



## INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA

Oyedokun, Godwin Emmanuel<sup>1</sup> and Muhammad, Abubakar Illo<sup>2</sup>

<sup>1,2</sup>Department of Management and Accounting, Faculty of Management and Social Sciences  
Lead City University, Ibadan, Nigeria

<sup>1</sup>godwin.oyedokun@lcu.edu.ng; godwinoye@yahoo.com; <sup>2</sup>muhdabuillo@gmail.com

### ARTICLE HISTORY

Received : 23 April 2023

Revised : 16 May 2023

Accepted : 06 June 2023

Published : 30 June 2023

### TO CITE THIS ARTICLE

Oyedokun, Godwin Emmanuel & Muhammad, Abubakar Illo (2023). Internal Control System and Financial Performance of Small and Medium Scale Enterprises in Nigeria. *Studies in Economics & International Finance*, Vol. 3, No. 1, pp. 89-110. <https://DOI:10.47509/SEIF.2023.v03i01.07>

**Abstract:** The ability of a business to bring in money is essential to its survival. Because the sectors that make up Nigeria's productive sector lack adequate financial resources, the country has created a poor internal control structure and lax laws in recent years. The financial results of SMEs in Kebbi State, Nigeria were analyzed to ascertain the advantages of implementing an efficient internal control system. A descriptive survey approach was used for the investigation. CEOs, managers, and internal control units in Kebbi State SMEs estimated that 2,200 people would be employed there in 2022. A total of 338 study participants were recruited using a rigorously random approach. The five hypotheses were tested using a questionnaire the researchers developed themselves and the Pearson Product Moment Correlation Coefficient Analysis with a two-tailed test of significance at the P0.01 level. According to the findings, SMEs in Kebbi State, Nigeria may save money by adopting several components of internal control. The economic success of small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria, is influenced by several factors, including the presence or absence of key internal control components. The research recommends that SMEs conduct financial audits on a regular and timely basis to assist them to spot problems in their financial systems and performance. Small and medium-sized enterprise (SME) leaders should conduct an annual evaluation of the financial reporting process and implement an internal auditing system to monitor performance.

**Keywords:** Control activities, Financial performance, Internal control, Risk assessment, SMEs,

**JEL Classification:** G30, M41, Q56

## INTRODUCTION

Small and medium-sized enterprises (SMEs) are widely recognized as the lifeblood of today's economy due to their contributions to the creation of new jobs, the alleviation of poverty, the accumulation of wealth, and the maintenance of adequate food supplies. Because of their critical role in the economy, small and medium-sized enterprises (SMEs) have received more attention and education as of late. Long-term economic development policies, according to Shamsuddoha and Ali, would be doomed if the government did not actively support the expansion of small and medium-sized firms (2006).

Because of the favorable circumstances provided by government-sponsored assistance programmes, small and medium-sized businesses (SMEs) are in a better position to aid in development via the provision of products and services and the generation of new employment opportunities (Jahanshahi, Nawaser, Khaksar & Kamalian, 2011). Inadequate internal control systems are often blamed for the high failure and underperformance rates of small and medium-sized firms (SMEs) in developing countries like Nigeria. So, it's on the government to educate itself on the factors keeping this industry from reaching its full economic potential.

When an organization has in place rules, standards, and protections that improve the likelihood that its goals will be reached, it has an internal control system (Husaini & Mohammed, 2018). Add, internal control is a set of preexisting standards and procedures that exerts control over an organization's operations to guarantee that the objectives set by management and the board of directors are achieved (Mohammed, 2017). A well-designed internal control system may help an organization protect its assets, identify and prevent liabilities, and carry out its policies as planned; this is according to theory, at least (Oladimeji, 2016).

Small- and medium-sized businesses are the backbone of Nigeria's economy. A variety of early industrial activities, including trading businesses, yam barns, iron smelting, agriculture, and others, were carried out in each of our communities. Therefore, the success of an autonomous strategy depends not on some abstract political theory but on how individuals feel about entrepreneurship and whether or not they feel sufficiently driven to take risks and make consequential choices.

