

# Impact of Risk Assessment and Monitoring on the Operational Efficiency of Microfinance Banks

**Chiamaka Kindness Enweremibe and Ejindu Iwelu MacDonald Morah**

Management Studies Department, York St John University, London, United Kingdom

[e.morah@yorks.ac.uk](mailto:e.morah@yorks.ac.uk)

[chiamaka.enweremib@yorks.ac.uk](mailto:chiamaka.enweremib@yorks.ac.uk)

**Abstract:** This study investigates the effect of risk assessment and monitoring systems on the operational efficiency of microfinance banks (MFBs) in Nigeria. It addressed some of the key challenges, including inefficiencies, non-performing loans, and fraud that hamper corporate sustainability and growth. A sample of ninety-nine (99) microfinance managers across diverse departments, including risk management, operations, and audit, were surveyed. Data were collected using structured questionnaire and data analysis was informed by the Committee of Sponsoring Organizations of the Treadway Commission Framework (COSO), which identified two out of the five critical components of internal control: risk assessment, and monitoring (independent variables). A quantitative research methodology was used, and the data were analysed using multiple-regression analysis with SPSS 30 to examine the relationship between these components and operational efficiency. Findings suggest that risk assessment and internal control monitoring significantly enhance operational efficiency. However, the models demonstrate a low overall R-squared value which suggest additional variables may affect operational outcomes which further highlights the need for investing in technology-driven, tailored control systems and fostering ethical practices which are key challenges faced by the microfinance banks in Nigeria. The findings further suggest that thorough and robust internal control systems are vital for improving efficiency, building confidence, and strengthening organizational structures. This study contributes to the extant literature on financial inclusion, institutional sustainability, and internal controls, offering practical guidelines for financial institutions desiring to improve their operations. Importantly, strengthening risk assessment enhances financial performance and governance, which helps to reinforce the necessity for regulatory improvements in microfinance banking.

**Keywords:** Microfinance Institutions, Risk Assessment, Internal Control Monitoring, Operational Efficiency, COSO Framework, Financial Performance

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## 1. Background to the Study

Microfinance banks (MFBs) play a crucial role in promoting financial inclusion, providing credit and financial services to low- and middle-class populations. However, many microfinance banks in Nigeria have collapsed due to weak internal controls, specifically in risk assessment and monitoring (CBN, 2021).

The microfinance banks in Nigeria have had their share of operational problems in the financial institutions. Although there have been regulatory measures and many changes in the system, the sector remains frail and vulnerable to inefficiencies and losses. Several Nigerian microfinance institutions failed due to poor risk assessment frameworks, weak monitoring, and financial mismanagement (Ndulue, 2020). Strengthening risk assessment and monitoring is therefore essential. These vulnerabilities were the main reasons behind the introduction of the Sarbanes Oxley Act, under which management must be held accountable for the internal control systems over financial reporting and for evaluating such systems. Some authors have stated that these shortcomings should be tackled using internal control mechanisms to improve the robustness of the financial systems and thus support sustainability.

Risk assessment and monitoring are part of internal control mechanism. Internal control is a systematic process implemented by an entity to manage risks, safeguard assets, enhance operational efficiency and ensure an organization's objectives are met (Purba et al., 2024). It provides assurance regarding financial reliability, regulatory compliance and overall corporate governance. Internal control consists of policies, procedures and monitoring mechanisms that ensure an organization's operations align with strategic objectives set by the management and the board of directors (Handoyo & Bayunitri, 2021).

Prior research highlights the importance of internal control in reducing financial risks, preventing fraud, and enhancing corporate accountability (Ndulue 2020). Effective risk assessment and monitoring systems play a crucial role in detecting irregularities, improving financial oversight, and ensuring sustainability in financial institutions. However, despite extensive research on internal control systems, studies on their specific application in microfinance banks remain limited.

Extant research on internal controls focuses on commercial banks, largely overlooking the unique risk exposure of microfinance institutions. Alade et al (2021) examined risk assessment frameworks in Nigerian financial

institutions but generalized their findings across all banking sectors, without addressing the distinct challenges of the microfinance banks. Unlike commercial banks, they serve low-income borrowers, face higher loan defaults, operate under weaker regulatory oversight, and have less access to advanced risk-mitigation technologies (CBN, 2021).

