and Discussion

Fig 1: Distribution of respondents per office

Source: The Researchers 2015

From figure 1, we observe that majority of response was obtained from managers (26%), accountants
(24%) and operation officers (22%). These persons are presumed to have a good knowledge of the internal controls implemented in their institutions, as such the data collected is reliable and therefore accurate for this paper. Nevertheless, very few of our respondents (9%) were internal controllers or internal auditors. This may be accounted for by the fact that most internal controllers and auditors work at the head offices and most of the microfinance institutions in Buea sub-division have their headquarters in other major Cities such as Douala and Yaounde.

Table 1: Fraud as a significant risk factor

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>77</td>
<td>93</td>
</tr>
<tr>
<td>No</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>80</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: The Authors 2015

As shown on table 1 above, only 7% of the respondents do not believe fraud is a significant risk to their institution, almost all the respondents (93%) believe fraud is a significant risk to their institution. Furthermore, recognizing fraud as a significant business risk is the first step to curbing it; only then can adequate measures be put in place by management to discourage employees from engaging in fraudulent activities.

Figure 2. Reasons for Fraud Occurrence

Figure 2 above shows the various views of the respondents on what causes fraud in the institution(s). Over 43% of the employees considered inadequate internal controls to be the major cause of fraud. While about 28% were for the view that poor salary schemes was responsible for employees committing fraud in the institutions(s). The methods of recruitment was also an issue, with 22% of the employees accepting than the recruitment policies of the various institutions were responsible for the fraud. This result indicates inefficiency in the recruitment procedures of these institutions.

Figure 3: Form of collusion leading to fraud.

Source: The Authors 2015

Considering the fact that in carrying out fraud, perpetrators either act alone or collude with a third
party who may either be an internal party or an external party, or both. It can be observed from figure 3 that 50% of the respondents ranked collusion with internal party as the most common type of collusion when fraud is perpetrated while 58% ranked collusion with internal and external party as the least common type of collusion. Also, 35% of the respondents’ ranked act alone as the second common type as far as collusion in fraud perpetration is concerned and 39% ranked collusion with external party as the third major type of collusion. Thus, in committing fraud most of the perpetrators work in collaboration with other internal parties usually other staff including auxiliary staff such as security guards and cleaners.

**Figure 4: Ranking of fraud perpetrators**

Source: The Authors 2015

As can be observed from figure 4 above, the respondents were asked to give their opinions about the most likely fraud perpetrators in the institution. The data indicates that about 90% of the respondents perceived internal controllers and auditors to be the major perpetrators of fraud. 70% view operating officers to also cause a lot of fraud, while only about 1% of the respondents viewed the board of directors to be the main perpetrators of fraud. This results show that the operating officers and internal controllers and to an extent accountants and branch managers are often (If not supposed to be) aware of most fraudulent transactions in the institution. The response on the level of fraud by board of directors was relatively low probably due to the back office nature of board transactions and the fact that the Board has very little interaction with the lower level employees.

**Figure 5: Awareness of fraud existence**

Source: The Authors 2015

From table 5 above, the question was asked whether the employees were aware of fraud in the institutions. The findings indicated that over 42% of the respondents were uncertain of the existence of a fraud policy, while about 32% refused to respond on their awareness of a fraud policy in existence. The level of awareness of a fraud policy was just about 25% of the respondents. These results indicate that most of the employees do not see the fraud management strategies of the institution as a policy and a majority of them probably due to more uncertainty had nothing to say in relation to the question.
Figure 6: Loss due to fraud

<table>
<thead>
<tr>
<th>Amount</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>under 5 000 000</td>
<td>0</td>
</tr>
<tr>
<td>6 000 000 - 15 000 000</td>
<td>50</td>
</tr>
<tr>
<td>above 15 000 000</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: The Authors 2015

From figure 6 above, majority of the institutions (44%) experienced frauds involving amounts between 6 000 000 FCFA to 15 000 000 FCFA, 39% experienced frauds with amounts less than 5 000 000 FCFA, and 10% experienced frauds with amounts greater than 15 000 000 FCFA. This is a very significant amount indicating that fraud has serious adverse effects on MFIs especially as majority of the amounts are either not recovered or still under recovery after several years.

