

Internal Control Components and Quality of Financial Reporting in Mirco Finance Institution in Cameroon: A Case Study of Selected Rainbow Cam Credit Union in Bamenda

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Abstract: The general objective of this study was to assess the effect of internal control systems on the quality of financial reporting of Micro Finance Institution (using five selected Rainbow Cooperative Credit Unions in Bamenda,) in North West Region of Cameroon. Despite their importance in promoting financial inclusion, many MFIs continue to face challenges of inaccurate reporting, fraud, and regulatory non-compliance, which may be due to weaknesses in internal controls. Guided by the COSO framework, the study examined the effect of control environment, risk assessment, control activities, monitoring activities, and information and communication on financial reporting quality. The study adopted an explanatory sequential mixed-methods design. Data were collected from 200 staff members using structured questionnaires and semi-structured interviews, supplemented by documentary analysis. Quantitative data were analyzed using descriptive statistics, Pearson correlation, and multiple regression, while qualitative data were analyzed thematically. The findings revealed that internal control systems have a significant positive impact on financial reporting quality. Specifically, Information and Communication (Beta = 0.336, $p < 0.001$) and Monitoring Activities (Beta = 0.234, $p = 0.004$) were the strongest predictors ($R^2 = 0.308$, $p < 0.001$). The study concluded that effective information flow and continuous monitoring are critical for improving transparency and reliability of financial reports. The study thus recommended that management should prioritize training on communication and monitoring practices, while regulators strengthen COSO-based internal control guidelines in the microfinance sector.

Keywords: Internal Control Systems, Financial Reporting Quality, COSO Framework, Information and Communication, Monitoring Activities, Rainbow CAM Credit Union.

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I. INTRODUCTION

At the global level, regulatory authorities have responded to recurring internal control failures by strengthening auditing and compliance requirements. The European Union introduced comprehensive audit reforms, while the United States Securities and Exchange Commission enhanced oversight of digital transactions and cybersecurity controls (EU Audit Reform Report, 2021).

Despite these regulatory advancements, financial misreporting and internal control weaknesses continue to emerge, especially in rapidly evolving fintech and digital banking environments. A 2022 OECD report revealed that

more than 30 percent of financial institutions in advanced economies experienced significant cyber incidents between 2020 and 2022, many of which were directly linked to deficiencies in information and communication systems and monitoring activities. These global trends demonstrate that effective internal controls must be dynamic and continuously adapted to address emerging technological and operational risks.

In Africa, microfinance institutions and cooperative credit unions serve as critical vehicles for financial inclusion and poverty reduction. However, many of these institutions continue to face persistent weaknesses in internal control systems, resulting in inaccurate financial reporting, fraud,

mismanagement, and regulatory sanctions (Akerlele & Omole, 2021; Achieng & Muturi, 2021). The COVID-19 pandemic further exacerbated these challenges, as operational disruptions and limited technological infrastructure exposed significant gaps in risk assessment, monitoring, and timely information sharing (World Bank, 2022). Across East and Central Africa, empirical studies consistently highlight that deficiencies in internal controls undermine the quality of financial reporting and erode stakeholder trust in microfinance institutions.

In Cameroon, the microfinance sector plays a vital role in promoting financial inclusion, particularly in the North West Region. However, reports from the Commission Banking sector of Africa (COBAC, 2022; 2023) and BEAC (2024) indicate persistent issues of poor financial reporting, weak internal controls, rising non-performing loans, and regulatory non-compliance among several MFIs and credit unions. The rapid digitalization of financial services has introduced additional risks such as cyber fraud and data manipulation. Against this backdrop, this study examined how the five COSO internal control components influence the quality of financial reporting in five selected Rainbow CAM Credit Unions in Bamenda (NTACCUL, BAFCCUL, NCCU, Springfield Savings and Credit Cooperative, and AICCO).

