PRACTICES OF INTERNAL CONTROL AND FINANCIAL PERFORMANCE OF SELECTED COMPANIES IN NIGERIA

AMAH, CLETUS O. PhD.

DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES,

UNIVERSITY OF PORT HARCOURT, CHOBA, RIVERS STATE

&

OGBONNA, GABRIEL NKWAZEMA PhD.

DEPARTMENT OF ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES,

UNIVERSITY OF PORT HARCOURT, CHOBA, RIVERS STATE

Abstract

This study empirically investigated the effect of practices of internal control on financial performance of selected companies in Nigeria. The study made use of both primary and secondary data extracted from the annual reports and Accounts of companies and Nigerian stock exchange statistical bulletin, textbooks, journals and internet publications. The Statistical Package for Social Sciences (SPSS) was used to evaluate the data which revealed that the six hypotheses tested showed significant relationships between the proxies of the independent variables and those of the dependent variables. In view of these findings, this study concludes that internal control practices influence the financial performance of selected companies in Nigeria. Based on the findings and the conclusion, the study recommends that management's controls, supervision and segregation of duties should be regularly reviewed and improved upon in order to reflect the current realities and should be used to achieve organizational financial performance objectives. In addition, adequate training and retraining of employees on the job should be encouraged to keep them abreast of every new development in the field of internal control practices as they affect financial performance of the organizations.

Keywords: Internal Control Practices, Management Controls, Financial Performance

Introduction

The establishment and practical application of an efficient and satisfactory system of internal control is a necessary condition and foundation upon which financial performance of any organization is built as it eliminates the probability of irregularities and fraud (Millichamp & Taylor, 2012). Internal control which is "the whole system of controls, financial and otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records" is a key to the survival and success of any organization (ICMA). For any organization to experience efficient financial performance, it should have an effective and functional system of internal controls which serve as life blood for organizational success.

The primary and essential elements of internal controls which serve as determinants for successful financial performance are: management control, supervision, division of duties, organizational control, physical control and arithmetical procedures etc. The financial performances which are usually measured based on set target or objective depend on efficient internal controls such as return on equity, earning per share, return on assets etc. This study intends to examine how these variables relate to one another and the extent of their relationship in terms of the effect of internal controls on financial performance of selected companies in Nigeria.

Argument has been raised by Hafiza (2011) that due to the fact that organizations have to perform optimally and compete effectively, they must maximize on the resources they have through the application of the tenets of internal control. According to Stoner (2003), performance refers to the ability to operate efficiently, profitably, survive, grow and exploit the available environmental opportunities and react and minimize the threats in order to achieve the specific set goals.

Hitt, Hoskisson, Johnson (1996) posits that many firms' low performance is as a result of poorly performing assets (or businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years which eventually snowballs into poor performance. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. Performance is also measured by how efficient the enterprise is in the use of resources in achieving its objectives. It is also the measure of attainment achieved by an individual, team, organization or process. A common reason for such errors and poor performance is managerial hubris or arrogant managerial pride (Roll, 1986). Also, overvaluation of managerial capability in the acquisition process might be responsible.

Despite all the variables that influence organizational performance, experience has shown that far less attention has been given to internal control practices. Internal controls practices essentially refer to the measures instituted by an organization's management so as to ensure attainment of the entity's objectives, goals, missions and vision. They can be described as set of policies and procedures adopted by an entity in ensuring that the organization's transactions are processed in the appropriate manner to avoid waste, theft, fraud and misuse of organization's resources.

Numerous studies have been conducted in several industries, but not much has been done in the selected companies in Nigeria. In the light of the above trends of studies, there still exists a gap in the literature. This study intends to fill this gap by examining the relationship between the practices of internal control and organizational performance in selected companies in Nigeria. It is therefore important for the selected companies in Nigeria to take advantage of internal control practices as a vital predictor variable to use improve organizational performance.

The critical nature of the problem is that when there is absence of internal control, or the internal control is weak, the organization will be operating below set performance level, in the sense that, the level of return on equity, earning per share, and return on assets are extremely low due to poor management control, lack of effective supervision and segregation of duties which adversely affect internal control practices within the organization. There is also the problem of low level of turnover both in product and services. The employees may no longer be exerting effort towards the growth and development of the organization because of weak internal control. There may be a lot of illegal acts of waste of resources over the years.