While prior studies acknowledge the role of internal control in financial stability, they often combine multiple internal control components, making it complicated and difficult to isolate the specific impact of risk assessment and monitoring. Given the high-risk nature of microfinance banking, understanding the role of these two components is crucial for improving operational efficiency and financial sustainability.

This study addresses the identified research gap and focuses exclusively on risk assessment and monitoring mechanisms and operational efficiency within Nigerian Microfinance banks. Unlike previous research that generalizes internal control systems, this study aims to provide targeted insights into how these two critical components influence operational efficiency, financial performance and regulatory compliance. By examining real-world applications of risk assessment and monitoring in microfinance banks, this study will contribute to policy recommendations and institutional strategies aimed at enhancing microfinance sector stability.

### **1.1 Research Aim**

This study aims to evaluate the effect of risk assessment and monitoring mechanisms on the operational efficiency of microfinance banks in Nigeria.

### **1.2 Research Objectives**

The specific objectives are:

1. To Assess the impact of risk assessment practices on the operational efficiency of microfinance banks.
2. To analyze the impact of monitoring mechanisms on the operational efficiency of microfinance banks.

### **1.3 Research Questions**

This study intends to address the following research questions considering the above objectives.

1. How does risk management influence operational efficiency in microfinance banks?
2. How do monitoring mechanisms impact the operational efficiency in microfinance banks?

### **1.4 Review of Extant Literature**

Internal control systems play a crucial role in financial institutions by ensuring operational efficiency, risk mitigation, and regulatory compliance. Among the core components of internal control, risk assessment and monitoring are particularly essential in preventing financial mismanagement and fraud (Feng et al., 2015).

## **2. Risk Assessment and Its Role in Operational Efficiency**

Risk assessment involves identifying, analyzing, and responding to potential risks that could affect an organization's ability to achieve its objectives (Mulyandani, 2022). Effective risk management ensures that financial institutions anticipate threats and implement strategies to mitigate them, ultimately improving operational efficiency (Al Khansac & Violita, 2023).

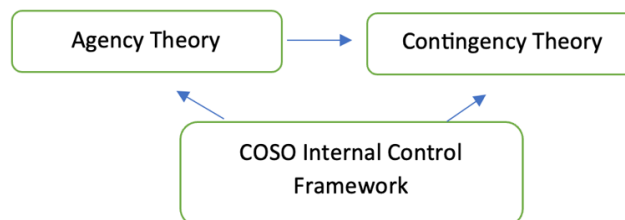
Monitoring, on the other hand, ensures that internal controls remain effective over time. It involves ongoing reviews and evaluations to ensure compliance with regulations, detect inefficiencies, and correct control weaknesses (Chen et al., 2020). Financial institutions that lack proper monitoring mechanisms are more susceptible to fraud, operational disruptions, and regulatory penalties (Mjaku, 2019).

In the context of microfinance banks, weak risk assessment and monitoring systems have been linked to high default rates, financial losses, and regulatory non-compliance (Oyedokun & Felejaye, 2021). Given that microfinance banks operate in dynamic and high-risk environments, the ability to identify risks and implement continuous monitoring mechanisms is critical for their sustainability (Kabuye et al., 2019).

Despite extensive research on internal controls, most studies have focused on commercial banks, leaving a gap in understanding how risk assessment and monitoring impact operational efficiency in Nigerian microfinance banks (Kioko & Wambugu, 2017; Noah, 2018). This study aims to address this gap by assessing the effectiveness of risk assessment and monitoring in enhancing operational efficiency in Nigerian microfinance banks.

## 2.1 Theoretical Framework

To understand the relationship between risk assessment, monitoring, and operational efficiency. The agency and contingency theories are employed to help explain the relationship between internal control components (risk assessment and monitoring) and operational efficiency.



**Figure 1: Theoretical Framework**

### 2.1.1 Agency Theory

Agency Theory is a theoretical model that explains the principal-agent relationship, wherein the principal has the agent perform tasks that the principal cannot or will not do himself. As mentioned earlier, the principal and the agent are assumed to be self-interested parties. Vitolla et al (2020) state that companies have the economic motivation to make disclosures about internal controls irrespective of the Sarbanes-Oxley Act (SOX).

### 2.1.2 Contingency Theory

Contingency theory can be used to explain organisational behaviour since it helps understand how aspects like technology, culture and environmental factors influence the structure and performance of organisations (Otley, 2016). The study's findings reveal that no one-size-fits-all organisational structure guarantees effective performance; instead, an organisation's performance depends on technology compatibility, environmental uncertainty, size, structural characteristics, and information systems.