Table 2: Summary Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>Median</th>
<th>Maximum</th>
<th>Minimum</th>
<th>Std. Dev.</th>
<th>Skewness</th>
<th>Kurtosis</th>
<th>Jarque-Bera</th>
<th>Probability</th>
<th>Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fraud Incidence (FI)</td>
<td>2.282609</td>
<td>2.021739</td>
<td>1.956522</td>
<td>1.934783</td>
<td>1.183012</td>
<td>-0.918002</td>
<td>3.259775</td>
<td>6.590256</td>
<td>0.037063</td>
<td>80</td>
</tr>
<tr>
<td>Integrity and Ethics (IAE)</td>
<td>2.500000</td>
<td>2.000000</td>
<td>2.000000</td>
<td>1.000000</td>
<td>1.000000</td>
<td>1.047669</td>
<td>2.983628</td>
<td>8.415532</td>
<td>0.014880</td>
<td>80</td>
</tr>
<tr>
<td>Human Resource Policies (HRP)</td>
<td>4.000000</td>
<td>5.000000</td>
<td>5.000000</td>
<td>5.000000</td>
<td>1.074069</td>
<td>0.956958</td>
<td>3.082456</td>
<td>7.033922</td>
<td>0.029690</td>
<td>80</td>
</tr>
<tr>
<td>Board Oversight (BOD)</td>
<td>2.021739</td>
<td>1.000000</td>
<td>5.000000</td>
<td>1.000000</td>
<td>1.171032</td>
<td>1.956522</td>
<td>3.151338</td>
<td>10.55733</td>
<td>0.005099</td>
<td>80</td>
</tr>
<tr>
<td>Performance Reviews (PR)</td>
<td>1.000000</td>
<td>1.000000</td>
<td>1.000000</td>
<td>1.000000</td>
<td>1.271957</td>
<td>1.047669</td>
<td>7.919617</td>
<td>9.016318</td>
<td>0.019067</td>
<td>80</td>
</tr>
<tr>
<td>Reconciliation of Accounts (RC)</td>
<td>1.782609</td>
<td>1.000000</td>
<td>5.000000</td>
<td>1.000000</td>
<td>1.183012</td>
<td>1.956522</td>
<td>3.019018</td>
<td>7.919617</td>
<td>0.000013</td>
<td>80</td>
</tr>
</tbody>
</table>

Source: The Authors 2015

The data indicates that averagely the dependent variable (Fraud Incidence) is about 2.3. This implies that the incidence of fraud is relatively high within microfinance institutions. This is even more glaring given that the fraud incidence has the highest average compared to all the other independent variables. This also shows that the joint effect of the independent variables is greater than their individual effects. The low standard deviation also shows the consistency in the responses received.

For the independent variables, Integrity and Ethics and Performance Reviews both had averages of 2.0. This shows that to an extent the level of integrity and ethical considerations as well as the level at which performance reviews are done have a significant influence on the level of fraud incidence in the organization. In addition, the Human Resource Policies, Board (BOD) Oversight and Accounts Reconciliations had averages of 1.9, 1.9 and 1.7 respectively, eventhough these averages are relatively smaller then the averages of the other independent variables, it however indicates that there is atleast some consistency in the responses related to these variables and consequently showing the effects of these variables on the dependent variable.

The standard deviations of the respective variables were also considered in the analysis. The Dependent variable (Fraud Incidence) has the lowest Standard deviation of 0.93 and as already mentioned indicates that the responses are accurate. The other variables had standard deviations ranging from 1.07 (Human Resource Policies) to 1.27 (Board Oversight). The high Standard deviation of the Board Oversight Variable can be linked to the fact that most of the employees are not fully aware of the BOD,s Activities since of the activities are done in the back office.
Table 3: Correlation Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fraud Incidence (FI)</th>
<th>Integrity and Ethics (IAE)</th>
<th>Human Resource Policies (HRP)</th>
<th>Board Oversight (BOD)</th>
<th>Performance Reviews (PR)</th>
<th>Reconciliation of Accounts (RC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FI</td>
<td>1.000000</td>
<td>-0.913877</td>
<td>-0.828508</td>
<td>-0.881217</td>
<td>-0.869717</td>
<td>-0.913405</td>
</tr>
<tr>
<td>IAE</td>
<td>-0.913877</td>
<td>1.000000</td>
<td>0.725572</td>
<td>0.891212</td>
<td>0.792391</td>
<td>0.867882</td>
</tr>
<tr>
<td>HRP</td>
<td>-0.828508</td>
<td>0.725572</td>
<td>1.000000</td>
<td>0.713586</td>
<td>0.717812</td>
<td>0.767886</td>
</tr>
<tr>
<td>BOD</td>
<td>-0.881217</td>
<td>0.891212</td>
<td>0.713586</td>
<td>1.000000</td>
<td>0.754139</td>
<td>0.830324</td>
</tr>
<tr>
<td>PR</td>
<td>-0.869717</td>
<td>0.792391</td>
<td>0.717812</td>
<td>0.754139</td>
<td>1.000000</td>
<td>0.844855</td>
</tr>
<tr>
<td>RC</td>
<td>-0.913405</td>
<td>0.867882</td>
<td>0.767886</td>
<td>0.830324</td>
<td>0.844855</td>
<td>1.000000</td>
</tr>
</tbody>
</table>

