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Internal Control Systems and Financial Performance of selected Deposit Money Banks in Ogun State.

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ABSTRACT
Internal control systems and financial performance of selected deposit money banks in Ogun State was investigated in this study. The study's methodology is based on a survey research strategy. The study included a sample of 150 respondents who were chosen at random from three different deposit money institutions. The returned instruments were statistically analyzed using the Statistical Package for Social Sciences (SPSS) Version 21. The findings of the study revealed that internal control systems have a substantial association with commercial banks' financial performance on the Nigerian stock exchange. According to the findings, the control environment may not have a substantial impact on the financial performance of listed banks, but it does have a beneficial effect. According to the report, banks should have an information system in place that allows for timely, relevant, and reliable information to be relayed to stakeholders, as well as free upward and downward information flow between management and staff.
Keywords: Internal Controls, Financial Performance, Commercial Banks, Internal Audit

1. INTRODUCTION
Internal control is a process in which the entity's board of directors, management, and other personnel work together to provide reasonable assurance about the achievement of objectives in the areas of financial reporting, operational effectiveness, and compliance with applicable laws and regulations (Ray & Kurt, 2001).
Internal control is made up of five interconnected components that stem from how management conducts business. Control environment; risk assessment; control activities; information and communication systems; and monitoring are the components. Internal control components apply to all types of businesses, albeit Microfinance Institutions may apply them differently than large enterprises. Internal control mechanisms in microfinance institutions could be less formal and unstructured while still being very effective.
Globally, the banking industry has been a vital contributor to economic business activity, productivity, growth, and economic development, among other things. Deposit money banks' capacity to achieve financial and non-financial performance is dependent on management's ability to effectively institutionalize a solid internal control structure .Commercial banks in developing countries, particularly in Africa, have been experiencing issues related to a chronic slowdown in operational and financial

performance, as well as bank inefficiencies in service delivery, as a result of rising occurrences of weak internal control (Ibrahim, Diibuzie & Abubakari, 2017; Kolapo & Olaniyan, 2018).

Cadbury Nigeria's managing director and chief financial officer were fired in 2006 for exaggerating the company's profits for several years before a foreign partner gained a controlling interest.

Weak internal controls and ineffective external audit have caused challenges in bank performance, an increase in non-performing loans, a lack of transparency, and capital inadequacy in the Nigerian banking industry. Adeyemi and Adenugba (2011) argued that a weak internal control system played a significant role in the crisis that engulfed the Nigerian banking industry (Adeyemi & Adenugba, 2011).

There is a common understanding that any organization without an internal control system is vulnerable to a number of dangers that can destabilize the organization in a short period of time. Theft and mismanagement of organizational essential documents, which may be done by an employee to gain an unfair advantage, are among the most prominent of such risks. There's also the issue of inaccurate and unreliable financial records, which can lead to a loss of organizational integrity; non-compliance with applicable legislation in terms of accounting policies and financial statement presentation, as well as non-adherence to annual budgets and planning policies. This effort aims to investigate all of these abnormalities.

The broad objective of this study is to examine the impact of internal control on performance of selected Banks in Nigeria, while the specific objectives are to:

i. assess the impact of the control environment on the financial performance of Nigerian banks listed on the stock exchange.
ii. investigate the impact of risk management on the financial performance of Nigerian banks listed on the stock exchange.
iii. assess the impact of control activities on the financial performance of Nigerian stock exchange-listed banks.

The aforementioned set objectives gave rise to the following objectives in null form:

H_{01}: There is no significant relationship between control environment and financial performance of listed banks on the Nigeria stock exchange

H_{02}: There is no significant relationship between risk management on financial performance of listed banks on the Nigeria stock exchange

H_{03}: There is no significant relationship between control activities on financial performance of listed banks on the Nigeria stock exchange

2. Literature Review

Conceptual review

Internal control, according to Adagye (2015), is established and implemented by an organization's management for the organization's growth and survival. Internal control systems, according to Ndungu (2013), are a set of organizational procedures and regulations that ensure transaction processing in a way that prevents theft, waste, and misuse of an organization's resources.