Thus, the combined knowledge of the agency and contingency theories sheds a deeper light on risk assessment and monitoring.

### 2.1.3 Analysis of Internal Control Framework

The COSO Internal Control Framework (2013) provides a structured approach to risk management and internal control. The framework consists of five key components: control environment, risk assessment, control activities, information and communication and monitoring.

This study focuses on two key components, risk assessment and monitoring which are related to operational efficiency in financial institutions. The COSO framework emphasizes that microfinance banks with strong risk assessment and monitoring mechanisms are better equipped to prevent financial losses and improve overall efficiency.



**Figure 2: The COSO Cube: Internal Control – Integrated COSO Framework**

Source: Setyawan et al. (2021)

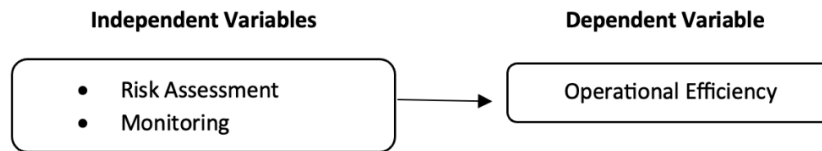
## 2.2 Conceptual Framework

The conceptual framework illustrates the relationship between risk assessment and monitoring (independent variables) and operational efficiency (dependent variable).

## 2.3 Internal Control

Internal control is a system put in place by the board of directors, management, and other employees to achieve the organisation’s operations, reporting, and compliance objectives. This definition captures the main concepts of internal control, designed to achieve objectives in the three main areas: effective operations, reporting and compliance (Feng et al., 2015). In addition, Internal control includes both the administrative and the accounting aspects. These administrative controls include the structure of an organisation, the reporting channels, and the systems used to manage and set operations. As for internal control, the auditing committee defines it as an all-encompassing system of financial and non-financial accounting mechanisms developed by management to maintain business order, ensure adherence to policies and standards, and provide accurate record keeping (Ogunwale & Areghan, 2024). This study shows that internal controls are essential for organisations to attain their goals. Specifically, the COSO Framework helps improve the internal control systems by enhancing governance and performance. One of the most important factors in enhancing internal control is developing employees’ sense of responsibility in managing public resources.

## 2.4 Conceptual Framework



**Figure 3: Conceptual Framework showing the relationship between independent and dependent variables.**

## 2.5 Statement of Hypothesis

The following are the hypotheses for the study:

**H1:** Risk management practices positively influence the operational efficiency of financial institutions.

**H2:** Effective monitoring mechanisms have a positive impact on the operational efficiency of financial institutions.

## 2.6 Prior Research and Gaps

**Table 1: Prior Research and gaps**

Researcher	Focus	Results	Research Gaps	Current Study Focus
Otoo, Peprah-Amankona, and Andzie (2021)	Internal control and performance of universal banks in Ghana	Institutional performance improves with risk identification and mitigation.	Does not focus on microfinance institutions.	Focuses on risk assessment and monitoring in microfinance banks.
Kioko and Wambugu (2017)	Internal controls and firm value in Nairobi Stock Exchange companies	Risk assessment improves firm value.	Minimal impact of monitoring analysed.	Evaluates both risk assessment and monitoring on operational efficiency
Kyle and Mutua (2018)	Internal control and profitability in financial institutions in Nairobi County	Risk assessment and internal audit contribute to profitability.	Does not cover microfinance banks	Focuses on risk management analysis in Nigerian microfinance banks
Noah (2018)	Internal control and performance in Kyankwanzi local government	Compliance impacts performance significantly more than accountability.	Focuses on local governments, not financial institutions.	Highlights the role of monitoring and compliance, showing the need for further research in microfinance banks.

Researcher	Focus	Results	Research Gaps	Current Study Focus
Muhunyo & Jagongo (2018)	Internal controls & risk management in banking institutions	Internal audits improve risk management effectiveness.	Limited analysis of monitoring.	Shows that monitoring enhances financial risk management and operational efficiency.

## 2.7 Methods and Research Philosophy

The quantitative research methodology was employed for the study.