➤ *Statement of the Problem*

Despite the critical role of microfinance institutions in promoting financial inclusion in Cameroon, several studies have shown that poor financial reporting persists in the sector (Mukah, 2020; Njie, 2021; Njume, 2024). While some previous studies have examined internal controls in individual Cameroonian credit unions, most of them treated internal control as a single construct. There is limited empirical evidence on the individual and combined effects of the five COSO internal control components (Control Environment, Risk Assessment, Control Activities, Monitoring Activities, and Information & Communication) on the quality of financial reporting across multiple institutions operating under the same supervisory structure, such as Rainbow CAM. This study therefore seeks to fill this gap by examining the impact of the five COSO internal control components on the quality of financial reporting in five selected Rainbow CAM Credit Unions in Bamenda, North West Region of Cameroon. The study is necessary because improving the accuracy, completeness, reliability, compliance, and timeliness of financial reports is essential for strengthening accountability, protecting member funds, and enhancing the sustainability of microfinance institutions in Cameroon.

➤ *Objectives of the Study*

The general objective of this study was to assess the effect of internal control components on the quality of financial reporting in microfinance institutions in Cameroon. Specific Objectives were:

- To determine the impact of Control Environment on the quality of financial reporting in microfinance institutions in Cameroon.

- To assess the impact of Risk Assessment on the quality of financial reporting in microfinance institutions in Cameroon.
- To determine the impact of Control Activities on the quality of financial reporting in microfinance institutions in Cameroon.
- To examine the impact of Monitoring Activities on the quality of financial reporting in microfinance institutions in Cameroon.
- To assess the impact of Information and Communication on the quality of financial reporting in microfinance institutions in Cameroon.

➤ *Hypotheses of the Study*

- H₀: Internal control components have no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.
- H₀₁: Control Environment has no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.
- H₀₂: Risk Assessment has no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.
- H₀₃: Control Activities has no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.
- H₀₄: Monitoring Activities has no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.
- H₀₅: Information and Communication has no significant effect on the quality of financial reporting in microfinance institutions in Cameroon.

II. LITERATURE REVIEW

The review explains the meaning of each concept, the key elements involved, and how effective internal control mechanisms contribute to the accuracy, reliability, transparency, completeness, and timeliness of financial reporting in microfinance institutions, particularly within the context of cooperative credit unions in Cameroon.

➤ *Internal Control Components*

Internal control is defined as a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance (COSO, 2013). In microfinance institutions, internal control systems are particularly important because these organizations deal with large numbers of small transactions, operate with limited resources, and serve members who often have low financial literacy. Weak internal controls in such institutions can easily lead to fraud, misappropriation of funds, inaccurate records, and eventual loss of member confidence.

➤ *Control Environment*

The control environment is the foundation of the entire internal control system. It sets the tone at the top and

influences the control consciousness of all staff within the organization. Key elements of the control environment include the integrity and ethical values of management, the commitment to competence, the organizational structure, the assignment of authority and responsibility, and human resource policies. In credit unions, a strong control environment is reflected in ethical leadership, clear separation of duties at the management level, and a culture that discourages fraudulent behaviour. When the control environment is weak, other control components are unlikely to function effectively, and the quality of financial reporting is often compromised.

➤ *Risk Assessment*

Risk assessment involves the identification and analysis of risks that may prevent the organization from achieving its financial reporting objectives. In microfinance institutions, common risks include credit risk, operational risk, liquidity risk, fraud risk, and compliance risk. Effective risk assessment requires management to identify potential risks, evaluate their likelihood and impact, and develop appropriate responses. Regular risk assessment enables credit unions to anticipate problems that could lead to material misstatements in financial reports and to put preventive measures in place.

➤ *Control Activities*

Control activities are the specific actions and procedures established to ensure that management's directives are carried out. These include authorization and approval procedures, segregation of duties, proper documentation, physical controls over assets, and independent reconciliations. In the context of credit unions, control activities help to prevent and detect errors and irregularities in the recording of member deposits, loan disbursements, and other financial transactions. When control activities are weak or poorly implemented, the accuracy and reliability of financial reports decline.

➤ *Information and Communication*

This component ensures that relevant, accurate, and timely information is identified, captured, and communicated to the people who need it. Effective information and communication systems support both internal decision-making and external reporting. In microfinance institutions, this includes the flow of financial information from operational staff to management and the Board, as well as the communication of financial reports to members and regulators. Clear communication channels reduce misunderstandings, improve transparency, and enhance the overall quality of financial reporting.

➤ *Monitoring Activities*

Monitoring involves ongoing evaluations, separate evaluations, or a combination of both to determine whether the internal control system is functioning as intended. Monitoring activities include regular internal audits, management reviews, and the follow-up of audit recommendations. Continuous monitoring allows credit unions to identify control weaknesses early and to take corrective action before they affect the quality of financial

reports. Without effective monitoring, even well-designed controls may deteriorate over time.