Source: The Authors 2015

The Correlation results above indicates that all the Independent Variables are negatively Correlated to the Dependent variables (Fraud Incidence). In other words, any increase in any of the independent variables leads to a fall in Fraud Incidence. Hence, by Improving Integrity and Ethics of Stakeholders, Human Resource Management Policies Board Oversight, Performance Reviews and Accounts reconciliations, there would lead to a drop in fraud in the organization. Note must however be taken that some of the variables have a stronger relationship with the dependent variable than others, with Integrity and Ethics and Accounts Reconciliations all having correlation figures of -0.91 representing the strongest relationship.

Also, all the dependent variables are strongly positively related meaning that when one variable is weak; the others are more likely to be weak. This is accounted for by the fact that the internal control components are interrelated and inter dependent on one another. Board oversight and integrity and ethics have the strongest positive relationship ($r = 0.891212$) implying that when board oversight is weak, the integrity and ethical environment is also likely to be weak. This is because the Board of Directors is responsible for the integrity and ethical values in their institutions; employees simply follow the pattern set by the board members. When board members do not maintain high ethical standards, and uphold integrity in the discharge of their duties, employees are likely to follow in the same pattern.

Table 4: Regression Analysis

<table>
<thead>
<tr>
<th>Dependent Variable: FI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Method: Least Squares</td>
</tr>
<tr>
<td>Date: 08/15/11</td>
</tr>
<tr>
<td>Time: 22:23</td>
</tr>
<tr>
<td>Sample: 100</td>
</tr>
<tr>
<td>Included observations: 80</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>IAE</td>
<td>-0.213504</td>
<td>0.078162</td>
<td>-2.731549</td>
<td>0.0093</td>
</tr>
<tr>
<td>HRP</td>
<td>-0.178926</td>
<td>0.057351</td>
<td>-3.119839</td>
<td>0.0034</td>
</tr>
<tr>
<td>BOD</td>
<td>-0.112235</td>
<td>0.068563</td>
<td>-1.636966</td>
<td>0.1095</td>
</tr>
<tr>
<td>PR</td>
<td>-0.162392</td>
<td>0.062409</td>
<td>-2.602046</td>
<td>0.0129</td>
</tr>
<tr>
<td>RC</td>
<td>-0.157003</td>
<td>0.076793</td>
<td>-2.044502</td>
<td>0.0475</td>
</tr>
<tr>
<td>C</td>
<td>3.889671</td>
<td>0.084261</td>
<td>46.16228</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

R-squared 0.934085 Mean dependent var 2.282609
Adjusted R-squared 0.925846 S.D. dependent var 0.934833
S.E. of regression 0.254566 Akaike info criterion 0.222597
Sum squared resid 2.592161 Schwarz criterion 0.461115
Log likelihood 0.880269 F-statistic 113.3693
Durbin-Watson stat 1.784529 Prob(F-statistic) 0.000000

Source: The Authors 2015

The table above shows the relationship between the incidences of fraud (FI) captured by the number of frauds detected in the last five years, and the intervening variables for control environment and control activities which included: integrity (I), human resource policy (HR), Board oversight (BOD), performance reviews (PR), and reconciliation (RC). From the regression results on table 4.9 above, the coefficient for integrity and ethics is negative (-0.213504) implying that an increase in management’s integrity and ethical values will result in a reduction in the incidence of fraud. This is in line with our expectation. Therefore, integrity and ethics are important control environment variables. The calculated t-value in absolute terms (2.731549) is greater than the table t-value of 2.01 at 5% level of significance, two tail test. Thus the test is statistically significant at 5% level of significance. This variable is therefore significant in this study and can be used in making valuable recommendations when considering the incidence of fraud in MFIs.
In addition, the results on table 4 show that the coefficient of human resource policies is also negative (-0.178926). Thus, effective and adequate human resource policies are likely to reduce the incidence of fraud in MFIs. This includes standards and procedures for recruiting, training, motivating, promoting, evaluating, compensating, transferring, and terminating personnel. The calculated t-value in absolute terms given as (3.119839) is greater than the table t-value of 2.01 at 5% level of significance. Thus the test is also statistically significant at 5% level of significance. Therefore the coefficient of integrity and ethics is 95% reliable implying that human resource policies are a relevant factor in measuring the strength of the control environment in MFIs and can also be used in making valuable recommendations regarding the incidence of fraud in MFIs.