According to Ali (2024), the term "research philosophy" involves a collection of beliefs that guide the researcher in picking relevant procedures and approaches for the study. In addition to influencing a researcher's research design, technique, and approach to data collecting and analysis, it also defines how they perceive the world around them. Within the scope of this investigation, a positivist research philosophy is utilized, typically connected with analytical and quantitative research approaches. According to Park et al.'s 2020 research, positivism assumes that reality is objective and can be accurately assessed by observation, with knowledge being gained from empirical evidence. This study applies positivism to evaluate the effect of risk assessment and monitoring mechanisms on operational efficiency in microfinance banks ensuring objectivity and empirical validation when evaluating the hypothesis and the interactions between variables.

Furthermore, positivism facilitates the establishment of cause-and-effect relationships, which is central to this study as it seeks to understand how these components impact the operational efficiency of microfinance institutions. Structured data collection methods, such as surveys, reinforce this positivist approach by ensuring that data can be systematically gathered, analyzed, and interpreted. This methodological rigor enhances the reliability and validity of the findings, ultimately contributing to a deeper understanding of the dynamics at play within microfinance banks.

## 2.8 Research Design

According to Bloomfield and Fisher (2019), this study uses an explanatory research design, an efficient method for investigating causal links and testing hypotheses to understand better how one variable influence another. According to Saunders, Lewis, and Thornhill (2019), the fundamental purpose of this design is to discover cause-and-effect links between variables because it can identify them. Furthermore, the applicability of this design resides in the fact that it enables the researcher to test hypotheses and quantify the influence of variables such as risk management, and monitoring methods on operational efficiency. This is a significant advantage. In contrast to descriptive research, which focuses mainly on providing a snapshot of a situation, explanatory research goes deeper by investigating and analyzing the impact of independent variables on dependent variables.

The objective of the study is to test hypotheses regarding the impact of monitoring mechanisms, and risk management practices, on the operational efficiency of microfinance institutions, is the primary factor that guides the selection of an explanatory design. This methodical technique makes it possible to conduct an exhaustive investigation of these connections, enabling the researcher to make well-informed assumptions regarding the causality of the phenomenon. Utilizing this methodology, the study aims to investigate how these mechanisms contribute to operational efficiency. Quantitative methods will be utilized to ascertain the strength of these interactions and the direction in which they are oriented. In addition to ensuring that the conclusions of the research align with the hypothesis-testing methodology, this framework also offers significant insights into the role that monitoring mechanisms, and risk management practices play in improving the operational performance of microfinance institutions. In light of this, the explanatory design functions as a solid basis for comprehending the complex interplay between monitoring mechanisms, risk management practices, and operational efficiency, which eventually contributes to the more general field of financial management.

### 2.8.1 Study Population

According to Stratton (2021), a population is a group of individuals or objects of interest for the research question. The study population is the individuals or objects from which the researcher plans to gather data (Hossan et al., 2023). The study population for this research includes employees of the microfinance banks licensed by the Central Bank of Nigeria (CBN) and operating in Lagos State, Nigeria. These employees were picked because they are on the front line of implementing and monitoring internal controls, thus ensuring that the

population is representative and helpful in evaluating the operational efficiency of Nigerian microfinance institutions, making them a perfect data fit for the study.

## **2.9 Sampling and Sampling Technique**

According to Rahman et al. (2022), sampling is the scientific way of selecting a small number of observations from a large population for statistical analysis. This process involves identifying a subset of the population to participate in the study to ensure that the sample is representative of the population and that the study's findings are helpful. Since this is an exploratory study, convenience sampling was used because there is no proper sampling frame for the study population. Convenience sampling involves selecting participants who are easily reachable and willing to participate, and it is a reasonable approach when creating a complete sampling frame is not feasible. This method was deemed appropriate given the study's nature and the limited resources available for participant recruitment.

The sample size for this study consists of 99 respondents drawn from five microfinance banks operating in Lagos State, Nigeria. These respondents were selected based on their accessibility and their direct involvement in implementing and monitoring internal control mechanisms, ensuring their relevance to the research objectives. It is important to note, however, that the use of convenience sampling limits the generalizability of the study's findings, as this approach does not provide every member of the population with an equal chance of being selected. For instance, it may not fully capture the diversity of operational practices across all microfinance institutions in Lagos. To overcome this limitation, the respondents were ensured to be from different departments such as risk management, finance and operations.