The absence of adequate internal control practices exposes the organizational performance to certain threats such as:

- Incorrect financial statement and/loss of the company assets.
- Stealing and mismanagement of vital organizational documents which may be done by an employee to take undue advantage.
- Financial statement fraud and irregularities.
- Incorrect and unreliable financial records which may lead to loss of organizational integrity.
- None implementation of accounting policies in consistence with the applicable legislation appropriate in presentation of financial statement.

Literature Review

Theoretical Framework

Agency Theory

The whole essence of internal control is to achieve the objectives and goal of an organization by the agents in the best interest of the owners who can be described as principals. Therefore, the theory upon which this study is based is agency theory because it is a relationship between two parties, one a principal and the other an agent who represents the principal in transactions with a third party (Downes & Goodman, 2010). Agency relationship requires that the agent will act in the best interest of the principal, protect not only his own interest but also that of the principal. He should not have any conflict of interest, or make any secret profit without the consent of the principal. Also, agency theory states that unless the agent is monitored, he is likely to pursue personal goal to the detriment of the principal.

Investopedia (2017) outlines the following about agency theory:

Appendix A. "Agency Theory is a supposition that explains the relationship between principals and agents in business. Agency theory is concerned with resolving problems that can exist in agency relationships due to unaligned goals or different aversion levels to risk. The most common agency relationship in finance occurs between shareholders (principal) and company executives (agents).

Appendix B. In Agency relationship the problems that arise are due to differences between the goals or desires between the principal and agent. This situation may occur because the principal isn't aware of the actions of the agent or is prohibited by resources from acquiring the information. For example, company executives may have a desire to expand a business into other markets. This will sacrifice the short-term profitability of the company for prospective growth and higher earnings in the future. However, shareholders that desire high current capital growth may be unaware of these plans.

Appendix C. Another central issue dealt with by agency theory handles the various levels of risk between a principal and an agent. In some situations, an agent is utilizing resources of a principal. Therefore, although the agent is the decision-maker, they are incurring little to no risk because all losses will be the burden of the principal. This is most commonly seen when shareholders contribute financial support to an entity that corporate executives use at their discretion. The agent may have a different risk tolerance than the principal because of the uneven distribution of risk".

Evolution of Western Internal Control Theory

According to Zhang (2014) internal control developed from internal check, which was born in ancient Egyptian national treasury management. According to him, before the 1940s, scholars were familiar with internal check though internal control had already been mentioned or defined. Essentially, internal check system refers to a business process designation which is to provide effective organization and operation and to prevent errors and illegal transactions from occurring (*Kohler's Dictionary for Accounting)*. Its main characteristic is duties separation, which requires that any personnel or department should not have full authority to get access to any certain part of business processes. People or departments need cross-checking or cross-controlling. Designing the effective internal check system is to make sure that each individual business process passes through the necessary procedures, and among these procedures, internal check system is always an indispensable part (Zhang 2014).

Financial Performance Theory

Alina (2009) posits that traditionally, companies and analysts focus on the use of performance measures because they play critical role not only in evaluating the current performance of a firm but also in achieving high performance and growth in the future. Investors measure overall company performance in order to be able to make right investment decisions. The financial performance measures have a variety of users but, especially they are assumed to be of primary interest of shareholders as they entrust their money to companies' managers who are responsible for the application of capital but may have no incentives to increase shareholders' value.

Conceptual Review of Internal Control

Internal control "Comprises the plan of an organization and all the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, prorate operational efficiency and adherence to prescribed managerial policies." The definition of internal control is divided into financial internal control and non-financial (administrative) internal control. Financial internal control pertains to financial activities and may be exemplified by controls over company's cash receipts and payments, financing operations and company's management of receipts and payments.

Fundamentally, Internal control practices are processes designed and effected by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of an entity's objectives with regard to reliability of the financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations (Mwindi, 2008).