Nigeria's government has passed laws to support small companies because the country recognized the vital role they play in the economy. Due to their abundance, diversity, and permeation of all production sectors, as well as their large contributions to employment and the prosperity of local communities, small companies have long been considered the engine of the national economy. In Nigeria, the vast majority of legally established businesses are privately held small

businesses. Most large corporations started as cottage enterprises, grew into mid-sized companies, and then became multinational behemoths.

Inadequate internal control mechanisms may contribute to the higher failure rate among the overwhelming majority of businesses, which are small and medium-sized companies (SMEs) (Siwangaza, Smit, Bruwer, & Ukpere, 2014). Some ineffective managers of SMEs mistakenly believed that implementing internal control systems would raise expenses without improving performance. Further investigation suggests that SMEs' management uses a sector-general approach and is uninformed about the advantages of internal control. Many CEOs of small and medium-sized enterprises (SMEs) are hesitant to implement sufficient internal controls due to a lack of time and resources (Bett, & Memba, 2017).

An effective internal control system ensures that all tasks are completed in a timely and accurate manner, that all financial data is reported accurately, and that all applicable laws and rules are adhered to. It's common knowledge that the informal sector in Nigeria's economy plays a crucial role, providing both a large portion of the country's GDP and a large number of much-needed jobs. According to studies, the company's efforts to alleviate poverty by creating employment and generating revenue might be successful (Oduyoye, Adebola, & Binuyo 2013; Moses, Akinbode, & Onochie, 2015; Aladejebi, 2017). The government of Nigeria has called attention to the growing issue of unemployment and the potential role that MSMEs may play in addressing the crisis.

The study's goals include assessing how implementing internal control policies has helped small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria, as well as looking into how employees feel about adhering to these policies and the various internal control strategies used by SMEs' leaders to fortify their organizations and reach their goals.

Therefore, this study is to investigate the effect of internal controls on the financial performance of SMEs in Kebbi State Nigeria. The specific objectives are to:

1. examine whether the control environment enhances the financial performance of SMEs in Kebbi State Nigeria.
2. determine whether risk assessment enhanced the financial performance of SMEs in Kebbi State Nigeria.
3. identify whether control activities enhanced the financial performance of SMEs In Kebbi State Nigeria.
4. examine whether information and communication enhanced the financial performance of SMEs in Kebbi State Nigeria.
5. assess whether monitoring put in place enhanced the financial performance of SMEs in Kebbi State Nigeria.

## LITERATURE REVIEW

### Small and Medium Enterprises in Nigeria

The word “small and medium-sized enterprise” (SME) lacks a universally accepted definition because of its relative and fluid character. According to the Centre for Industrial Research and Development, small businesses in 1990 had less than fifty full-time workers and less than two hundred and fifty thousand Naira in total assets in capital equipment, plant, and working capital. When their impacts are added together, however, small and medium-sized enterprises (SMEs) in Nigeria outrank major corporations as the country’s most significant business sector (Sijuade, 2019).

In Nigeria, sole proprietorships and partnerships make up the vast bulk of the country’s small and medium-sized enterprises. The legal position is that of a limited liability corporation even if the ownership structure is that of a sole proprietorship, a family business, or a partnership. Many of Nigeria’s SMEs adhere to the same set of values. A high mortality rate, especially in the first two years, an over-reliance on imported raw materials and replacement components, a lack of adequate inter- and intra-sector contacts, and a management structure dependent on a single person are all factors that contribute to this (the “key man”). As a result, they have trouble taking advantage of economies of scale, have inexperienced managers because they can’t afford skilled labor, turn out subpar products, invest almost nothing in R&D, offer insufficient opportunities for professional growth to their staff, and fail to adequately record the rationale behind their decisions.

### Small-Scale Industry and Nigeria’s Development

The economy of the country is considerably boosted by small companies (Bubou, Siyanbola, Ekperiware & Gumus, 2014). Here are a few illustrations:

1. The development of employment for young people, enabling the use of innovative marketing techniques for the selling of goods and services. The number of work options for young people, seniors, and new graduates has expanded, which has reduced the unemployment rate and the social consequences of armed robbery and white-collar crimes.
2. It helps to satisfy the needs of large companies that depend on small-scale operators for their financial sustainability and promotes the creation of new goods and services. It also makes sure that customers always have access to the products they need.
3. They account for the majority of industrial capacity in emerging nations. Although it was predicted that SMEs currently account for more than 80% of all registered businesses in Nigeria, SMEs are concentrated in the

following industries: agro-based and allied industries; rubber-based and leather shoe industries; chemical; electronics; general merchandising; restaurants; dress-making; hair dress-making; cane-chairs; leather products; pomade and toiletries; animal feeds and husbandry; and printing (Bett & Memba, 2017).

