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# EFFECT OF INTERNAL CONTROL SYSTEM ON FINANCIAL ERFORMANCE OF SOME SELECTED CONSUMER GOODS FIRMS IN NIGERIA

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**Abstract**
This study focused on the effect of internal control system on financial performance of some selected goods firms in Nigeria. The methodology of the study is based on survey research approach. The statistical data used for the study were obtained by distribution of among selected employees of the consumer goods firms considered in this research work. These respondents were selected using simple random sampling method the data obtained from the questionnaire were analyzed using multiple regression statistical tools in SPSS (Statistical packages for social sciences.). The result of the analysis shows that internal control system and risk management has significant positive effect on financial performance of organization and this was because the value obtained (0.000) and (0.010) respectively. The study concludes that effective internal control system and risk management will significantly improve financial performance of firms by helping the organization towards effective and efficient utilization of resource (both financial and non-financial) at their disposal. Based on this result, the study recommends that management of Nigerian companies should develop policies aimed at improving internal control systems. The poor financial performance can be attributed to financial management practice. The sound financial management practices require the institutions of strong internal control systems.

**Keywords:** Internal Control Systems, Productivity, Monitoring, Planning and Management.

## Introduction

The survival of any organization depends on the effective and efficient utilization of resources (financial and non- financial) at the disposal of the organization. Hence, to optimize the utilization of resources entrusted to all employees in an organization, various forms of control are put in place by management of the organization, among these major controls are internal control and internal audit to mention a few. Internal control, also known as an internal control system, is the integration of an organization's people's actions, goals, and efforts in order to provide reasonable assurance that the company will fulfill its objectives and mission.

Every organization has a goal in mind. Similarly, International Standard on Auditing (ISA400) defines internal control as all policies and procedure adopted by the management of an entity to assist in achieving the primary

Objectives of the management by make sure the business is conducted in the most possible efficient way and also ensuring strict adherence to management policies, safeguarding of asset, prevention and detection of fraud and timely preparation of reliable account. Morris (2011) separates internal controls into those that are general (entity-wide) controls from those that are specific (account- level) controls. He further believes that if management was over-riding control features in order to manage earnings, then one would expect to find more Internal Control Weaknesses related to general controls, even if the specific (account-level) controls are effective. This type of behavior should be uncovered during

the audit processsince this is an area of concern specifically identified in Auditing Standard No. 5, Paragraph 24, which states that "entity-level controls include controls over management override." On the other hand, a stronger argument could be made that if general controls are in place and working, then one would expect to find less Internal Control Weaknesses related to general controls. Benefits of an internal control system include effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Nyakundi, Nyamita & Tinega, 2014).

The performance of any organisation is subject to measures integrated to support its operations and facilitate the achievement of its objectives by protecting its resources against waste, fraud, and inefficiency, assuring the quality and dependability of financial and operating data, ensuring compliance with corporate policies, and assessing the degree of performance in all organisational units (Oyedokun & Felejaye, 2022). Financial performance is a complete evaluation of a company's overall standing in categories such as assets, liabilities, equity, expenses, revenue, and overall profitability (Akinyemi, Peter & Cole, 2021). It is measured through various business- related formula as that allow users to calculate exact details regarding a company's potential effectiveness. For internal users, financial performance is examined to determine the irrespective companies' well-being and standing, among other benchmarks. For external users, financial performance is analyzed to dictate potential investment opportunities and to determine if a company is worth their while. Financial Performance in broader sense refers to the degree to which financial objectives being or has been accomplished and is an important aspect of finance risk management (Hussaini & Mohammed, 2018). It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Nyakundi, et.al, 2014).

**Statement of the problem**

Most organizations have had internal control systems in place for many years with little result at curbing the problem of financial crimes which had continued to grow and had eaten deep into the fabric if the society. Financial irregularities within departments, cooperation among senior or highly trusted personnel, and control breaches are only a few examples of financial crimes. Internal controls established by management in most organizations have not been able to completely prevent these fraudulent occurrences, according to various researchers, because these controls have not significantly reduced reoccurring fraud and corruption perpetrated by employees in most organizations.