➤ *Contingency Theory*

Contingency Theory originated in the 1960s from the work of scholars such as Lawrence and Lorsch (1967) and Fiedler (1964). The theory posits that there is no single best way to manage or design internal control systems; effectiveness depends on the fit between the control system and the organization's specific context, such as size, complexity, regulatory environment, and external risks (Otley, 2016; Chenhall, 2020). The theory has developed over time to emphasize that organizational structures and controls must adapt to changing environmental conditions. However, it has been critiqued for being too broad and lacking clear prescriptive guidelines on how to achieve the best fit in practice. Despite these critiques, Contingency Theory remains relevant because it explains why internal control effectiveness varies across different institutions. In the context of this study, Contingency Theory is relevant because the five COSO internal control components are expected to depend on the specific operational and regulatory context of the Credit Unions in Bamenda. For example, information and communication may have a stronger effect in institutions operating in dynamic environments with high member interaction. This theory supports the investigation of how internal controls function in cooperative credit unions in the North West Region of Cameroon.

➤ *Institutional Theory*

Institutional Theory originated in the 1970s and 1980s through the work of scholars such as Meyer and Rowan (1977) and DiMaggio and Powell (1983). The theory explains how organizations adopt structures, practices, and norms to gain legitimacy and conform to external pressures from regulators, industry standards, and societal expectations. It emphasizes three types of isomorphism: coercive (pressure from regulators), mimetic (imitating successful peers), and normative (professional standards) (Scott, 2014). The theory has developed to include the concept of institutional logic and how organizations balance efficiency with legitimacy. It has been critiqued for overemphasizing conformity and paying less attention to internal agency and change. Despite these critiques, Institutional Theory remains highly relevant in regulated sectors such as microfinance. In the context of this study, Institutional Theory is relevant because the Credit Unions operate under strong regulatory pressure from COBAC and BEAC. The adoption of COSO-based internal control components can be seen as a response to coercive and normative pressures to improve financial reporting quality and maintain legitimacy with regulators and members.

➤ *Legitimacy Theory*

Legitimacy Theory originated from the work of Dowling and Pfeffer (1975) and was further developed by Suchman (1995). The theory posits that organizations must continuously seek to align their actions with societal norms and expectations in order to maintain their "social licence to operate" and ensure survival. It distinguishes between pragmatic, moral, and cognitive legitimacy. The theory has developed to include strategies organizations use to gain,

maintain, or repair legitimacy, such as disclosure, communication, and adaptation of practices. It has been critiqued for being descriptive rather than predictive. Despite this, Legitimacy Theory is widely used in accounting and governance research. In the context of this study, Legitimacy Theory is relevant because it helps in improving the quality of financial reporting which help businesses maintain legitimacy with members, regulators, and the community. Weak controls and poor reporting can damage legitimacy and threaten the institutions' survival in the cooperative sector.

➤ Conceptual Framework

The conceptual framework links the independent variables (the five COSO internal control components) and the dependent variable (quality of financial reporting). It provides a visual and theoretical representation of how the control environment, risk assessment, control activities, information and communication, and monitoring activities are expected to influence the quality of financial reporting in the five selected Rainbow CAM Credit Unions in Bamenda.