Furthermore, the coefficient for BOD is equally negative (-0.112235) hence when BOD oversight increases, the incidence of fraud will likely decrease. However, its calculated t-value of (1.636966) is lesser than the table t-value of 2.01 at 5% level of significance. Thus the test is not statistically significant at 5% level of significance. Thus we cannot heavily rely on the oversight excised by the board of directors of an MFI, when making valuable recommendations on ways to curb the incidence of fraud in MFIs.

Moreover, the coefficient for performance reviews is negative (-0.162392) implying that as performance reviews reduce, the number of frauds detected increases. The calculated t-value given as (2.602046) is greater than the table t-value of 2.01 at 5% level of significance. Thus, the variable is statistically significant at 5% level of significance and should be given due consideration when making valuable recommendations about the incidence of fraud in MFIs.

Moreover, the coefficient for reconciliation of accounts is also negative (-0.157003) implying that reconciliation has an inverse relationship with the incidence of fraud and as institutions reconcile their accounts regularly, the number of frauds detected decreases. Therefore, MFIs need to regularly reconcile their accounts and promptly investigate uncleared balances. Also, the calculated t-value in absolute terms given as (2.044502) is greater than the table t-value of 2.01 at 5%, meaning that reconciliation of accounts is statistically significant at 5% level of significance.

Furthermore from table 4, the R-squared is 0.934085, meaning that approximately 93% of the variability in the incidence of fraud is accounted for by variations in the explanatory variables in the model. The coefficient of multiple determinations (adjusted R-square) is 0.925846. This shows that about 93% of the variability in the incidence of fraud in MFIs is accounted for by the model even after taking into account the number of explanatory variables in the model.

The probability of the F-statistics [Prob. (F-statistic)] is 0.0000 and is less than α (0.05) at 5% level of significance. This shows that our overall results are statistically significant at 5% level of significance. In addition all the prob. values for all the variables except BOD are less than 0.05 thus they are all significant at 5%. This implies that our results are 95% reliable.

Based on this we reject our null hypothesis which states that Control environment and control activities have no statistically significant influence on the incidence of fraud in MFIs, in favour of the alternative hypothesis which is; Control environment and control activities do have a statistically significant influence on the incidence of fraud in MFIs in the Southwest Region.

5. Recommendations
The internal control department of the institutions should be given complete independence to operate. The internal auditors should not be assigned any other functions within the organization. If the auditors have multiple functions a conflict of reporting interest may exist (i.e. who should they report to). In addition the auditors should be made to report directly to the Board of Directors (BOD) and not to the General Manager. This would at least protect the auditors as well as make them report possible fraud incidences more often to the benefit of the institutions.

Furthermore, fraud management trainings should be organised for employees at least semi-annually by MFIs top management. This will raise the level of fraud awareness in the institutions as well as communicate employees’ responsibility in the prevention and detection of fraud. All employees need to be aware that they are responsible for the internal controls at their level. Also, MFIs need to ensure that all employees have a copy of the code of conduct, and at the beginning of each year, trainings should be organized reminding employees of their expected conduct within the institution. Background checks should equally be conducted for all employees especially to find out if the employee has been involved in fraud. This will go a long way to ensure that honest people are recruited.

In addition, all the transactions that are carried out and recorded in the institutions must be verified by the top management and as far as possible a copy of all outgoing cash receipts and incoming cash receipts must be signed by the Manager and forwarded to the head office where further verification could be done and reconciled with the records and then disseminated to the various branch offices of the institutions. This would probably help reduce the level of fraud in the organization.
6. Conclusion
This paper mainly focuses on explaining how internal controls of microfinance institutions influence the levels of fraud in the institution. From the paper it is clear that the problem of fraud and internal control weaknesses in microfinance institutions still exists and requires specific attention from the management or the stakeholders of these institutions. Internal controls have been viewed as a key component of institutional governance and fraud management. Therefore from all indications microfinance institutions would have to ensure that as recommended in this paper, they rethink on the most effective methodologies to use in the management of their internal systems and overall risk management strategies of their respective institutions. In addition the various institutions’ managements must understand that the effects of on the operations of their institutions fraud must not be viewed only as an institutional issue, given that fraud effects could become a systemic issue looking at the level of interlinkages that exist amongst institutions in the financial system. Hence the managements of these institutions must work alongside the respective financial authorities such as, the Ministry of finance (MINFI), and Central African banking Commission (COBAC) at the level of Cameroon, to ensure a sound, sustainable and fraud free or at least a minimal fraudulent microfinance sector.

References