### **Internal Control System**

Internal controls are the methods that a company or other organization implements to guarantee that its objectives, goals, and missions are fulfilled. A company or other organization implements them to guarantee that its financial transactions are handled properly and its assets are not misappropriated. All internal control systems have flaws that decrease their predictive ability (Banoura, 2008).

### **Internal Control System Components**

**Control Environment:** “control environment” refers to the variables that surround a process that may influence its standards, practices, and procedures (Ayozie & Jacob, 2013). As the foundation of the internal control system, the control environment sets the tone for the organization and influences employee awareness. The control environment is affected by the views, knowledge, integrity, and ethical standards of all employees, as well as the actions of management, directors, and those in charge of governance.

**Risk Assessment:** An essential component of internal control is assessing potential hazards. Risks are obstacles that prevent objectives from being accomplished. Two steps in an organization’s risk assessment process are the identification and mitigation of business hazards (Oduyoye, Adebola & Binuyo, 2013). Identifying the potential for mistakes and then putting in place the necessary precautions to prevent them from happening is another definition of risk assessment. The process of identifying and analyzing threats to a project’s success is frequently referred to as “risk assessment” (Moses, Akinbode & Onochie, 2015). Any organization’s ability to succeed depends on its ability to manage both internal and external risks. There are always hazards to think about, whether they are great or little, public or private. Management should thus take all necessary precautions to minimize these risks.

**Control Activities:** Control activities are the procedures and guidelines that a firm uses to guarantee that management’s instructions are followed and that the required precautions are taken to minimize any threats to the organization’s objectives (Howe, Bradford, Conlin, 2013). Control activities are human and automated processes that work to lessen risks to a company’s ability to carry out its declared objectives and fulfill its purpose. To guarantee that the organization’s objectives and mission are carried out effectively, management must create control

mechanisms. As a consequence, actions including duty segregation, information processing, physical control, and performance evaluation are examples of controls that are important to audit.

**Information and Communication System:** The capability to collect data both horizontally and vertically and to ensure staff communication are further characteristics of the internal control system (Ayagre, 2015). These objectives may be attained if the management information system and its information subsystems are organized and adaptive. All personnel at all organizational levels should be included in an efficient communication system. Information and communication focus on the kind and quality of the data that systems use to create, as well as the reports required to successfully communicate it. Information systems' reports on corporate operations, finances, and compliance issues allow for more effective management and monitoring. This message should be disseminated as quickly as possible to all levels of the organization's workforce so that they may use it to achieve their objectives. Government agencies, vendors, and consumers all employ a variety of communication channels. To effectively discuss the control environment, control activities, risks, and information on goals and performance, all levels of a business must have open lines of communication. For information to be useful, it must be processed, recorded, identified, and conveyed to the relevant individuals in a timely way.

**Monitoring:** It is necessary to keep an eye on internal controls to ensure that they are efficient, correctly executed, and well-designed. Internal control has been properly established and implemented if all five elements (control environment, risk assessment, control activities, information and communication, and monitoring) are present and operating as intended (Monday, Inneh & Ojo, 2014). Internal control and the capacity to identify potential threats after personnel changes should be continuously assessed to make sure they remain reliable and robust. Internal control and outcomes should be the main areas of attention for management while monitoring operations. Results should be analyzed, problems should be brought to the attention of the board of directors and senior management, and difficulties should be reported to higher-ups.

## **FINANCIAL PERFORMANCE**

The elements of result, goal accomplishment, and quality are more crucial to the concept of performance than the financial aspects of efficiency and effectiveness. This demonstrates that only a select few organizations—those that provide the greatest results—achieve performance. The subjective and imprecise nature of the idea of performance emphasizes this uncertainty. This idea states that productivity, work quality, innovation, profitability, effectiveness, efficiency, and

quality are the seven performance criteria that must be met for an organizational system to function effectively.