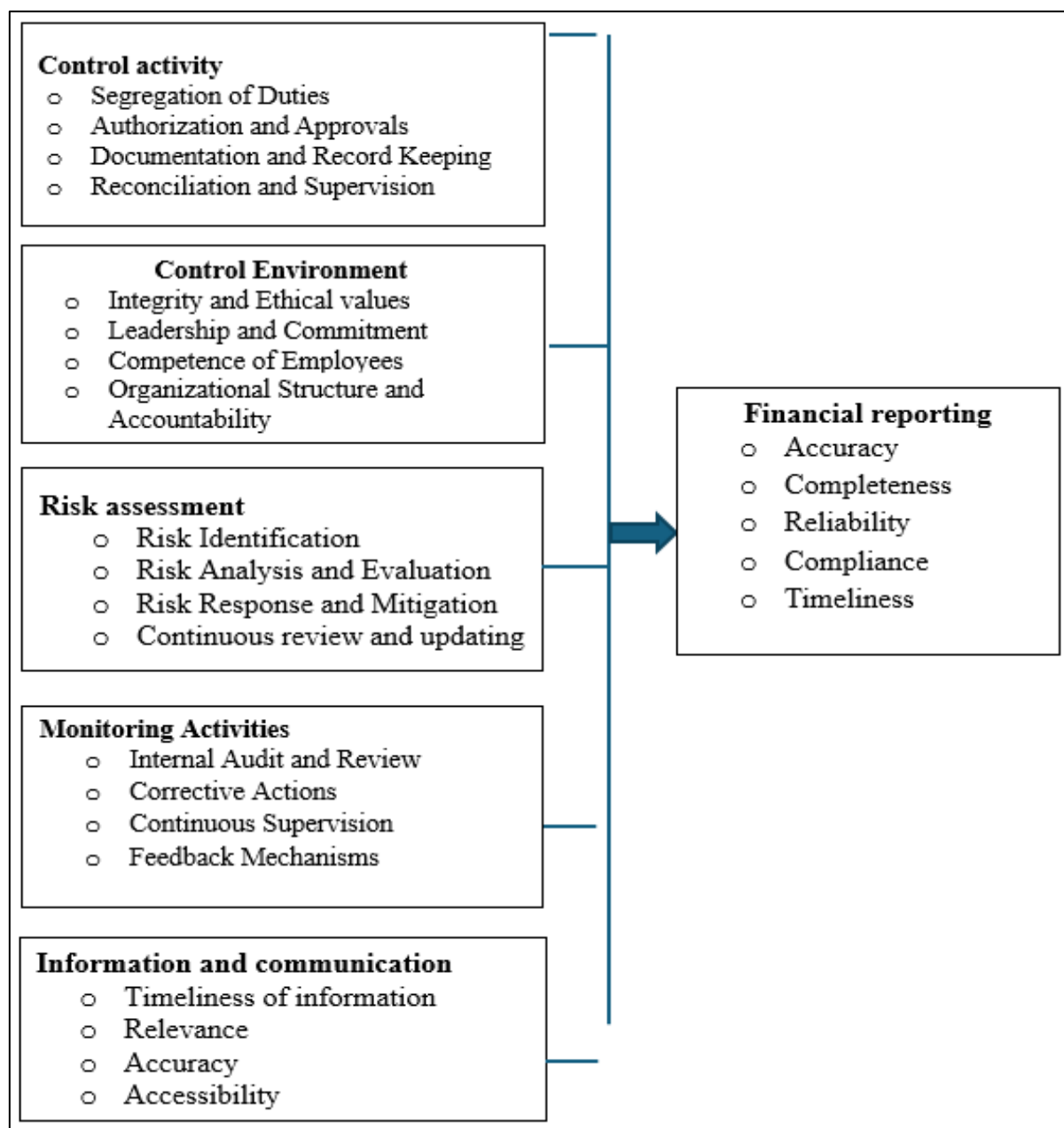


Fig 1 Conceptual Framework

Source: Researcher (2026)

In the conceptual framework above, the five COSO internal control components serve as the independent variables that are hypothesized to positively influence the quality of financial reporting (dependent variable). The framework assumes that these components work

interdependently. This framework guides the interpretation of findings and highlights the need for integrated implementation of all five components to achieve reliable, transparent, and accountable financial reporting in the selected credit unions.

The conceptual framework is particularly relevant to this study because it visually illustrates the expected relationships tested through multiple regression analysis. It also incorporates the study's mixed-methods approach, where quantitative results (descriptive statistics and regression) are supported by qualitative insights from interviews with key officers from the five credit unions. By focusing on five selected Rainbow CAM Credit Unions in Bamenda, the framework provides context-specific insights into how internal control systems function in cooperative microfinance institutions operating under similar regulatory and economic conditions in the North West Region of Cameroon.

III. RESEARCH METHODOLOGY

Methodology is a crucial component of any research, as it provides the blueprint that guides the systematic collection and analysis of data to address the research objectives and questions. The section further highlights the strategies used to ensure the validity and reliability of the findings, as well as the ethical considerations observed to maintain the integrity of the study.