Salihu (2015) opines that an internal control system is an integral tool that helps all educational institutions provide quality education, as well as a good and enabling teaching, learning, and research environment. The major objectives of an internal control system, according to Adagye (2015), are to assure the accuracy of financial reporting, the efficiency and effectiveness of operations, and compliance with laws and regulations.

A control environment, according to Uwadiae (2013), is a set of standards, methods, and structures that serve as the foundation for implementing internal control across an organization. According to the report, top management is responsible for establishing functional internal control, which includes expected conduct standards. As a result, the ensuing control environment has a broad impact on the total internal control system. The control environment, according to Gamage et al (2014), encompasses individuals charged with governance's attitudes, awareness, and actions towards the entity's internal controls and their importance in the entity.

Risk assessment, according to Frazer (2012), aids an organization in identifying and analyzing risks related to the achievement of established goals. Every organization, according to COSO (1992), is susceptible to risks from both external and internal sources that must be properly examined. The threats would frequently necessitate quick responses. Hayali, Dinc, Sarl, Dizman, and Gundogdu (2012) all agreed on this. Uwadiae (2013) postulates establishing objectives that are linked at multiple levels of the institution is a prerequisite for risk assessment. Risk assessment is a dynamic and iterative process that necessitates management to clearly define operational, reporting, and compliance objectives.

Control activities, according to Uwadiae (2013), are actions defined through policies and procedures that help ensure that management's directives to mitigate risks in the pursuit of set objectives are followed out. Control operations are carried out at all levels of the firm, at various stages within business processes, and over the technology environment, according to the study. These operations can be proactive or reactive, and they can include a variety of manual and automated tasks such authorizations and approvals, verifications, reconciliations, and business performance reviews, among others.

Financial performance is a monetary measure of a company's policies and activities. It's a broad indicator of a company's overall financial health over time that can be used to compare similar companies in the same industry or to aggregate industries and sectors. The financial performance of a company can be measured in a variety of ways. This can be seen in the firm's return on investment (ROI), return on assets (ROA), and value added, among other metrics, and is a subjective measure of how a company can use assets from its core mode of business to create income (Mishkin, 2007). By eliminating waste in benefit services, processes and systems, a company's financial performance can improve. The degree to which a company achieves its defined aims and mission in terms of efficiency, effectiveness, and economy is referred to as the "key success factor." Financial statements and the information gained from a solid internal control system will give a report on a firm's financial performance and position that will be relevant to a wide variety of users for assessing stewardship and making economic decisions (Doyle et al., 2007).

Internal control systems, such as internal audits, are designed to improve the reliability of financial performance by enhancing accountability among information providers in an organization, either directly or indirectly (Jensen, 2003). Internal control has a much broader purpose, as it investigates links between disclosure of material weaknesses and fraud, earnings management, or restatements internal controls provide an independent appraisal of the quality of managerial performance in carrying out assigned responsibilities for better revenue (Beeler et al., 1999).

Theoretical Framework

Stakeholder theory and stewardship theory are the foundations of this research. According to Freidman (2014), stakeholder theory emphasizes the importance of some individuals or groups for the organization's survival. This explanation is seen as organization-oriented, but Freidman stated in a previous study that stakeholder theory refers to any group or individual who can affect or is expected to be affected by the attainment of the organization's goal.

Stewardship theory, according to Davis, Schoorman, and Donaldson (2017), is the process by which stewards safeguard and maximize shareholders' wealth through greater business performance, since the stewards recognize that by doing so, his utility function is maximized. This stewardship paradigm emphasizes the manager and chief executive as the primary individuals responsible for the organization's stewardship function. Block (2006) stated that the stewardship position is shown with dedication to the firm over self-interest, and that the organization and individual roles may be readily attained by recognizing the stewardship connection and treating followers as owners and partners.

Empirical review

Internal controls systems and risk performance of small and medium manufacturing enterprises in the Cape metropolis, South Africa, were investigated by Dubihlela and Nqala (2017). The purpose of the research was to find out how manufacturing small and medium enterprises (SMEs) use internal controls to manage and prevent risks, as well as how they apply internal controls. The study used a qualitative research paradigm, with a case-based interpretative approach supporting data collecting, data processing, and data presentation approaches.