Financial performance, as determined by capital adequacy, liquidity, solvency, efficiency, leverage, and profitability, is the achievement of the company's financial performance over a certain period, including the collecting and utilization of cash. A corporation's financial performance serves as a barometer for how well it controls and manages its finances. Information from the cash flow, balance sheet, profit-loss, and capital change may be used by corporate management to make decisions (Fatihudin, Jusni & Mochklas, 2018).

### **THEORETICAL FRAMEWORK**

Jensen and Meckling's agency theory, which defines an agency relationship as a contract between a company's owners (as primary) and management, was employed by the writers of this research (as agent). According to the terms of the agreement, the owners must provide the management team with all operational authority.

One of the main goals of the concept is to lessen conflict between principals like shareholders and agents like business leaders. The two problems that occur when a principal and an agent have divergent risk preferences and the principal is unable to oversee the agent's behavior are the ones that agency theory aims to address. The principal and the agent could have different attitudes on taking risks.

An agency theory-based internal audit study has the potential to be more thorough and educational. According to agency theory, internal auditing helps maintain cost-effective contracts between owners and contractors together with financial reporting and external audits. managers.

### **REVIEW OF EMPIRICAL STUDIES**

Internal control factors, such as the control environment, risk assessment, and control activities, were shown to affect the financial results of a selection of NGOs by Oyedokun and Felejaye (2022) in Ibadan, Nigeria. While the control environment and risk assessment were shown to have a smaller impact on the studied NGOs' financial performance, control measures were found to have a significant one. All areas of internal control that were looked at had an impact on the bottom line. An NGO's financial performance will be inadequate due to a lack of resources and support. This research recommended that NGO leaders create and regularly analyze their internal control systems because of the positive relationship between an efficient system and a nonprofit's financial stability. To accomplish this goal, it is necessary to create standards, procedures, and organizational structures that constitute the central axis of internal control.

Yusufu (2021) looked at 115 businesses in the Nigerian state of Kogi, analyzing their financial results and management. Based on the results of this research, it's clear that easy access to credit is beneficial for small and medium-sized businesses. A study found that SMEs in Nigeria would not have grown without outside funding. Small and medium-sized businesses benefited considerably from the study's attention to financial management elements, the results showed. Based on the data, SMEs need the assistance of professional portfolio managers when selecting investments. A long-term strategic plan is essential for small and medium-sized businesses (SMEs) to boost their bottom line.

Internal controls and company performance were studied by Adegboyegun, Ben-Caleb, Ademola, Oladutire, and Sodeinde (2020) for SMEs in Ondo State, Nigeria (SMEs). The findings suggest that SMEs in the state of Ondo may anticipate improved operational performance even if just some of the components of an effective internal control system have been implemented. However, it was found that the opposite was true; that the controlled atmosphere and controlled activities increased the likelihood of this happening. For this reason, SMEs need to safeguard and maximize the advantages provided by their control environment and control activities if they are to achieve peak operational performance. Due to the unique nature of each company's activities, risk assessment, information and communication, and operations monitoring all need to be handled in the same way.

In 2017, Yusuf studied the effects of entrepreneurship training, technological advancement, and globalisation on the productivity of 400 Nigerian manufacturing SME owners and managers. A cross-sectional survey style was used for this study. On the productivity and profitability of Nigerian SMEs, favorable impacts of globalisation, technology adoption, and entrepreneurship education were identified. The study found that for Nigeria's manufacturing SMEs to be competitive, profitable, and make a significant contribution to the country's economic recovery and growth, they needed to continuously develop new entrepreneurial skills, adopt and use cutting-edge modern technologies, and have an internationalized profile.

Specifically, Aladejebi (2017).investigated how the top executives of Nigerian small and medium-sized enterprises (SMEs) improved internal control Five overarching themes emerged from a thematic analysis of the interview data, including clear delineation of responsibilities, a focus on process, rules, and procedures, the importance of people, education, and experience, the value of technology, the autonomy of workers, and the dedication of management. The results of this research show that SME managers in Nigeria use similar strategies to enhance their organizations' internal control systems. Internal control was



bolstered by everyone's strict adherence to the established policies and procedures for assigning tasks. Superior management abilities on the part of SMEs' owners and executives are required if such businesses are to enhance their internal control mechanisms.