Eniola, Tonade and Adeniji, (2021) suggested that a few of the internal control issues encountered involves: liquidity difficulties, no acceptable financial statements and reports, lack of accountability of financial resources, corruption and abuse of administrative capital and the outcomes anticipated have not been obtained through a series of decisions made. This paper examined an internal auditing department should always help guarantee compliance with rules and regulations amid corporate scandals and the global financial melt down (Eniola et.al, 2021). Having the foregoing in mind, this study examines the effect of internal control on financial performance of organizations in Nigeria.

According to Kirsty (2008) efficient internal controls creates an organization's confidence in its ability to perform or undertake a particular task and prevents errors and losses through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with

pertinent laws and regulations. Muio (2012) studied the impact of internal control on the financial performance of private hospitals in Nigeria and established a significant relationship between internal control system and financial performance. Kakucha (2009) evaluated the level of effectiveness of internal controls operating and established that there are deficiencies in the systems of internal controls, with the degree of deficiencies varying from one enterprise to another. Njui (2012) investigated the effectiveness of internal control and audit in promoting good governance in the public sector in Nigeria and found that internal control has the greatest effect on corporate governance within Nigeria government ministries followed by risk management while compliance and consulting had the least effect. Ngugi (2011) survey of internal control systems among the listed private companies and the public sector companies in Nigeria in which the results indicated that the private sector compared to the public sector had a strong internal control system.

In Nigeria, a number of important trends have recently emerged within the manufacturing sector. It is worth noting that manufacturing sector is a major contributor to the economic development of the country. According to the Economic Survey 2015, Nigeria National Bureau of Statistics established that manufacturing sector contribution to Gross. Effectiveness of internal control on financial performance is very important in every organization, because the task of IC is to prevent and detect fraud in the organization. Internal controls help in achieving efficiency and effectiveness of operations.

### Specific Objectives

The main objective of the study is to examine the effect of internal control on financial performance of organizations in Nigeria. The specific objectives are to:

The specific objectives included;

i. Examine the effect of internal control system on financial performance of selected consumer goods in Nigeria.
ii. Determine the effect of internal audit on the financial performance of selected consumer goods in Nigeria.
iii. Establish the effect of risk assessment on financial performance of some consumer goods firm in Nigeria

### Research Questions

This study sought to answer the following research questions in view of the specific objectives

i. What is the effect of the internal control system on financial performance of selected consumer goods in Nigeria.
ii. What is the effect on the financial performance of selected consumer goods in Nigeria.
iii. What is the effect of Establish the effect on financial performance of some consumer goods firm in Nigeria.

## LITERATURE REVIEW

### Introduction

The study has provided theoretical literature as well as empirical literature. The chapter has provided a summary and critique of literature received with aim of bringing out the research gaps to be addressed by the proposed study. A conceptual framework captures the variables and clearly shows the relationships among the research variables.

## Theoretical review

A theory is a set of statements or principles devised to explain a group of facts or phenomena, especially one that has been repeatedly tested or is widely accepted and can be used to make predictions about natural phenomena (Creswell, 2006). This study used four theories to explain the influence of the independent variables on the dependent variable. The theories are the Agency theory, Stewardship theory, Positive Accounting Theory and the Attribution Theory.

## Agency theory

Agency theory was developed in 1976 by Jensenand Meckling. This theory is an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision- making authority to the agent. Agency theory analyses the relationship between two parties: investors and managers. The agent (manager) undertakes to perform certain duties for the principal (investors) and the principal undertake store ward the agent. According to the agency theory, a firm consists of a nexus of contracts between the owners of economic resources (the principals) and managers (the agents) who are charged with using and controlling those resources. The theory posits that agents have more information than principals and that this information asymmetry adversely affects the principals ability to monitor whether or not their interests are being properly served by agents.