At the Islamic University of Gaza, Jerboa (2015) identified areas where the internal audit function might help with financial performance tuning and management. Three questionnaires were provided to financial management personnel and internal auditors of university design in order to fulfill the study's goals. The study's findings revealed that the internal auditor's responsibilities include identifying the university's financial service needs, providing administrative and consultative support in the field of control, and assisting in the identification of fraud. The university also plays a significant role in the two phases of research, diagnosis, and discussion of alternatives, as well as the analysis and design of systems and procedures, revealing deviations, disabilities, and shortcomings in internal control systems.

Abeer (2015) examines the impact of the internal audit function on Jordanian commercial banks' financial performance. The questionnaire was distributed to internal auditors in Jordanian commercial banks' Internal Audit Departments, and the data was analyzed using the statistical package for social sciences (SPSS) program. The study discovered that Jordanian banks are concerned about the quality of internal audit and management of internal audit operations, as well as assessing the risks associated with the internal audit process, and that the function of internal audit has an impact on financial performance.

Ireri and Wagoki (2014) conducted research in Kenyan public universities to determine the role of internal control system components. Internal control measures were found to exist in Kenyan universities, but they were inefficient, according to the study. The report advised that internal control systems be strengthened in terms of training and supervision to ensure that all employees are not only aware of controls but also actively engage in their efficacy.

Using Cross River state college of education as a case study, Ejoh and Ejom (2014) investigated the impact of internal control activities on the financial performance of tertiary institutions in Nigeria. Although control mechanisms such as clear role separation were in place, the analysis indicated that employees were not effectively trained to administer the institution's internal control system.

3. METHODOLOGY

The study took a quantitative approach to its investigation. The population was made up of deposit money banks that were listed with the Central Bank of Nigeria and were based in Ogun State. According to Nigeria's central bank, there are 22 deposit money banks in the country as of February 19, 2020. A convenience sampling strategy was used to choose three deposit money banks. The study used the primary mode of data collection, with a total sample size of 150 personnel recruited from United Bank of Africa Plc, Access Bank Plc, and Polaris Bank Plc. The research instrument for data collection was a structured questionnaire. The instrument's content validity was determined based on expert judgment, and the instrument's reliability was determined using Cronbach alpha. However, the instrument of research study shall be concluded as of utmost valid and reliable as shown from the alpha results of 0.743, 0.678, 0.863 and 0.712 for the measured variables of control environment, risk management, control activities and financial performance respectively as shown in table 1.

Table 3.7.2 Reliability Test

Variables	Cronbach's Alpha	N of Items
Control Environment	0.743	5
Risk management	0.678	5
Control Activities	0.863	5
Financial performance	0.712	5

***Source**: Researcher's Field Survey, 2020*

The descriptive part of the analysis was based on the pictorial representation of respondents' personal information and average response score for relative index was adopted for the questions raised on the measured variables of internal control system and financial performance of deposit money banks in Nigeria. The responses were given on a five-point likert scale (where 5 = Strongly Agree; 4 = Agree; 3 = Neutral; 2 = Disagree; 1= Strongly Disagree). The scores of "strongly disagree" and "disagree" have been taken to represent a statement not agreed upon, equivalent to mean score of 0 to 2.5. The score of

"Neutral" has been taken to represent a statement agreed upon moderately, equivalent to a mean score of 2.6 to 3.4. The score of „agree" and „strongly agree" have been taken to represent a statement highly agreed upon equivalent to a mean score of 3.5 to 5.0. More so, inference was made based on the set objectives using ordinary least square regression (OLSR) analysis approach to confirm the strength of the effect of internal control system and financial performance of deposit money banks in Nigeria.