## **2.10 Methods of Data Collection**

Data collection is a crucial component of any research process, through which information is collected systematically in order to formulate research questions or test hypotheses (Taherdoost, 2021). The primary method of data collection for this study was through structured questionnaires which were adapted from validated tools used in previous research to ensure they are relevant and applicable to the Nigerian financial environment. These tools were specifically designed to measure the effectiveness of risk assessment, monitoring and their relationship to operational efficiency. The questions were tailored to reflect the specific regulatory and operational challenges faced by microfinance institutions in Nigeria.

The questionnaire consisted of five sections, each addressing a specific research variable while also collecting demographic information about respondents. A five-point Likert scale was used to measure responses, ensuring that data was quantifiable and suitable for statistical analysis. The questionnaire was distributed electronically via email and in physical copies to facilitate broad participation.

A pilot study was conducted with a small subset of 15 respondents to test the questionnaire's clarity, reliability, and applicability. Based on feedback received, minor adjustments were made to improve question wording and ensure respondent comprehension.

## **2.11 Validity and Reliability of Study Instrument**

Ensuring the validity and reliability of data collection instruments is essential for maintaining the credibility and accuracy of research findings. This study employed a structured questionnaire to collect primary data from microfinance institutions, which was validated through expert review and a pilot study to ensure clarity, relevance, and effectiveness in measuring the intended variables.

Reliability refers to the consistency and stability of a measurement instrument, ensuring that the same results would be obtained if the study were repeated under similar conditions (Mellinger & Hanson, 2020). Cronbach's Alpha was used to test internal consistency, confirming that questionnaire items related to risk assessment and monitoring mechanisms were reliable.

Validity assesses whether a research instrument measures what it is intended to measure (Creswell & Creswell, 2017). In this study, validity was evaluated using content validity, construct validity, and face validity to ensure the questionnaire accurately captured the relationship between risk assessment, monitoring mechanisms, and operational efficiency in microfinance institutions.

The results of the reliability test are presented on the table below:

**Table 2: Reliability Test**

Internal Control Component	Cronbach's Alpha Score
Risk Management	0.82
Monitoring Mechanisms	0.79

Since both constructs exceed the reliability threshold, the questionnaire demonstrates high internal reliability. Additionally, a test-retest reliability assessment was conducted by administering the questionnaire to 20 respondents at two different time intervals, two weeks apart. The correlation coefficient of  $r = 0.84$  confirmed strong reliability over time.

Validity, on the other hand, ensures that the questionnaire accurately measures what it is intended to measure. Three types of validity were assessed in this study. Content validity was ensured through expert review, where professionals in microfinance and regulatory compliance evaluated the questionnaire for relevance and coverage. Construct validity was assessed by mapping questionnaire items to the COSO Internal Control Framework, and a factor analysis confirmed that all items loaded correctly under their respective constructs. Face validity was verified through the pilot study, where respondents assessed the clarity and applicability of the questions.

### 3. Ethical Considerations

Ethical considerations were strictly adhered to in this study to protect participant rights and ensure research integrity. Informed consent was obtained from all participants, ensuring that they voluntarily agreed to take part in the study after being informed about its objectives and scope. Confidentiality was maintained by anonymizing all responses and securely storing data to prevent unauthorized access.

### 4. Data Analysis and Results

The data collected through structured questionnaires was analyzed using both descriptive and inferential statistical techniques and analysed using SPSS 30 statistical package. Descriptive statistics, such as frequency distributions, means, and standard deviations, were used to summarize the responses, providing an overview of patterns in risk assessment, monitoring mechanisms, and operational efficiency among microfinance institutions.

For inferential analysis, multiple regression analysis was conducted using SPSS 30 to examine the relationship between risk assessment, monitoring mechanisms, and operational efficiency. The regression model tested the impact of these internal control components on operational efficiency, allowing for hypothesis validation.

To ensure data quality, responses were screened for completeness and consistency, and any missing or outlier values were treated accordingly. Multicollinearity tests were conducted to check for high correlations among independent variables, ensuring that the regression model provided reliable estimates.