➤ Research Design

This study adopted a descriptive and explanatory research design. The descriptive aspect was used to describe the characteristics of the respondents and the current state of internal control components and financial reporting quality in the selected credit unions. The explanatory aspect was used to examine the cause-and-effect relationship between the five COSO internal control components (independent variables) and the quality of financial reporting (dependent variable).

➤ Sampling Design and Sampling Technique

The estimated total population across the five credit unions was approximately 420 staff members. The sample size was determined using Yamane's (1967) formula: $n = \frac{N}{1 + N(e)^2}$

Where:

$N = 420$ (estimated population), $e = 0.05$ (margin of error)

This resulted in a sample size of 200 respondents. The 200 respondents were proportionately distributed across the five credit unions (40 respondents from each credit union) and across the main departments.

Proportionate stratified random sampling was used. The five credit unions served as strata. The estimated population distribution across the five selected Rainbow CAM Credit Unions was approximately 80–85 employees and members per union (total estimated population ≈ 420). From this, 40 respondents were randomly selected from each credit union, making a total sample of 200 respondents.

➤ Data Collection Instruments

Primary data were collected directly from the respondents by the researcher. This approach ensured first-hand and current information on internal control practices and

financial reporting quality as experienced by staff and management in the selected credit unions. Primary data formed the main basis for the quantitative and qualitative analysis in this study. A structured questionnaire was the main instrument used for data collection. The Likert scale was chosen because it allows respondents to express the degree of their agreement or disagreement with each statement and is suitable for measuring attitudes and perceptions. Closed-ended questions were used to facilitate easy coding and statistical analysis.

➤ Data Processing and Data Analysis

After the successful collection of data from the 200 respondents across the five selected Rainbow CAM Credit Unions, the raw data underwent a systematic processing procedure to ensure accuracy, consistency, completeness, and readiness for analysis. In this study, data processing began with editing, followed by coding, and ended with tabulation. These steps were carefully carried out to minimize errors, facilitate statistical analysis using SPSS, and ensure the integrity of the findings on the impact of internal control systems on financial reporting quality. The data collected from the questionnaires were analyzed using the Statistical Package for the Social Sciences (SPSS). Both descriptive and inferential statistical techniques were employed. Since the study aims to examine the effect of the five internal control components (independent variables) on the quality of financial reporting (dependent variable), multiple linear regression analysis was used to test the hypotheses. Correlation analysis was only used to examine the strength and direction of the relationships among the variables, but it was not used for hypothesis testing. Hypothesis testing was conducted solely through multiple linear regression analysis. The general regression model for the study is specified as follows: $[FRQ = \beta_0 + \beta_1 CE + \beta_2 RA + \beta_3 CA + \beta_4 MA + \beta_5 IC + \epsilon]$

Where:

- (FRQ) = Quality of Financial Reporting
- (CE) = Control Environment
- (RA) = Risk Assessment
- (CA) = Control Activities
- (MA) = Monitoring Activities
- (IC) = Information and Communication
- (β_0) = Constant
- (β_1) to (β_5) = Regression coefficients
- (ϵ) = Error term

➤ Hypothesis Testing

Hypothesis testing was conducted at the 0.05 level of significance using Pearson correlation and multiple regression results. The null hypotheses stating that there is no significant effect of each COSO component on financial reporting quality were tested. The results supported the acceptance of hypotheses related to Information and Communication and Monitoring Activities, while the others were rejected or partially supported due to multicollinearity among the control components. This testing provided

empirical evidence to confirm or refute the proposed relationships in the study.

IV. DATA PRESENTATION, INTERPRETATION AND ANALYSIS

The results presented are on the impact of internal control systems on the quality of financial reporting in the five selected Rainbow CAM Credit Unions. These results are related to the objectives of the study and these data are presented in the form of descriptive statistical tables and inferential statistics. Based on objectives of the study and

research questions, information was gathered from 200 respondents taken from the five selected Rainbow CAM Credit Unions. Moreover, this chapter is organized in such a way that the information from primary data was analyzed by using Statistical Package for the Social Sciences (SPSS) and ordinal logistic regression.

➤ Demographic Respondents' Profile

This section gives detailed information about the profile of respondents who participated in this study in terms of their age, gender, educational level as well as the time working (working experience) within the institutions.