Model Specification

The empirical model in this study takes control environment, risk management and control activity as the independent variables and financial performance as dependent variable. The empirical model of the study is given as:

$FP_i = \beta_0 + \beta_1 CE_i + \beta_2 RM_i + \beta_3 CA_i + .\varepsilon_i$

Where:

FP_i = Financial Performance; CE_i = control environment; RM_i = Risk mnagement; CA_i = control Activity; $\varepsilon_{i,}$ = constant terms; β_1, β_2 *and* β_3, are coefficients of CE, RM and CA respectively;

ε_i = Stochastic Error term which is assumed to be N.I.I.D $\sim (0, \sigma^2)$

4.0 RESULTS AND DISCUSSION

4.1 Analysis of Respondents Demographic Characteristics

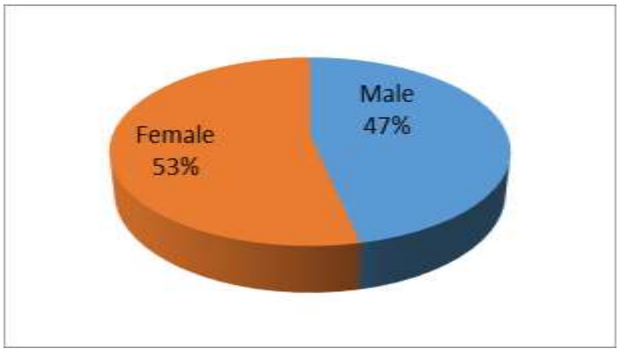

Fig. 1: Gender distribution of the Respondents

Gender of the respondents can be depicted in figure 1. Results presented revealed that majority of the respondents representing53% were female while 53% were male. The results imply that majority of the deposit money banks staff are female. This implies that there is female dominance in most deposit money banks in Nigeria.

Analysis of fig. 2 showed the respondents marital status. Result indicated that majority of them are single representing 45.3%, 43.3% are married while 10.7% of them are separated. Only 0.7% of the entire respondents are divorced. This implies that majority of the respondents are not married.

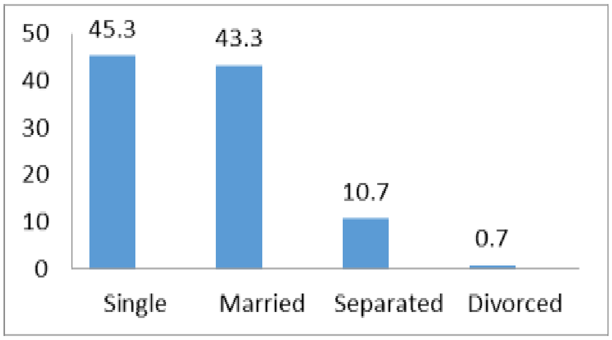

Fig.2: Distribution of Respondents Marital Status

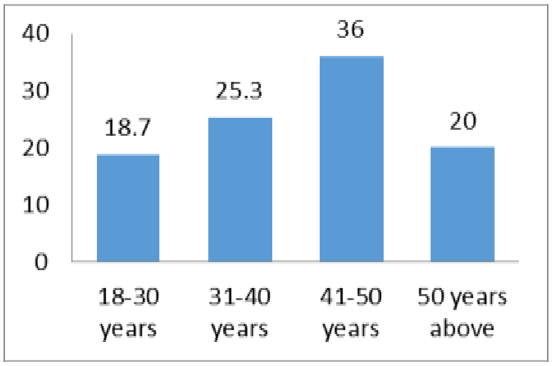

Fig.3: Distribution of Respondents Age

Analysis of fig. 3 depicted the respondents age. It can be evidenced that about 18.7% of them are between 18-30 years, 25.3% are between 31-40 years old, 36% are between age 41- 50 years old while 20% are 50 years and above. It also means that majority of the respondents were at their maturity stage and hence able to handle their duties accordingly.

On the analysis of respondents' educational background in fig.4, it can be seen that 40% of them are HND/BSc holders, 26% are OND/NCE holders, 2% are SSCE/WASSCE certificate holders while 22.7% of them are MBA/MSc certificate holders. This implies that majority of the respondents are