In pointing out the importance of internal control practices, Anduru (2005) notes that the external auditors find it difficult to rely on internal control systems of small and medium scale enterprises due to the usual weakness found in such SMEs organizations. Most importantly, it is because such business entities have not established elaborate systems of internal controls and its essential elements. There is also no adequate segregation of duties and there are no assurances as to the completeness of recording business transactions. Ongoing monitoring activities of small entities are more likely to be informal and typically performed as part of the overall management of the entity's operations.

According to Wolf (1994) the basic concepts of the entity's risk assessment process are relevant to every entity, regardless of the size, but the risk assessment process is likely to be less structured in small entities than in larger, well established entities. Weber (1998) points out that those small entities may implement the control environment elements differently than larger entities. Moreover, those charged with governance in small entities may not include an independent or outside member.

Non-financial internal control on the other hand deals with activities that are indirectly financial in nature i.e. controls over company's personnel section and its operations, fixed assets controls and even controls over laid down procedures (Reid & Ashelby, 2002). A sound internal control system helps an organization to prevent frauds, errors and minimize wastage. Custody of assets is strengthened; it provides assurance to the management on the dependability of accounting data, eliminates unnecessary suspicion and helps in maintenance of adequate and reliable accounting records. (Amudo & Inanga, 2009).

Organizational Performance

Organizational performance refers to the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats in order to achieve the specific goals (Stoner, 2003). Also, it should be recalled that Hitt, Hoskisson, and Johnson (1996) have argued that many firms' low performance is as a result of poorly performing assets (businesses). Low performance from poorly performing assets is often related to strategic errors made in the acquisition process in earlier years. For example, some firms acquire businesses with unrealistic expectations of achieving synergy between the acquired assets and their current sets of assets. Performance is also measured by how efficient the enterprise is in use of resources in achieving its objectives. It is the measure of attainment achieved by an individual, team, organization or process. Also, a common reason for such errors is managerial hubris (Roll, 1986) or overvaluation of managerial capability in the acquisition process.

Management Control

The internal control practices should be evaluated periodically to expose any lapses present to know how strong or weak the system. Management should be responsible to override controls, which it has established for its own interest. The duties of management in internal control are discussed as follows: It is the management of an organization that put in place the internal control system for smooth running and continuity of the enterprise. Management has a way of affecting the internal control system and vice versa.

According to Oyejide and Soyode (1998), Management has the responsibility under the company and allied matter Act (CAMA) to keep adequate accounting records. Management should therefore introduce appropriate controls to prevent or reduce the incidence of irregularities, and intentional errors including fraud. The impact of management on internal control will be obvious from the way in which they handle misbehaviours and misconducts among workers. If management wants to deal with the misconduct among workers, it should apply to everybody in the organization irrespective of status or position. If management deals with the misconduct with levity, the whole organization will relax; people will begin to work at will and at their own pace, knowing that nothing will be done to them and the organization will be worst off.

Concept of Supervision

This is also an important element of control environment. Management should make provision for the supervision of work as it an important means of monitoring and maintaining a system of internal control. A supervisor could oversee the credit manager's performance or could periodically compare the sum of customers' balances to the accounts receivable control account total. Supervisor can correct errors found by the clerical staff and make or approve accounting decisions. Adequate supervision contributes to accuracy of records by reducing the possibility that employees engaged in data processing activities will err in recording situations with which they are unfamiliar. Generally, supervision is a means of safeguarding assets in business which are too small to fully achieve organizational independence.

Segregation of Duties

Millichamp (1999) stated that the term segregation of duties is used these days for internal duties. One of the prime means of control is the separation of those duties which, if combined, would enable one individual to record and process a complete transaction. This practice reduces risk of intentional manipulation of accounts and increases element of checking. This makes fraud more difficult to be committed because one transaction is completed by different employees.

Measures of organizational performance
Effectiveness

Effectiveness involves "doing the right thing" to move the organization closer to its predetermined or announced objective (Druker, 1977). Effectiveness is a measure of the appropriateness of the goals that managers have selected for the organization to purse, and the attainment of those goals. Organizations are effective when managers choose appropriate goals and then achieve them (Jones & George 2004:6).

An effective organization can be defined broadly as one that achieves its purpose by meeting the wants and needs of the stakeholders, matching its resources to opportunities, adapting flexibly to environmental changes and creating a culture that promotes commitment, creativity, shared value and mutual trust (Amstrong, 2001: 258).