## Stewardship Theory

Stewardship theory has its roots from psychology and sociology and is defined by Davis, Schoorman and Donaldson (1997) as "a steward protects and maximizes shareholders wealth through firm performance, because by so doing, the steward's utility functions are maximized". Unlike agency theory, stewardship theory stresses not on the perspective of individualism (Donaldson & Davis, 1991), but rather on the role of top management being as stewards, integrating their goals as part of the organization. The stewardship perspective suggests that stewards are satisfied and motivated when organizational success is attained. Argyris (1973) argues that while agency theory looks at an employee or people as an economic being, which suppresses an individual's own aspirations, on the other hand Donaldson and Davis (1991) argue that stewardship theory recognizes the importance of structures that empower the steward and offers maximum autonomy built on trust. It stresses on the position of employees or executives to act more autonomously so that the shareholders returns are maximized. Indeed, Fama (1980) contend that executives and directors are also managing their careers in order to be seen as effective stewards of the organization, whilst, Shleifer, Andlei and Vishny (1997) claims that managers return finance to investors to establish a good reputation so that they can re-enter the market for future finance..

## Empirical Review

### Internal Control System and Financial Performance in public Institutions

Ndiwa (2014) studied the assessment of Internal Control System on Financial Performance in tertiary training institutions in Kenya. Many public institutions in Kenya are faced with poor financial performance which in extreme cases has led to the closure of some of them, despite having the necessary resources to run them. The study, therefore, endeavoured to investigate the persistent poor financial performance from the perspective of internal controls which had hitherto been ignored. The general objective of the study was to establish the relationship between internal control and financial

performance intertiary institutions in Kenya. The study was limited to the African Institute of Research and Development Studies. The findings indicated that most respondents were of the view that indeed there was a relationship between internal control and financial management.

**Summary of Literature and Research gaps**

The reviewed literate showed mixed results on the relationship between the internal control systems and financial performance of organizations. Most of the researches done on internal controls are case studies and focus on specific institutions/companies that exhibit particular characteristics or material weakness in the internal control systems. Since most of the studies failed to show the contribution of control activities, control environment and monitoring, therefore this research address to fill those gaps.

**Conceptual framework**

A conceptual framework is a theoretical structure of assumptions, principles, and rules that holds together the ideas comprising a broad concept (Huberman, 1994). A conceptual framework is a basic structure that consists of certain abstract blocks which represent the observational, the experiential and the analytical/synthetic aspects of a process or system being conceived. It is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. The interconnection of independent and dependent variables completes the framework for certain expected outcomes.

**Research Methodology**

**Introduction**

This chapter provides a description of the research design and methodology that was employed in the study. It looks at the various sources of data for the study, sampling design and its procedures. The chapter also included the methods that were used in data collection, the instruments used in data collection and the limitations of the study.

**Research design**

According to Kothari (2007), research design is defined as a framework that shows how problems under investigation will be solved. This study adopted a crosssectional descriptive survey design because it provides a clear outcome and the characteristics associated with it at a specific point in time. Descriptive design was relevant for this study since it focuses at one point in time and does not require several rounds of monitoring. The descriptive survey attempted to document current conditions to describe what exists at the moment (Mouser and Katton, 1989). The study employed both qualitative and quantitative methods of data analysis most of the findings were quantitatively analyzed.

**Target Population**

Kombo and Tromp (2011) define a population as a group of individuals, objects or items from which samples are taken for measurement. The target population for the study was the some selected consumer goods firms in Nigeria. Examine the impact of internal control system on financial performance in some consumable firms which represents certain major proportions of economic sector.

**Selected Nigerian Food and Beverage Firms**
**Sector A: Breweries and Soft Drinks**
7-UP BOTTLING COMPANY PLC
**Sector B: Flour Mills**
FLOUR MILLS OF NIGERIA PLC
**Sector C: Sweet and Beverages**
CADBURY NIGERIA PLC
**Sector D: Integrated Food and Salt** NATIONAL SALT CO. (NIG). PLC
As shown in table 3.1 below

**Table 3.1: Staff Population**

| Department | Section A | Section B | Section C | Section D | TOTAL |
|---|---|---|---|---|---|
| **Accounts/Finance** | 5 | 3 | 3 | 4 | 15 |
| **Administration** | 12 | 10 | 3 | 12 | 36 |
| **Operations** | 10 | 10 | 11 | 9 | 40 |
| **GrandTotal** | **27** | **23** | **16** | **25** | **91** |

*Source: Research (2026)*

**Sampling Design**
According to Mugenda and Mugenda, (2003), a sample of at least 10% to 30% of the entire population is a valid sample size for a considerably small size. A purposive sampling approach was used in this study to allow the research to pick concerned staff specially from the accounts/finance, administration and operations department within some consumable goods in Nigeria. Therefore, the sample was 28 staff at the consumable goods firm in Nigeria as shown in the table 3.2.