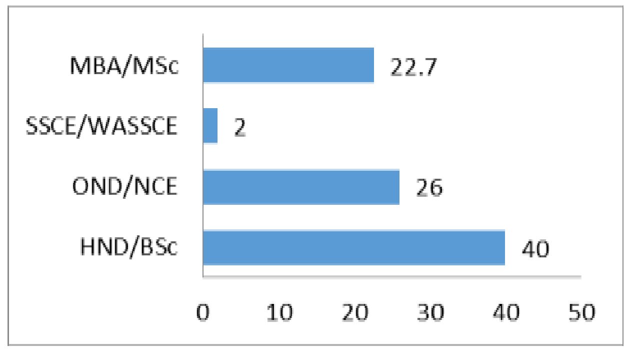

Fig.4: Distribution of Respondents Educational Qualification

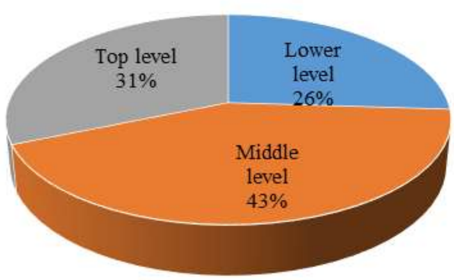

Fig.5: Distribution of Respondents Position

The respondents were asked to indicate their position in the organization. Results revealed from fig. 5 that 26% of the respondents are in the lower level cadre, 42.7% of them are middle level cadre while 31.3% are top level cadre. This implies that majority of the respondents are middle level cadres whose opinion on financial performance of the organization through internal control system is significant.

The respondents were asked to indicate their years of working experience in the organization. Results revealed from fig. 6 that 21% of the respondents have less than 5 years of work experience, 27% have between 5-15 years of employment while 52% have more than 15 years of experience. This shows that majority of the respondents have between 5-15 years of employment length.

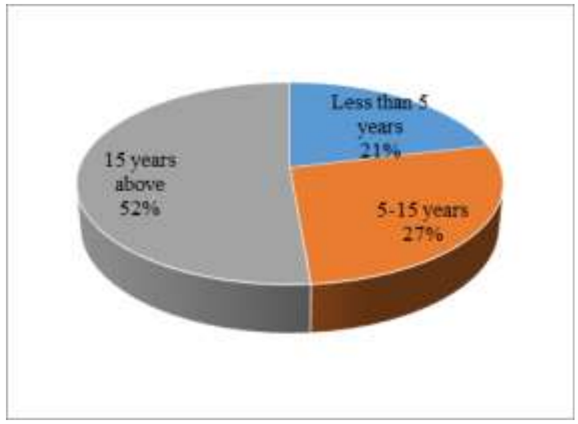

Fig.5: Distribution of Respondents Position

4.2 Descriptive Statistics of Internal Control systems and Financial Performance

4.2.1 Control Environment

Table 2 depicts the descriptive statistics of respondents' opinion on the influence of control environment on financial performance. According to the results, majority of respondents were found to highly agree that banks provide feedback to the junior members of staff about the operation of internal controls (4.22); banks have a code of conduct to guide behaviour, activities and decision making (4.81); the board of directors and its committee are independent of management (3.87); roles and responsibilities are clearly stated for employees (3.84). However, majority of the respondents were found to moderately agree that the board, the management and employees are all committed to competence and integrity (2.63). Overall, majority of the respondents were found to agree with most of the statements regarding control environment (3.87), however the answers were varied as shown by a standard deviation of 1.09.

Table 2: Influence of Control Environment on Financial Performance

Statements	Mean	Std. Deviation
Banks provide feedback to the junior members of staff about the operation of internal controls.	4.22	0.97
Banks have a code of conduct to guide behaviour, activities and decision making.	4.81	0.83
The board of directors and its committee are independent of management.	3.87	1.32
Roles and responsibilities are clearly stated for employees.	3.84	1.11
The board, the management and employees are all committed to competence and integrity.	2.63	1.23
Average	**3.87**	**1.09**

***Source**: Extracted from SPSS Output, Version 20*

4.2.2 Risk management

Table 3 depicts the descriptive statistics of respondents' opinion on influence of risk management on financial performance. According to the results, majority of respondents were found to highly agree that banks identify risk that affects achievement of the objective in timely manner(3.80); banks have criteria for ascertainment of risk that are most critical to the organization(3.91); banks have defined appropriate objectives for the organization (4.03); banks have in place mechanisms of mitigating critical risks that may arise doing the course of doing business (3.84) and financial performance of banks lies on the ability to manage risks (3.9). Overall, majority of the respondents were found to agree with all the statements regarding risk management (3.904), however the answers were varied as shown by a standard deviation of 1.002.