As mentioned above, there is little consistent agreement in the literature with regard to the factors which predict high or low effectiveness for an organization. And again, the use of the goal model may have a great deal to do with this controversy. Different factors are likely to predict effectiveness in achieving goals such as high employee morale or low turnover from those predicting accomplishment of goals such as high productivity or sales growth.

Nevertheless, although different studies have yielded different individual predictors, some agreement seems to have emerged that certain factors which define the organization's setting or environment, and its internal structure, should be considered as potential contributors to (or detractors from) organizational effectiveness. Recently, it has been summarized by a number of empirical studies one of which is by Usman Raza

(2019) suggesting that organizational performance depends on factors such as structure of organization, leadership, environment of the organization, skills of individuals, and external factors. Other factors are formalization of rules, the degree of autonomy (or decentralization), and the type of production technology. Robbins (1992) also posits that power - control is one of the most important factors that lead to organizational effectiveness. There are other contingency factors which include such things as the technology, the environment, the organization's size, and the social system within which the organization operates. Vinitwatanakhun (2002) states that four independent variables (leadership style, technology, strategic planning, and human resource development) significantly explained and predicted organizational effectiveness.

In addition, it was found that leadership style is the best predictor of the perceived organizational effectiveness, because of the importance of leadership in all kinds of group action in the organizations.

Earnings Per share

Basic earnings per share should be calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. For the purpose of calculating basic earnings per share, the net profit or loss for the period attributable to equity shareholders should be the net profit or loss for the period after deducting preference dividends and any attributable tax there to for the period.

All items of income and expense which are recognised in a period, including tax expense and extraordinary items, are included in the determination of the net profit or loss for the period unless an Accounting Standard requires or permits otherwise *(see Accounting Standard (AS) 5, Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies).* The amount of preference dividends and any attributable tax thereto for the period is deducted from the net profit for the period (or added to the net loss for the period) in order to calculate the net profit or loss for the period attributable to equity shareholders. The amount of preference dividends for the period that is deducted from the net profit for the period is:

a) The amount of any preference dividends on non-cumulative preference shares provided for in respect of the period; and
b) The full amount of the required preference dividends for cumulative preference shares for the period, whether or not the dividends have been provided for. The amount of preference dividends for the period does not include the amount of any preference dividends for cumulative preference shares paid or declared during the current period in respect of previous periods.

Earnings per Share - Basic

For the purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period reflects the fact that the amount of shareholders' capital may have varied during the period as a result of a larger or lesser number of shares outstanding at any time. It is the number of equity shares outstanding at the beginning of the period, adjusted by the number of equity shares bought back or issued during the period multiplied by the time-weighting factor. The time-weighting factor is the number of days for which the specific shares are outstanding as a proportion of the total number of days in the period.

Productivity

Productivity in recent times is defined as an indicator of how well goals or performance, objectives or mission have been achieved. Improved employee productivity thus means better performance in terms of task completion, less absenteeism and job satisfaction. Productivity is an important issue for organizations, because ultimately employees improved performance is one of the key factors that can affect organization's overall productivity and growth.

Empirical Evidence of Internal Control Practices

Dixon et al (1990) found out that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. Bititei et al (2001) states that performance is a result of quality of workers because they provide the strongest linkage to strategic goals of the business enterprise, customer satisfaction and economic contribution that affects the business, hence it addresses the mode in which an activity is accomplished in particular and the level of standards to which a task is carried out within the working environment.

In an empirical study by Alina (2009), it was revealed that if agents as managers are not monitored constantly they act in self-interest, which might be at variance with interests of shareholders. But this variance can be reduced through the added costs of monitoring or designing appropriate incentive structures. In order to achieve goal congruence, managers' compensation is often linked with the performance of the responsibility centers and also with overall company performance. Most of the traditional financial performance measures directly relate to the current net income of a business entity with equity, total assets, net sales, like return on equity (ROE) and operating profit margin. But nowadays became very popular and common Economic Value Added (EVA) as the best financial performance measure. The proponents of EVA are presenting it as the wonder drug of the millennium in overcoming all corporate ills at one stroke and ultimately help in increasing the wealth of the shareholder, which is synonymous with the maximization of the firm value. But the academic world has come up with different opinions towards EVA and the claims of its proponents (Alina, 2009).