**Table 3.2: Sample size**

| Department Target Population | Sample size | Percentage |
|---|---|---|
| Accounts/Finance | 155 | 47% |
| Administration | 361 | 117 % |
| Operations | 401 | 247 % |
| **Total** | **91** | **28** |

*Source: Researcher (2026)*

**Data Collection Procedure**

The study relied mostly on primary data sources. Primary data was collected using semi- structured questionnaires with both close-ended and open-ended questions. Drop and Pick later method of data collection was employed by the researcher to give respondents sufficient time to respond to the questions of the study. Secondary data was obtained from the analysis of company's audited annual reports. This secondary data collected, was used to support the findings on the primary data and provide more information that may have not been captured by the respondents.

**Reliability of the Study**

To establish the reliability and validity of the research instrument the study sought for opinions of experts in the field of study especially the study's supervisor and lecturers in the school of business administration and strategic management. This facilitated the necessary revision and modification of the research instrument thereby enhancing validity.

Cronbach's Alpha was applied to measure the co-efficient of internal consistency and therefore reliability of the instrument. In order to check reliability of the results, study used Cronbach's alpha methodology, which is based on internal consistency. Cronbach's alpha measures the average of measurable items and its correlation. SPSS software was used to verify the reliability of collected data. Overall scales' reliability of the present situation and the desirable situation were tested by Cronbach's alpha, which should be above the acceptable level of 0.70 (Hairetal., 1998). The Cronbach's alpha obtained from the instruments used to collect data was 0.886 which indicates that the research instruments were reliable.

**Validity**

Validity is a measure of the degree to which dat aobtained from the instrument accurately and meaningfully represents the theoretical concept and in particular how the data represents the variables. Where validity has been established, any inferences made from such data was accurate and meaningful (Mugenda & Mugenda, 2003). The validity of a study increases by using various sources of evidence (Yin, 2003).

**Method of Data Analysis**

The process of data analysis involved several stages namely; data cleanup, editing and codding. Descriptive statistics (means and standard deviation) and multiple regression analysis were used to analyze the data. Data was then coded and checked for any errors and omissions (Kothari, 2007). Frequency tables, percentages and means were used to present the findings. Responses in the questionnaires were tabulated, coded and processed by the use of a computer Statistical Package for Social Science (SPSS) program to analyze data. The relationship between the dependent variable (Y) and the independent variable (X) was tested using multiple linear regression model captured below.

$Y = \alpha + \beta 1x1 + \beta 2x2 + \beta 3x3 + \beta 4x4 + \beta 5x5 + \varepsilon$ where:

Y = Financial Performance
x1 = Control environment
x2 = Risk assessment

x3 = ControlActivities

x4 = Informationand Communication

$x_5$ = Monitoring α = Constant ε = Error term

## Data Analysis, Presentation and Interpretation

### Introduction

This chapter presents the analysis of the collected data, the results and finally the interpretation of the findings. Percentages, frequencies, frequency tables and pie charts are presented to illustrate the analysis and interpretation of the data.

### Questionnaire Response Rate

As mentioned earlier, out of the selected sample of 28 respondents, 3 (10.71%) did not respond to the questionnaires accordingly, hence only 25 (89.29%) questionnaires were used in the subsequent analysis. This correlates with Mugenda and Mugenda (2003) recommendation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This clearly shows that the response rate in this study was excellent.