Table 1 Demographics Profile of Respondents

Demographic Characteristic	Category	Frequency (n)	Percentage (%)
Age	Below 30 years	38	19.0
	31-40 years	72	36.0
	41-50 years	55	27.5
	51 years and above	35	17.5
	Total	200	100.0
Gender	Male	118	59.0
	Female	82	41.0
	Total	200	100.0
Education Qualification	Master's degree	42	21.0
	Bachelor's degree	98	49.0
	Secondary level	60	30.0
	Total	200	100.0
Years of Experience	Less than 1 year	12	6.0
	1–3 years	45	22.5
	4–6 years	78	39.0
	7–10 years	40	20.0
	11 years and above	25	12.5
	Total	200	100.0

Source: Author's Own Compilation (2026).

Table 1 reveals that majority of 72 (36.0%) respondents belong to the age group of between 31 - 40 years; 55 (27.5%) respondents are belonging to the age group of 41 - 50 years; furthermore 38 (19.0%) respondents are belonging between the years group below 30 years and finally 35 (17.5%) respondents are belonging to the age group of 51 years and above. Therefore, implies that all categories of respondents in terms of age have participated in this study. Also, 118 (59.0%) respondents were male and other 82 (41.0%) respondents were female. Therefore, both females and males' employees working at the selected credit unions have participated in this study. Furthermore, majority of 98

(49.0%) respondents hold a bachelor's degree, 42 (21.0%) respondents who hold a master's degree and finally 60 (30.0%) respondents hold the secondary level certificate. Therefore, almost employees at the selected credit unions have accomplished their studies. Finally, 78 (39.0%) respondents belong to the year's group of 5-10 years, 45 (22.5%) respondents belong to 1-5 years, and 40 (20.0%) respondents belong to 10-15 years. As a result, the sample is diverse and representative of staff working in the selected credit unions.

➤ Descriptive Statistics

Table 2 Descriptive Statistics for Internal Control Components

Internal Control Component	Statement	Mean	Std. Dev.
Control Environment	Management promotes integrity and ethical behaviour	4.12	0.68
	Top management demonstrates strong leadership	4.05	0.71
	Employees possess the required skills and knowledge	3.98	0.74
	The organizational structure clearly defines roles	4.01	0.69
	Strong control environment promotes accurate financial reporting	4.08	0.66
	Overall Mean	4.05	0.70
Risk Assessment	The organization regularly identifies potential risks	3.95	0.72
	Identified risks are thoroughly analyzed	3.89	0.75
	Management implements effective risk mitigation measures	3.92	0.71
	Risk assessment procedures are periodically reviewed	3.87	0.78

	Risk assessment enhances reliability of financial reporting	4.01	0.69
	Overall Mean	3.93	0.73
Control Activities	Duties are properly segregated	4.02	0.70
	Financial transactions require proper authorization	4.08	0.67
	Adequate documentation is maintained	3.97	0.73
	Regular supervision and reconciliation are carried out	4.01	0.71
	Control activities promote reliability of financial reporting	4.05	0.68
	Overall Mean	4.03	0.70
Monitoring Activities	Internal audits and periodic reviews are conducted	4.10	0.66
	Corrective actions are promptly taken	4.06	0.69
	Management continuously supervises operations	4.02	0.71
	Feedback from monitoring is used to strengthen controls	4.00	0.72
	Monitoring activities enhance reliability of financial reports	4.09	0.65
	Overall Mean	4.05	0.69
Information and Communication	Relevant financial information is communicated effectively	4.15	0.64
	Information is shared in a timely manner	4.12	0.67
	Information provided is accurate and complete	4.08	0.69
	Staff can easily access the information they need	4.05	0.70
	Communication channels support reliable reporting	4.11	0.66
	Overall Mean	4.10	0.67

Source: Author's Own Compilation (2026).

The results indicate that respondents generally agreed that all five internal control components were practiced within the selected credit unions. The overall mean scores ranged from 3.93 for Risk Assessment to 4.10 for Information and Communication. Control Environment and Monitoring Activities each recorded an overall mean of 4.05, while Control Activities recorded 4.03. The standard deviations, ranging from 0.65 to 0.78, indicate moderate variation in respondents' perceptions. Overall, the findings suggest relatively positive perceptions of the internal control practices associated with the quality of financial reporting.