Research Methodology

Sources of Data and Sample size

The nature of this study dictates that both primary and secondary data extracted from the annual reports and Accounts of companies and Nigerian stock exchange statistical bulletin be used for analysis.

Research Design

The research design used in this study is cross sectional survey design. The cross sectional survey designs are widely used in administrative or social science research, because of the complex relationships that exist between variables. Cross-sectional survey is one of the quasi-experimental designs, which was used in this project research study, because the survey relies on a sample of elements from the population of interests, which are measured at a single point in time. A kind of cross-sectional survey is a detailed analysis of a selected number of cases. It is a small sample approach that is particularly useful, when examining the interrelationships among a number of variables. The sample survey is a large cross-sectional survey. Here a great deal of emphasis is placed on the scientific generation of the sample, so that the members are representative of the population of interest the survey method was used for this study.

Population of the Study

For this research work, the researcher choose the staff among the selected companies in Nigeria as the population of this study and questionnaires were distributed among the staff of the selected companies in Nigeria who responded appropriately.

Method of data Analysis

While Taro Yamen's formula was used to determine the sample size of 110 from the population, questionnaire were administered to respondents and the statistical tool used for the testing of the stated hypotheses is the Spearman's Rank Order Correlation Coefficient, which is usually designated as Rho. It ranks paired observation, thus requiring at least ordinal data Rho symbolized by rs or p, measures the degree of relationship between two sets of ranked observation.

It is given by the formula.

$$\text{Rho} = 1 - \frac{6 \sum d^2}{n(n^2 - 1)}$$

Where

$\sum d^2$ = sum of the squared differences in the ranking of the subject on the two variables.

n = number of subjects being ranked.

Aim and Objectives of the Study

The main aim of this research work is to evaluate and determine the effect of internal control practices on financial performance of selected companies in Nigeria.

Specifically, this research work stands to achieve the following objectives:

a) To find out the effect of management controls on return on equity in selected companies in Nigeria.
b) To determine the effect of management controls on earning per share in selected companies in Nigeria.
c) To investigate the impact of supervision on return on equity in selected companies in Nigeria.
d) To evaluate the effect of supervision on earning per share.
e) To ascertain the impact of division of duties on return on equity in selected companies in Nigeria.
f) To investigate the effect of division of duties on earning per share in selected companies in Nigeria.

Research Hypotheses

The following research hypotheses were formulated in null form and tested in this study:

H_{o1}: There is no significant relationship between management control and return on equity in selected companies in Nigeria.

H_{o2}: There is no significant relationship between management controls and earnings per share in selected companies in Nigeria.

H_{o3}: There is no significant relationship between supervision and return on equity in selected companies in Nigeria.

H_{o4}: There is no significant relationship between supervision and earnings per share in selected companies in Nigeria.

H_{o5}: There is no significant relationship between division of duties and return on equity in selected companies in Nigeria.

H_{o6}: There is no significant relationship between division of duties and earnings per share in selected companies in Nigeria.

Testing of Hypotheses

In this study, the following hypotheses were tested using the Spearman's Rank Order Correlation Coefficient and Statistical Package for Social Science (SPSS):

H_{o1}: There is no significant relationship between management control and return on equity.

Correlations

			Management control	Return on equity
Spearman's rho	Management control	Correlation Coefficient	1.000	.837**
		Sig. (2-tailed)	.	.000
		N	110	110
	Return on Equity	Correlation Coefficient	.837**	1.000
		Sig. (2-tailed)	.000	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The first hypothesis shows a significant relationship between management control and return on equity with a correlation coefficient of 0.837 and a p-value of .000 which is less than out alpha of 0.05. Therefore, we reject the null hypothesis. This implies that there is a relationship existing between management of control and return on equity.

H_{02}: There is no significant relationship between management control of and earnings per share.

Correlations

			Management of control	Earnings per share
Spearman's rho	Management of control	Correlation Coefficient	1.000	.856
		Sig. (2-tailed)	.	.000
		N	110	110
	Earnings per share	Correlation Coefficient	.856	1.000
		Sig. (2-tailed)	.000	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The second hypothesis shows a significant relationship between management of control and earnings per share with a correlation coefficient of 0.856 and a p-value of .000 which is less than out alpha of 0.05. Therefore, we reject the null hypothesis. This shows that there is a significant relationship between management of control and earnings per share.