Table 3: Influence of Risk Management on Financial Performance

Statements	Mean	Std. Deviation
Banks identify risk that affects achievement of the objective in timely manner.	3.80	1.13
Banks have criteria for ascertainment of risk that are most critical to the organization	3.91	0.98
Banks have defined appropriate objectives for the organization	4.03	0.96
Banks have in place mechanisms of mitigating critical risks that may arise doing the course of doing business.	3.88	1.02
Financial performance of banks lies on the ability to manage risks	3.9	0.92
Average	**3.904**	**1.002**

Source*: Extracted from SPSS Output, Version 20*

4.2.3 Control Activities

From table 4, opinion of respondents on control activities as it influence banks financial performance can be evidenced. Based on the results, majority of the respondents' were found to highly agree that departments undertook budget reviews and variance from budgeted expenditure are explained (4.31); The staff is trained to implement the accounting and financial management systems (3.93); Corrective actions are taken to address weakness (4.91); Controls are in place to check on incurring expenditure in excess of allocated funds (4.01) and that internal control encompass a set of rules, policies and procedures an organization implement to provide reasonable assurance that its financial report are reliable (3.83). Overall, majority of the respondents were found to agree with all the statements regarding control activities (4.198), however the answers were varied as shown by a standard deviation of 1.004.

Table 4: Influence of Control Activities on Financial Performance

Statements	Mean	Std. Deviation
Departments undertake budget reviews and variance from budgeted expenditure are explained	4.31	0.93
The staff is trained to implement the accounting and financial management systems	3.93	1.12
Corrective actions are taken to address weakness	4.91	0.89
Controls are in place to check on incurring expenditure in excess of allocated funds.	4.01	0.88
Internal control encompass a set of rules, policies and procedures an organization implement to provide reasonable assurance that its financial report are reliable	3.83	1.2
Average	**4.198**	**1.004**

Source*: Extracted from SPSS Output, Version 20*

4.2.4 Deposit Money Banks Financial Performance

The study sought to investigate the impact of internal control system in Nigeria, attributed to the influence of control environment, risk management and control activities. According to the results of table 4, majority of the respondents were found to highly agree that financial performance gives evidence of accountability for the stewardship of the resources as well contributing to evaluation of growth of the banks (3.83); financial performance makes available vital information for good control and prudent management of business activities (3.72); financial performance makes available vital information for good control and prudent management of business activities (3.67); financial performance provides completeness of all transactions undertaken by an entity, the level of bank's assets, products and services (4.04); and that financial performance reflects the outcomes of internal control mechanisms, involving the receipt and disbursement in the banks. Overall, majority of the respondents were found to agree with all of the statements regarding deposit money financial performance (3.812); however the answers were varied as shown by a standard deviation of 0.968.

Table 5: Deposit Money Banks Financial Performance

Statements	Mean	Std. Deviation
Financial performance gives evidence of accountability for the stewardship of the resources as well contributing to evaluation of growth of the banks	3.83	1.03
Financial performance makes available vital information for good control and prudent management of business activities.	3.72	0.93
Financial performance is based upon the possibility that banks had the willful relationship of beneficial resources and goals given hope to get value in return.	3.67	0.97
Financial performance provides completeness of all transactions undertaken by an entity, the level of bank's assets, products and services	4.04	0.79
Financial performance reflects the outcomes of internal control mechanisms, involving the receipt and disbursement in the banks	3.80	1.12
Average	**3.812**	**0.968**

***Source**: Extracted from SPSS Output, Version 20*

4.3 Regression Analysis

According to the model summary table 6, the coefficient of determination (R^2)is used to measure the extent to which the independent variables explain variations in the dependent variable. Rvalue of 0.793 demonstrated a substantial positive link between internal control systems and financial performance of Nigeria's publicly traded banks. This means that when the rate of internal control systems improves, so does the financial performance of Nigeria's listed banks. R-Square of 0.629 indicates that "control activities," "risk management," and "control environment" account for 62.9 percent of variation in "financial performance." When other financial performance measurement variables were added to the model, the modified R-square of 0.518 demonstrated the coefficient of determination.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.793[a]	.629	.518	.20067

a. predictors: (constant), control environment, control activities, risk management

F-test is done to test the effect of independent variables on the dependent variable simultaneously. The F-statistic test basically shows whether all the independent variables included in the model jointly influence on the dependent variable. Based on the study results of the F-test in Table 7, obtained F-calculated was6.204greater the F critical (3.61) with significance of 0.000. Since the significance level of 0.000<0.05 we conclude that the set of independent variables affect the financial performance of deposit money banks, indicating that the overall model was significant.