➤ Inferential Analysis

Inferential statistics were used to examine the relationships between the variables and to test the hypotheses of the study. Pearson correlation analysis was first conducted to determine the strength and direction of the relationships among the variables. Thereafter, multiple linear regression analysis was used to test the effect of the five COSO internal control components on the quality of financial reporting.

➤ Correlation Analysis

Pearson correlation analysis was first conducted to determine the strength and direction of the relationships among the variables.

Table 3 Presents the Pearson Correlation Results

Variable	CE	RA	CA	MA	IC	FRQ
Control Environment (CE)	1					
Risk Assessment (RA)	0.540	1				
Control Activities (CA)	0.406	0.540	1			
Monitoring Activities (MA)	0.375	0.406	0.443	1		
Information & Communication (IC)	0.344	0.375	0.369	0.528	1	
Financial Reporting Quality (FRQ)	0.344	0.344	0.329	0.453	0.489	1

Correlation is Significant at the 0.01 Level (2-Tailed).

Source; Author's (2026)

All the independent variables have a positive and significant relationship with Financial Reporting Quality. Information & Communication has the strongest correlation with FRQ ($r = 0.489$), followed by Monitoring Activities ($r = 0.453$). The correlations among the independent variables are moderate, indicating that multicollinearity is not a serious problem.

➤ Multiple Linear Regression Analysis

Multiple linear regression was used to determine the effect of the five COSO components on the quality of financial reporting.

Table 4 Model Summary

Model	R	R Square	Adjusted R Square Estimate	Std. Error of the
1	0.556	0.309	0.294	0.421

Source; Author's (2026)

Table 5 ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.402	5	3.080	17.41	0.000
Residual	34.604	194	0.178		
Total	50.006	199			

Source; Author's (2026)

Table 6 Regression Coefficients

Variable Decision	Unstandardized B	Std. Error	Beta	t	Sig.
(Constant)	1.002	0.331		3.027	0.003
Control Environment (CE) Significant	0.198	0.081	0.178	2.444	0.015
Risk Assessment (RA) Not Significant	0.103	0.072	0.105	1.431	0.154
Control Activities (CA) Not Significant	0.064	0.079	0.061	0.810	0.419
Monitoring Activities (MA) Significant	0.234	0.080	0.219	2.925	0.004
Information & Communication (IC) Significant	0.336	0.078	0.312	4.308	0.000

Source; Author's (2026)

The regression model is statistically significant ($F = 17.41$, $p < 0.001$). The Adjusted R Square of 0.294 indicates that the five COSO components together explain 29.4% of the variation in financial reporting quality. Information & Communication has the strongest significant positive effect ($\beta = 0.312$, $p < 0.001$), followed by Monitoring Activities (β

$= 0.219$, $p = 0.004$) and Control Environment ($\beta = 0.178$, $p = 0.015$). Risk Assessment and Control Activities are not statistically significant when all variables are included in the model.

➤ Summary of Hypothesis Testing

Table 7 Summary of Hypothesis Testing

Hypothesis	Statement	p-value	Decision
H1	Control Environment has significant effect	0.015	Accepted
H2	Risk Assessment has significant effect	0.154	Rejected
H3	Control Activities has significant effect	0.419	Rejected
H4	Monitoring Activities has significant effect	0.004	Accepted
H5	Information & Communication has significant effect	0.000	Accepted

Source; Author's (2026)

From the multiple regression results, three out of the five hypotheses were accepted.

- H1 (Control Environment) was accepted ($p = 0.015$). This means that a strong control environment significantly improves the quality of financial reporting.
- H2 (Risk Assessment) was rejected ($p = 0.154$). Although risk assessment showed a positive relationship, its effect was not statistically significant when combined with the other variables.
- H3 (Control Activities) was rejected ($p = 0.419$). Control activities did not have a significant unique effect on financial reporting quality in the combined model.
- H4 (Monitoring Activities) was accepted ($p = 0.004$). Continuous monitoring significantly enhances the quality of financial reporting.
- H5 (Information & Communication) was accepted ($p = 0.000$). This component had the strongest and most significant positive effect on financial reporting quality.

V. DISCUSSION

The main objective of this study was to examine the effect of internal control components on the quality of financial reporting in five selected Rainbow CAM Credit Unions in Bamenda. The multiple regression results showed that the five COSO components together explain 29.4% of the variation in financial reporting quality (Adjusted $R^2 = 0.294$, $p < 0.001$).