H_{03}: There is no significant relationship between supervision and return on equity.

Correlations

			Supervision	Return on equity
Spearman's rho	Supervision	Correlation Coefficient	1.000	.179
		Sig. (2-tailed)	.	.066
		N	110	110
	Return on equity	Correlation Coefficient	..179	1.000
		Sig. (2-tailed)	.066	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The third hypothesis shows a significant relationship between supervision and return on equity with a correlation coefficient of .179 and a p-value of .066 which is greater than out alpha of 0.05. Therefore, we accept the null hypothesis. This shows that there is no significant relationship between supervision and return on equity.

H_{o4}: There is no significant relationship between supervision and earnings per share.

Correlations

			Supervision	Earnings per share
Spearman's rho	Supervision	Correlation Coefficient	1.000	.821**
		Sig. (2-tailed)	.	.065
		N	110	110
	Earnings per share	Correlation Coefficient	.821**	1.000
		Sig. (2-tailed)	.065	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The fourth hypothesis shows a significant relationship between supervision and earnings per share with a correlation coefficient of 0.821 and a p-value of .065 which is greater than out alpha of 0.05. Therefore, we accept the null hypothesis. This implies that there is no relationship existing between supervision and earnings per share.

H_{05}: There is no significant relationship between division of duties and return on equity.

Correlations

			Division of duties	Return on equity
Spearman's rho	Division of duties	Correlation Coefficient	1.000	.755
		Sig. (2-tailed)	.	.023
		N	110	110
	Return on equity	Correlation Coefficient	.755	1.000
		Sig. (2-tailed)	.023	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The fifth hypothesis shows a significant relationship between division of duties and return on equity with a correlation coefficient of 0.755 and a p-value of .023 which is less than out alpha of 0.05. Therefore, we reject the null hypothesis. This shows that there is no significant relationship between division of duties and return on equity.

H_{06}: There is no significant relationship between division of duties and earnings per share.

Correlations

			Division of duties	Earnings per share
Spearman's rho	Division of equity	Correlation Coefficient	1.000	.683
		Sig. (2-tailed)	.	.085
		N	110	110
	Earnings per share	Correlation Coefficient	.683	1.000
		Sig. (2-tailed)	.085	.
		N	110	110

**. Correlation is significant at the 0.01 level (2-tailed).

The sixth hypothesis shows a significant relationship between division of duties and earnings per share with a correlation coefficient of 0.683 and a p-value of 0.85 which is greater than out alpha of 0.05. Therefore, we accept the null hypothesis. This shows that there is a significant relationship between division of duties and earnings per share.

Discussion of Findings

Hypothesis one deals with the Relationship between management of control and return on equity. The internal control practices should be evaluated periodically to expose any lapses present to know how strong or weak the system. Management should be responsible to override controls, which it has established for its own interest in related to return on equity as John and Morris (2011) mention accounting- based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure was calculated by dividing net income by total assets, total common equity, and total net sales, respectively. In support of this, there is significant relationship between management of control and return on equity.

Hypothesis two – Relationship between management control and earnings per share. According to Oyejide and Soyode (1998), Management has the responsibility under the company and allied matter Act (CAMA) to keep adequate accounting records in order to have effective operation and accountability in related to earnings per share which is one of the fundamental measure of firm performance that deal with discounted cash flow at a particular period of time. In support of this, there is significant relationship between management of control and earnings per share.

Hypothesis three – Relationship between supervision and return on equity. Supervision as one of the dimensions of internal control practices be a supervisor could oversee the credit manager's performance or could periodically compare the sum of customers' balances to the accounts receivable control account total in related to return on equity. Whittington & Kurt (2001) found out that, objective performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart & Co. created Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments (John & Morris, 2011). In support of this, there is significant relationship between supervision and return on equity.