Table 7: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	14.387	3	4.796	6.204	.000[b]
	Residual	112.891	146	.773		
	Total	127.278	149			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Control Environment, Control Activities, Risk Management

Regression of coefficients results in Table 8 shows that control activities and deposit money banks financial performance are positively and significantly related (β=0.339, p=0.000). The table further indicates that risk management and deposit money banks financial performance are positively and significantly related (β=0.301, p=0.005). Finally, control environment and deposit money banks financial performance are positively but not significantly related (β=0.036, p=0.743). The autonomous rate of financial performance when the predictor factors are held constant is 2.00 which were found to be statistically significant. This score indicates that without the influence of the internal control system predictions, financial performance would be positive. However, unit increase in control activities, risk management, and control environment would lead to 39.9 percent, 30.1 percent, and 3.6 percent incremental rate of financial performance for Nigeria's listed banks, respectively. The beneficial impact of these variables on financial performance is to be expected, as the control environment, information, and risk management should all have a positive impact on an organization's financial performance.

Table 8: Coefficients Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.000	.658		3.039	.003
Control activities	.399	.111	.031	3.595	.000
Risk management	.301	.138	.167	2.181	.005
Control environment	.036	.109	.030	.328	.743

a. Dependent Variable: Financial Performance

The optimal fitted model for this study is

$FP_i = 2.000 + 0.399CE_i + 0.301RM_i + 0.036CA_i$

Test of Hypotheses

Hypothesis 1

H_{01}: There is no significant relationship between control environment and financial performance of listed banks on the Nigeria stock exchange

Parameter estimate of the mean response of control environment in table 8 with t-statistic of 0.036 with an associated p-value of 0.743 > $\alpha = 0.05$ significance indicates the failure in rejection of H_{01} and we thereby conclude that there is there is no significant relationship between control environment and financial performance of listed banks on the Nigeria stock exchange.

Hypothesis 2

H_{02}: There is no significant relationship between risk management and financial performance of listed banks on the Nigeria stock exchange

Parameter estimate of the mean response of Risk Management associated with Financial Performance in table 6 with t-statistic of 1.118 and associated p-value of 0.005< $\alpha = 0.05$ indicates the rejection of H_{02} which implies that there is significant relationship between risk management on financial performance of listed banks on the Nigeria stock exchange.

Hypothesis 3

H_{03}: There is no significant relationship between control activities and financial performance of listed banks on the Nigeria stock exchange

Parameter estimate of the mean response of control activities associated with Financial Performance in table 7 with t-statistic of 3.595 and associated p-value of 0.000 < $\alpha = 0.05$ indicated that we reject H_{03} and thereby conclude that significant relationship existed between control activities and financial performance of listed banks on the Nigerian stock exchange.

5. CONCLUSION AND RECOMMENDATIONS

The control environment may not have a large impact on the listed banks' financial performance, but it is likely to be good. It means that as the rate of internal control systems improves, so does the financial performance of Nigeria's listed banks.

Without the influence of the considered predictors of internal control systems, the value implies that financial performance would be favourable inclined. Internal control systems will play an important role in the financial performance of banks listed on the NSE, as may be deduced from the replies obtained and inferences drawn.

Based on the findings, the study recommended the following:

i. Banks should have an information system in place that allows for timely, relevant, and reliable information to be relayed to stakeholders, as well as free upward and downward information flow between management and staff.
ii. Ethical values should be upheld in decision-making, integrity and competence enhanced.
iii. To guarantee that banks comply with financial reporting, legal, and regulatory requirements, as well as to provide transparent periodic reporting to stakeholders on Corporate Governance, Risk Management, and Internal Controls.

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