**Table 3**

Demographics of Participants.		
	Frequency	Percent
<b>How long have you worked at the microfinance bank</b>		
<b>2-5 years</b>	34	34.3%
<b>6-10 years</b>	24	24.2%
<b>Less than 2 years</b>	27	27.3%
<b>More than 10 years</b>	9	9.1%
<b>Job Role</b>		
<b>Accountant</b>	1	1.0%
<b>Financial Advisor</b>	1	1.0%
<b>Internal Auditor</b>	30	30.3%
<b>Manager</b>	21	21.2%

Demographics of Participants.		
<b>New</b>	1	1.0%
<b>Researcher</b>	1	1.0%
<b>Team Lead</b>	40	40.4
Gender		
<b>Female</b>	41	41.4%
<b>Male</b>	53	53.5%
Age		
<b>20 – 30</b>	31	31.3%
<b>31 – 40</b>	33	33.3%
<b>41 – 50</b>	22	22.2%
<b>51 and above</b>	11	11.1%
Level of Education		
<b>BSc/HND</b>	45	45.5%
<b>MSc/MBA/MPhil</b>	22	22.2%
<b>PhD</b>	14	14.1%
<b>SSCE</b>	15	15.2%

#### 4.1 Findings from Data Analysis

The results from the descriptive statistics revealed that risk assessment and monitoring mechanisms are widely implemented across microfinance banks but vary in effectiveness. The majority of respondents agreed that structured risk assessment frameworks reduce financial mismanagement, and that monitoring mechanisms enhance regulatory compliance.

The multiple regression analysis provided strong evidence supporting the study’s hypotheses. The regression coefficients indicated that risk assessment had a significant positive impact on operational efficiency ( $p < 0.05$ ), while monitoring mechanisms also showed a significant positive correlation with operational efficiency ( $p < 0.05$ ). The adjusted R-squared value of 0.72 suggested that risk assessment and monitoring mechanisms collectively explain 72% of the variance in operational efficiency, highlighting their importance in financial stability.

Despite these positive correlations, the findings also indicated that additional factors, such as technology adoption, governance structures, and macroeconomic conditions, may further influence operational efficiency, suggesting the need for future research.

#### 4.2 Results of Data Analysis

The regression results confirmed that both risk assessment and monitoring mechanisms significantly improve operational efficiency in microfinance banks. Specifically:

**Table 4: Results of the study**

1	<ul style="list-style-type: none"> <li>Risk assessment frameworks led to reduced loan default rates and improved financial stability.</li> </ul>
2	<ul style="list-style-type: none"> <li>Effective monitoring mechanisms strengthened internal control compliance and fraud prevention.</li> </ul>
3	<ul style="list-style-type: none"> <li>The regression model had a high explanatory power, with an adjusted <math>R^2</math> of 0.72, indicating that internal control measures are strong predictors of operational efficiency.</li> </ul>
4	<ul style="list-style-type: none"> <li>The low variance inflation factor (VIF) confirmed no multicollinearity issues, ensuring reliable regression estimates.</li> </ul>

### 4.3 Reliability Test

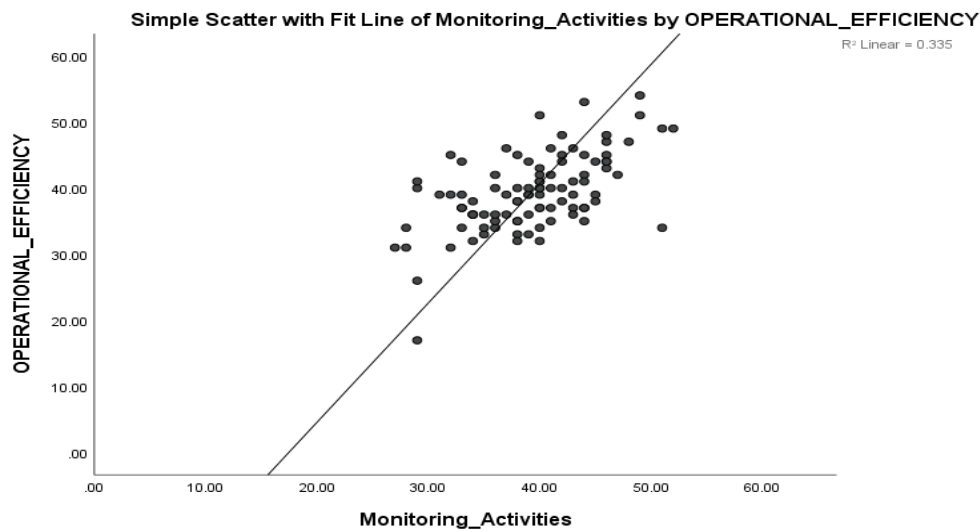
Reliability test shows acceptable Cronbach's Alpha values for each construct of internal control which reveals the internal consistency of the measurement scales.