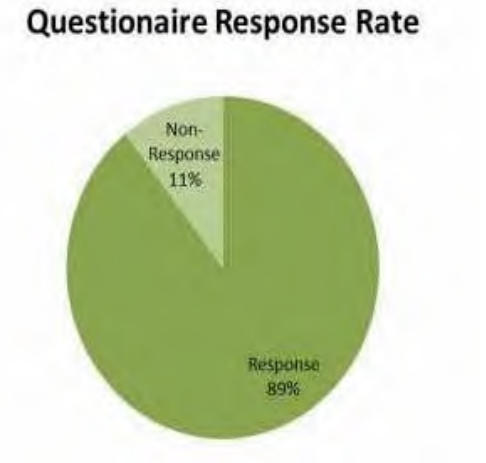



*Figure4.1 Response rate*

### Validity and Reliability of Research Instruments

In order to determine the reliability of the research instruments, a pretesting was conducted by the researcher. A Cronbach Alpha was used to determine reliability where a coefficient of 0.7 or more indicated that the research instruments were reliable. The findings are indicated in table 4.1.

**Table 4.1 Validity and Reliability of Research Instruments**

| Variables | No. of Items | Cronbach Alpha |
|---|---|---|
| Performance | 5 | 0.886 |
| Control Environment | 5 | 0.898 |
| Risk Assessment | 5 | 0.862 |
| Control Activities | 5 | 0.955 |
| Information & Communication | 5 | 0.827 |

*Source: Researcher, 2026*

**Financial Performance of Institutions of Higher Learning**

From Table 4.1 above, the Cronbach Alpha for performance is 0.886, control environment is 0.898, risk assessment is 0.862, control activities is 0.955 while for information and communication it was 0.827. All the coefficients of Cronbach Alpha were above 0.7, this indicates that the research instruments were reliable.

**Background Information**

The study sought to establish the background information on how long the institutions have been in existence, level of staffing of accounts or/and finance departments, whether training is given to the staff on internal control, effectiveness of the internal control systems and existence of a financial management system among the firms of consumer goods firm in Nigeria.

**Period of existence of the Institution**

The study sought to find out how long the sampled institutions of some consumable firms in Nigeria County had been in existence. 65% had been in existence over 10years, 21% for between 6-10 years, 11% were between 1 and 5 years old while only 3% had been in existence for less than one year. This indicates that most of the institutions had been in existence long enough to implement and have a working internal control system for their accounting and finance departments. This is illustrated in figure 4.2 below;

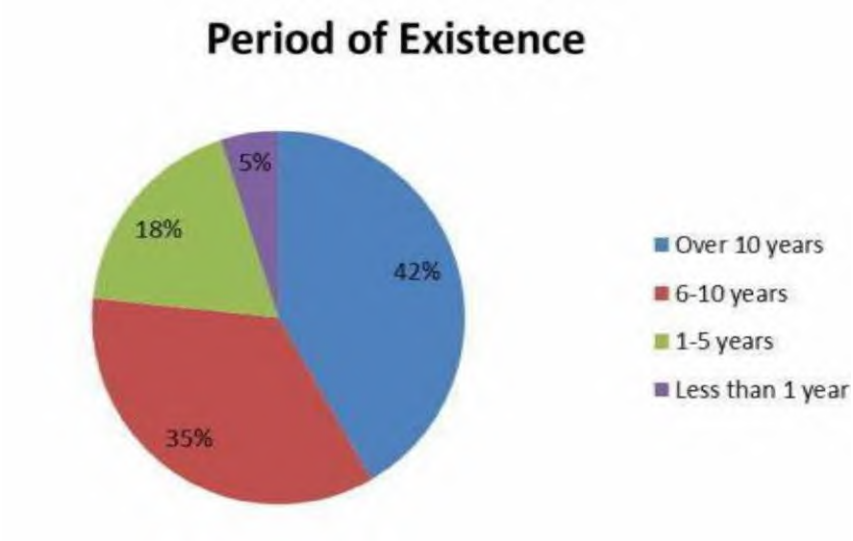



*Figure 4.2 Period of existence of the Institutions*

**Level of staffing of Accounts/Finance Departments**

The study further sought to establish the level of staffing of the accounts/finance departments among consumer goods firm in Nigeria. It was realized that 77% of the institutions had well trained staff with respect to the accounts/finance department while 23% were not sufficiently trained. This indicates that most of the institutions have sufficient labour force in the respective department.