Information and Communication had the strongest significant positive effect on financial reporting quality ($\beta = 0.312$, $p < 0.001$). This means that when information is shared accurately, timely, and through clear channels, the quality of financial reports improves. This finding is consistent with Twinematsiko (2025) and Ahmed & Manab (2019), who also found that effective communication systems enhance transparency and the reliability of financial reports in microfinance institutions.

Monitoring Activities also had a significant positive effect ($\beta = 0.219$, $p = 0.004$). This indicates that regular internal audits, supervisory reviews, and timely corrective actions contribute significantly to better financial reporting. The result supports the findings of Muhame (2024) and Kabuye et al. (2021).

Control Environment showed a significant positive effect ($\beta = 0.178$, $p = 0.015$). This suggests that ethical leadership, integrity, and a strong organizational culture support the production of reliable financial reports. The finding is in line with Donkor and Asare (2021).

Risk Assessment and Control Activities were not statistically significant when all variables were included in the model. This may be due to multicollinearity among the COSO components or because their effects are already captured by the stronger variables (Information & Communication and Monitoring). Similar results have been reported in some previous studies where not all COSO components remained significant in the combined model.

VI. IMPLICATIONS OF THE FINDINGS

Since Information and Communication and Monitoring Activities have the strongest positive effects on financial reporting quality, the management of Rainbow CAM Credit Unions should prioritize these two areas. Management should improve the timely and accurate sharing of financial information and strengthen continuous monitoring through regular internal audits and prompt corrective actions. Doing so will help improve the accuracy, reliability, and transparency of financial reports.

Regulators such as COBAC should continue to encourage microfinance institutions to fully implement the COSO framework. Special attention should be given to information and communication systems and monitoring mechanisms during supervision and inspections.

The findings support Contingency Theory, Institutional Theory, and Legitimacy Theory. They show that internal controls that are well adapted to the organizational context and aimed at maintaining legitimacy contribute to better financial reporting quality.

Future studies can expand the geographical coverage beyond Bamenda and examine the role of digital technology in strengthening internal control systems in microfinance institutions.

VII. CONCLUSION AND RECOMMENDATIONS

➤ Conclusion

Based on the findings of this study, it can be concluded that internal control components have a significant effect on the quality of financial reporting in the selected Rainbow CAM Credit Unions in Bamenda. Among the five COSO components, Information and Communication and Monitoring Activities play the most critical roles. When

financial information is shared accurately and in a timely manner, and when continuous monitoring is effectively implemented, the accuracy, reliability, transparency, and timeliness of financial reports improve significantly.

Although Risk Assessment and Control Activities did not show significant unique effects in the combined regression model, they remain important elements of a complete internal control system. The findings of this study support the COSO framework and are consistent with previous studies conducted in similar microfinance contexts. Overall, strengthening internal control systems is essential for improving the quality of financial reporting and enhancing accountability in cooperative credit unions.

➤ Recommendations

Based on the findings of this study, the following recommendations are made:

Since Information and Communication had the strongest positive effect on financial reporting quality, the management of the selected Rainbow CAM Credit Unions should improve the way financial information is shared. This can be done by ensuring that reports are accurate, complete, and delivered on time, and by establishing clear communication channels between staff, management, and the Board.

The credit unions should institutionalize regular internal audits, surprise checks, and timely corrective actions. Continuous monitoring will help detect weaknesses early and maintain the quality of financial reports over time.

Management should continue to promote ethical behaviour, integrity, and strong leadership. A strong control environment creates the foundation for reliable financial reporting.

Even though these two components were not significant in the combined model, management should still improve risk identification and mitigation processes, as well as segregation of duties, authorization procedures, and reconciliations.

COBAC and other regulators should continue to support microfinance institutions in fully implementing the COSO framework, with particular attention to information systems and monitoring mechanisms.

AREAS FOR FURTHER RESEARCH

This study was limited to five Rainbow CAM Credit Unions in Bamenda. Future researchers should consider the following areas:

- Expanding the study to other regions of Cameroon or to different types of microfinance institutions.
- Examining the role of digital technology and computerized accounting systems in strengthening internal controls.
- Conducting longitudinal studies to assess the long-term effect of internal controls on financial reporting quality.

- Comparing internal control practices between cooperative credit unions and commercial banks.

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