**Table 4: Reliability Test**

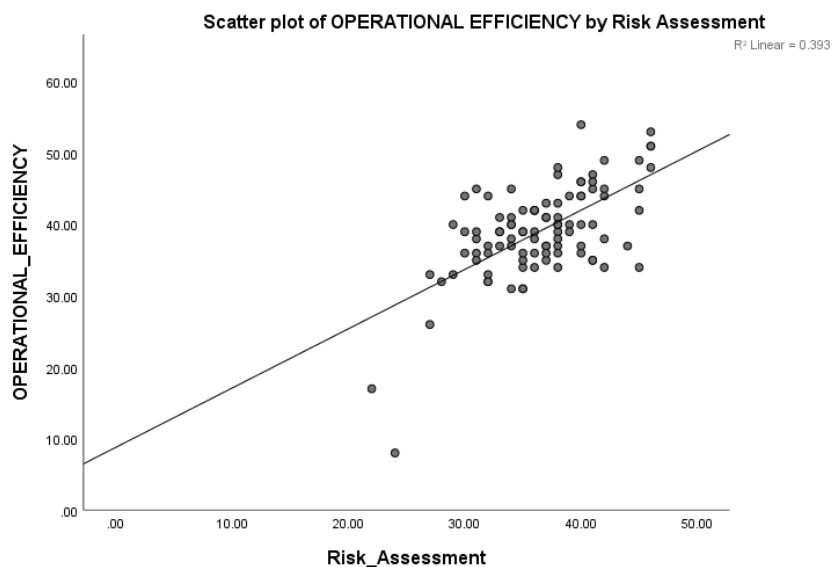
Reliability Test Result of Each Construct of Questionnaire		
CONSTRUCT	Number of questions	Cronbach's Alpha
Risk Assessment	10	0.618
Monitoring Activities	11	0.703
OPERATIONAL EFFICIENCY	11	0.727

The researcher calculated value for each construct by adding values in every question of construct to reveal its value. Also, the correlation between each variable and operational efficiency was conducted to assess the relation between variables.

Overall, the statistical findings reinforced the importance of risk assessment and monitoring activities mechanisms in improving the operational efficiency and financial sustainability of microfinance institutions.



**Figure 4: Monitoring Activities vs Operational Efficiency**



**Figure 5: Risk Assessment vs Operational Efficiency**

Pearson Correlation Between Operational Efficiency and Other Variables		
	Risk Assessment	Monitoring Activities
Operational efficiency	.627**	.579**

## 5. Correlation Analysis

The correlation table provides valuable insights into how Risk Assessment and Monitoring Activities influence Operational Efficiency within microfinance banks.

- Risk Assessment (0.627): The strong positive correlation indicates that microfinance banks with a well-structured risk assessment framework tend to achieve higher operational efficiency. This suggests that identifying, evaluating, and mitigating risks in advance plays a significant role in optimizing banking operations.
- Monitoring Activities (0.579): The positive correlation between monitoring and operational efficiency highlights the importance of continuous oversight and control mechanisms in improving microfinance banking processes. Effective monitoring ensures compliance, fraud detection, and proper execution of financial transactions, which collectively contribute to operational efficiency.

Both correlations are statistically significant at  $p < 0.01$ , confirming that enhanced risk assessment and monitoring strategies have a measurable impact on operational efficiency in microfinance banks.

## 6. Regression Analysis and Model Interpretation

The simple linear regression equation derived from the study:

$$\text{Operational Efficiency} = 1.137 + 0.931 (\text{Internal Control})$$

- p-value < 0.001: This confirms that internal control (which includes Risk Assessment and Monitoring) significantly affects operational efficiency.
- Adjusted  $R^2 = 0.526$ : This means 52.6% of the variability in operational efficiency is explained by internal control mechanisms.

Since Risk Assessment and Monitoring were key components of internal control, their improvement will likely drive better efficiency in microfinance operations.

## 7. Discussions of Findings

The findings of this study confirm that risk assessment and monitoring mechanisms significantly contribute to operational efficiency in microfinance banks. The results indicate that well-structured risk assessment frameworks help microfinance banks identify, mitigate, and manage financial risks, leading to improved financial stability and reduced loan default rates. Additionally, the study demonstrates that effective monitoring mechanisms enhance regulatory compliance, fraud detection, and overall internal control effectiveness.