Hypothesis four – Relationship between supervision and earnings per share. From the review of literature, we understand that management should make provision for the supervision of work as it an important means of monitoring and maintaining a system of internal control in related to earnings per share for this purpose of calculating basic earnings per share, the number of equity shares should be the weighted average number of equity shares outstanding during the period. In support of this, there is no significant relationship between supervision and earnings per share.

Hypothesis five – Relationship between division of duties and return on equity. Batra el al (1992) said that control of documents involves control of company's sensitive documents for example receipts, cheques, local purchase orders, debit and credit notes. These documents must be handled by a responsible officer and should be pre numbered to ensure control and minimize misuse. They must be kept and controlled from a central point like headquarters or any other reliable control point in related to return on equity. This ranking is based on eight more traditional aspects of financial performance including: total return for one and three years, sales growth for one and three years, profit growth for one and three years, net margin, and return on equity. Dwivedi (2002) however, mentions other financial measures to include value of long-term investment, financial soundness, and use of corporate assets. In support of this, there is significant relationship between division of duties and return on equity

Hypothesis six – Relationship between division of duties and earnings per share. Millichamp (1999) stated that the term division of duties is used these days for internal duties. One of the prime means of control is the separation of those duties which would if combined would enable one individual to record and process a complete transaction in related to earnings per share. All items of income and expense which are recognised in a period, including tax expense and extraordinary items, are included in the determination of the net profit or loss for the period unless an Accounting Standard requires. In support of this, there is no significant relationship between division of duties and return on equity.

Conclusion

In view of the fact that the six hypotheses tested showed significant relationships between the proxies of the independent variables and that of the dependent variables, this study conclude that internal control practices influence the financial performance of selected companies in Nigeria. This is in line with the finding of Cunningham (2004), which states that internal controls are effected by people not merely policy manuals and forms, but people functioning at every level of the institution. Internal control only provides reasonable assurance to the firm's leaders regarding achievement of operational, financial reporting and compliance objectives; promoting orderly, economical, efficient and effective operations; safeguarding resources against loss due to waste, abuse, mismanagement, errors and fraud. Internal controls lead to the promotion of adherence to laws, regulations, contracts and management directives and the development and maintenance of reliable financial and management data, and accurately present that data in timely reports (Kaplan, 2008; Cunningham, 2004; INTOSAI, 2004). Treba (2003) also states that internal control is a tool for ensuring that a firm realizes its mission and objectives. He further notes that much as internal controls are often thought to be the domain of accountants and auditors; it is actually management that has primary responsibility for proper controls.

Recommendations

Based on the findings, the study recommends as follows:

1. Management controls, supervision and segregation of duties should be regularly reviewed and improved upon in order to reflect the current realities and used to achieve organizational financial performance objectives.
2. Adequate training and retraining of employees on the job should be encouraged to keep them abreast of

every new development in the field of internal control practices as they affect financial performance of the organizations.

3. Organizations need to institute relevant policies, norms and values which should be financial performance focused as such policies will facilitate achievement of set goal and eliminate the probability of irregularities and fraud.

4. Organization should restructure the job of its employees and base their promotion on criteria that will facilitate increase in financial performance such as return on equity and earnings per share.

References

Alina, I. (2008). EVA as the best financial performance measure: the theory of reality, Munich, GRIN Verlag, http://www.grin.com/en/e-book/124462/eva- as-the-best-financial- performance-measure-the-theory-of-reality

Amudo, A., & Inanga, E. L. (2009). Evaluation of Internal Control Systems: A case study from Uganda, International Research *Journal of Finance and Economics*, ISSN1450-2887.

Anduuru, N.V. (2005). The accounting system and its related internal control system. Nairobi: Essential Management Consultancy Services Ltd.

Armstrong, M. (2001). A Handbook of Human Resources Management Practice, Kagan Page London.

Baridam, M.D. (1995). Research methods in administrative sciences. Port Harcourt, Paragraphic.

Batra, (1992). *Auditing, New Delphi*; Tata McGraw Hill publishing.

Beeler, J.D., J.E. Hunton, & B. Wier. (1999). Promotion Performance of Internal Auditors: A Survival Analysis. *Internal Auditing*. Volume 14, Number 4, (July/August): 3-14.

Bititei, U.S., Suwignjo, P. & Came, A.S. (2001). Strategy Management Through Quantitative Modeling of Performance Measurement Systems. *International Journal of production Economics* 69, 15-22.