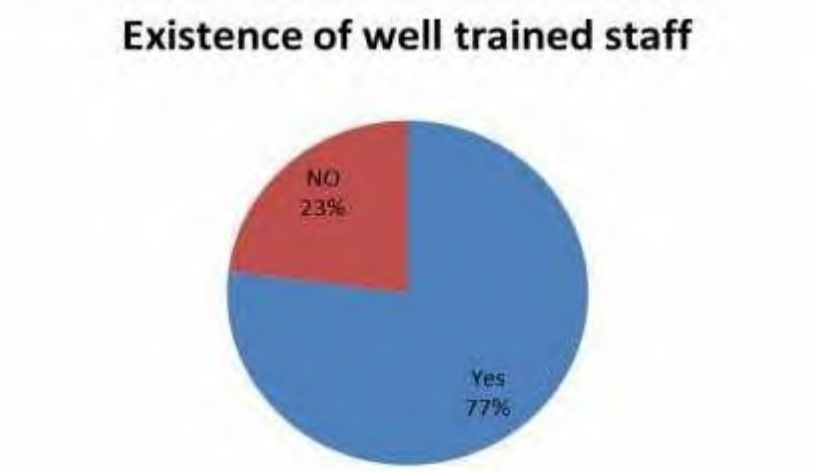



*Figure 4.3 There are well trained staff in the accounts and finance departments*

**Existence of adequate segregation of duties in the finance and accounts department**

The study sought to determine whether there is adequate segregation of duties in the finance and accounts department among the sampled institutions of consumer goods firm in Nigeria. The findings were as presented below;

## Summary, Conclusions and Recommendations

### Introduction

This chapter presents a summary of the findings of the study, conclusion and suggests some recommendations. At the end of this chapter suggestions for further study and research are suggested. These are areas that in future can be explored to further the knowledge and research on public institutions.

### Summary of the Findings

**Control environment and financial performance**

79% of the respondents indicated that the internal control environment had a significant influence on financial performance of their respective institutions and it was effective while 21% indicated that it had minimal or no influence on the financial performance of the institutions due to its ineffectiveness. It was revealed that control environment had greatly affected the institutions of higher learning's revenue, operation costs and fees income on capital for the last five years as indicated by a high mean of 4.12, 3.98 and 3.55 respectively. Control environment was realized to having a significant influence on financial performance of the institutions of higher learning. Weak and poor control environment negatively affects financial performance and vice versa.

**Risk assessment and financial performance**

61% of the respondents indicated that risk assessment procedures and systems of an institutions influence significantly its financial performance while 39% indicated otherwise. This is pegged on effectiveness of risk assessment system. 42% indicated that their risk assessment systems were effective while 58% of them indicated that they are ineffective. This has led to poor risk assessment procedures which weaken the internal control mechanisms and systems. There is a high and significant influence that risk assessment mechanisms and systems have on financial performance of

institutions of higher learning. Risk assessment has affected the institutions' revenue, operating costs and fees income for the last five years greatly as indicated by a mean of 3.62, 3.89 and 4.11 respectively. Strong and effective risk management systems have yield strong internal control mechanisms which have resulted to high institution revenue, low operating costs and high fees income while weak and porous ones have led to poor performance of the institutions.

**Control Activities and financial performance**

68% indicated that internal control activities have significantly influenced the financial performance of the institutions while 32% of them indicated otherwise. It was also indicated that
75% of the institutions' control activities are not effective hence have a negative effect on financial performance while only 25% of them are effective.

**Conclusions**

The study concluded that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the consumer goods firms in Nigeria. The variables explained 99.1% of the changes in financial performance of the institutions. A unit improvement in the control environment led to a 0.955 increase in financial performance of the institutions, a unit improvement in risk management practices led to a 0.986 increase in financial performance of the institutions, a unit improvement in control activities transformed to a 0.875 increase in performance of the institutions while a unit increase in use of information and communication systems led to a 0.961 increment in their financial performance.

There existed internal control systems, mechanisms and procedures but the environment was not favourable, poor assessment of risks and control activities and also diligent use of information and communication systems to reliably improve accountability and prudent use of organizational resources. This led to poor financial performance of the institutions despite them having massive resource base.

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