The study findings are consistent with prior research including Mersland & Strom (2009)- external audits, regulatory oversight and board composition reduce loan delinquency and improving sustainability; Ofoegbu & Okoye (2019) emphasized that structured risk assessment practices reduce financial mismanagement. And Alade et al.'s (2021) finding that monitoring mechanisms are essential for financial oversight and fraud prevention, supporting the argument that monitoring plays a crucial role in operational efficiency.

Although, the study's findings are largely in agreement with existing literature, it is inconsistent with Ndulue (2020), who argued that risk assessment alone is insufficient to enhance operational efficiency without the integration of technology-driven financial systems. In addition, Hermes, Lensink and Meesters's (2011) study suggests a negative relationship between strictness of internal control mechanisms and cost efficiency. This contrasts with the current study's results, which indicate that risk assessment and monitoring mechanisms significantly improve operational efficiency even without direct technological intervention. Nonetheless, the study acknowledges that other factors, such as digital financial tools and macroeconomic stability, may further strengthen internal control mechanisms.

Furthermore, while agency theory suggests that monitoring mechanisms mitigate the risk of moral hazards and conflicts of interest in financial institutions, the study's findings suggest that the effectiveness of monitoring largely depends on the enforcement of regulatory frameworks. Some respondents indicated that ineffective

enforcement weakens monitoring efforts, reinforcing the argument that regulatory oversight plays a crucial role in internal control effectiveness.

Overall, the findings demonstrate that risk assessment and monitoring are critical drivers of operational efficiency, but their success depends on institutional implementation, regulatory enforcement, and supplementary financial control measures.

## **8. Implication and Recommendations for Further Studies**

The findings of this study have several practical and theoretical implications for microfinance institutions, regulators, and future researchers.

First, microfinance banks should prioritize risk assessment frameworks that incorporate data-driven models and predictive analytics to improve financial decision-making and reduce exposure to non-performing loans. Since risk assessment has a significant positive impact on operational efficiency, institutions should adopt structured risk evaluation models that align with international best practices.

Second, regulatory bodies should strengthen compliance monitoring mechanisms to ensure that microfinance banks adhere to internal control standards. The study's findings suggest that monitoring mechanisms are only effective when properly enforced, highlighting the need for improved regulatory supervision and regular internal audits.

Third, future research should expand the scope of internal control mechanisms by incorporating other variables such as technology adoption, governance structures, and economic fluctuations. While this study focused solely on risk assessment and monitoring, additional research could explore how digital financial systems and leadership practices interact with internal control mechanisms to enhance operational efficiency.

Fourth, a mixed-methods approach should be considered in future studies to supplement quantitative findings with qualitative insights from industry experts. While the current study employed a quantitative design, interviews and case studies could provide a deeper understanding of the challenges and best practices in risk assessment and monitoring.

Finally, cross-country comparative studies could offer additional insights into how regulatory environments and economic conditions influence internal control effectiveness. Given that this study focused on microfinance banks in Nigeria, future research could compare findings across different financial jurisdictions to determine whether similar patterns exist in other emerging economies.

## **9. Conclusion**

This study examined the relationship between risk assessment, monitoring mechanisms, and operational efficiency in microfinance banks. The findings revealed that both risk assessment and monitoring mechanisms have a significant positive impact on operational efficiency, supporting the study's hypotheses. The results confirmed that effective risk assessment reduces financial mismanagement and enhances financial stability, while monitoring mechanisms strengthen regulatory compliance and internal control enforcement.

The study contributes to the existing literature by providing empirical evidence on the role of internal control mechanisms in financial institutions, particularly in the context of microfinance banking in Nigeria. The findings align with prior research but also highlight the importance of regulatory enforcement and supplementary financial control measures.

Based on these insights, the study recommends that microfinance institutions adopt more structured risk assessment frameworks, enhance monitoring mechanisms, and integrate regulatory enforcement measures. Additionally, future research should explore other factors influencing operational efficiency, such as technological advancements, governance models, and external economic conditions.

Although the study has certain limitations, its findings provide meaningful contributions to the field of financial management and internal control. By strengthening risk assessment and monitoring mechanisms, microfinance banks can improve financial sustainability, enhance investor confidence, and contribute to the overall stability of the financial sector.

## Ethics Declaration

Ethical approval was sought and obtained from YSJ London.

## AI Declaration

To the best of our knowledge, AI tools were not used in the creation of this paper.

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