Colby, (1978). Internal Control for small Business Accountancy*, Journal of Accounting and Finance, 2(1):1-5*

Cunningham, L. A. (2004). *The Appeal and Limits of Internal Controls to Fight Fraud*, Terrorism, Other Ills

De Paula, (1990).*The Principles of Auditing*, London; Pitman publishing.

Dixon, J.R., Nanni, A.J. & Vollmann, T.E. (1990). The New Performance Challenge – Measuring Operations for World-Class Competition, Dow Jones-Irwin, Homewood, IL

Drucker, P. (1977). People and performance, the best of Peter Drucker in management, Harper and Row, New York.

Fadzil, F.H., Haron, H., & Jantan, M. (2005). Internal auditing practices and internal control system. *Managerial*

Auditing Journal, 20(8): 2005: 844-866

Hitt, E. Hoskisson, A. Johnson, D. (1996). The Market for Corporate Control and Firm Innovation

Hafiza, N. (2011). Relationship between Rewards and Employee Motivation in the Non-profit organization of Pakistan. *Business Intelligence Journal*. 4(2), 327-334.

Hayes R. (2005). Principles of Auditing, California; Pearson Education Limited. Ittner, C.D., Larcker,

Ittner, C.D., Larcker, D.F. & Randall, T. (2003). Performance implications of strategic performance measurement in financial services firms, *Accounting, Organization and Society Journal*, Philadelphia PA; Elsevier Ltd.

Manasseh, P. N., (2007). *Principles of auditing. Nairobi*: McMore Accounting Books.

Mawanda, S. P., (2008). Effects of internal control systems on financial performance in an institution of higher learning in Uganda: A case of Uganda Martyrs University, *Unpublished thesis*, Uganda

Matyrs University Millichamp, A.H. (1999). *Auditing*, (7th edition), London Olumbe, C. O. (2012). The relationship between internal controls and corporate Governance in commercial banks in Kenya*, Unpublished thesis*, University of Nairobi 55

Jensen, K. L. (2003). A Basic Study of Agency-Cost Source and Municipal Use of Internal Versus External Control. Accounting and Business Research, 35(4), 33-48

Jones, G.R. & George, J.M. (2004). Essentials of Contemporary Management. McGraw Hill, Irwin, Boston.

Millichamp, A. & Tatlor, J. (2012). Auditing, UK, Cengage Learning, 10 edition.

Mwindi, D. (2008). *Auditing*. Nairobi, Kenya: Focus publisher.

Raza, U. (2019). Five critical factors influencing organizational performance, http://socialbarrel.com/5-critical-factors-influencing-organizational-performance/120119/

Reid, K., & Ashelby, T. (2002). The Swansea Internal Quality Audit Processes Quality Assurance in Education Saleemi, N.A (1989). *Auditing Simplified, (6th Edition),* Nairobi; N.A Saleemi publishers.

Robbins W. (1992). Factors Affecting Organizational Effectiveness of Nursing Institutes in Thailand http://www.journal.au.edu/au_techno/2002/apr2002/article8.pdf

Ross (1986). An empirical investigation of the arbitrage pricing theory. *Journal of finance* 35 1073- 1103.

Singleton, T. W , Bologna, G. J, Lindquist, R. J and Singleton, A. J. (2006). *"Fraud Auditing and Forensic Accounting (Third Edition)",* New Jersey: John Wiley & Sons, Inc.

Spicer, R. & Peglar (1978). *Principles of Auditing, New Delphi*; Tata McGraw Hill publishing company.

Stoner, D.L. Impact of microorganisms on unsaturated flow at fracture.

Vinitwatanakhun, W. M. (2002). A Review on the Models of Organizational Effectiveness– Eric, https://files.eric.ed.gov › fulltext

Wainaina, S. W. (2011). An Evaluation of the Internal Control Function: The Case of Kenya Polytechnic University College, *Unpublished MBA Thesis*, University of Nairobi, Kenya Wee

Weber, R (1988). EDP auditing – Conceptual foundations and practice. Singapore: McGraw Hill Book Co.

Wolf, E (1994). Auditing today. UK: Prentice Hall International.