Oduyoye, Adebola, and Binuyoo (2013) investigated the chances of SMEs' success in Ogun State which is home to a variety of small businesses. The purpose of this research is to examine the contributions made by SME development organisations in Nigeria. Little to no impact was found between using SMEDAN's services and the long-term success of jointly sponsored small businesses in Ogun State during the study's period (2005-2010). The paper recommends that the federal government of Nigeria support SME growth since these businesses are the lifeblood of national economies. The unemployment rate might be lowered by tapping into the creativity and drive of today's recent college graduates.

Abubakar and Yahaya (2013) assessed the effectiveness of growing SMEs as a means of reducing poverty in Nigeria's North-west. To gather primary data on the profiles and business practices of 400 SMEs in the states of Sokoto and Zamfara, we randomly selected them to receive questionnaires. Secondary information was gathered from NSE and NBS reports to evaluate the inner workings of listed organizations (big companies). Companies inside and across sectors were compared on metrics such as their impact on the local economy (via the creation of new jobs) and their usage of domestically produced technologies. The research found that a company's capacity to provide new employment opportunities was critical to alleviating economic hardship in the marketplace. Maybe the government can do a better job of eliminating poverty if it stops focusing on the deficiencies of the poor and starts recognizing their strengths and productive potential.

## **METHODS**

The technique of inquiry for this study was a descriptive survey research design. Data from the population being studied were collected and analyzed as part of the survey research design. A well-structured questionnaire with a simple random sample approach was administered to SMEs in Kebbi State, Nigeria, to collect primary data. 2,200 CEOs, managers of SMEs, and internal control unit specialists in Kebbi State, Nigeria, will make up the study's population in 2022. The Taro Yamane size estimation method was used to determine the sample size of 338. The researcher's data was quantified, examined using SPSS version 23, and statistically represented using both descriptive statistics and inferential statistics.

## RESULTS

**Table 1: Demographic Data Analysis**

<i>Variables</i>	<i>Characteristics</i>	<i>Frequency</i>	<i>(%)</i>
<b>Gender</b>	Male	222	71.2
	Female	90	28.8
<b>Age of Respondent</b>	20-30 Years	120	38.5
	31-40 Years	188	60.3
	41-50 Years.	3	0.96
	51-60 Years	1	0.3
<b>Educational Qualification</b>	B.Sc.	182	58.3
	M.Sc.	123	39.4
	Ph.D.	7	2.2
<b>Employment Status</b>	Full Time	227	72.8
	Part-Time	85	27.2
<b>Organization Type</b>	Retail	125	40.1
	Manufacturing	72	23.1
	Skill Services	58	18.6
	Catering	57	18.3
	<b>Total</b>	<b>312</b>	<b>100.0</b>

*Source:* Field Report, 2022

Table 1 shows that 71.2% of respondents are men and 28.8% are women. The results showed that 38.5% of respondents were between the ages of 20 and 30, 60.3% were between the ages of 31 and 40, 0.96% were between the ages of 41 and 50, and 0.3% were between the ages of 51 and 60, indicating that men made up the majority of research participants. This illustrates the survey's predominance of respondents between the ages of 31 and 40. The results show that 2.2% of respondents have a Ph.D., 39.4% have a master's degree, and 58.3% have a bachelor's degree. The following statistics show that the great majority of respondents in this research had some type of formal education: In addition, demographic information indicates that 27.2% of respondents work part-time and 72.8% of respondents work full-time. This indicates that a significant portion of respondents is full-time workers. The majority of people who responded to the study work in the retail sector, according to the findings.

Table 2 shows that of the respondents, 17.3% (54) strongly agreed that their organization's working environment is conducive, 69.2% (216) agreed, 4.2% (13) disagreed, 9.3% (29) were indifferent, and none severely disagreed. Additionally, 20.2% (63) of respondents strongly agreed that transactions are conducted in line with ethics and moral principles. 72.1% (225) of respondents agreed, 3.2% (10)

**Table 2: Control Environment**

S/N	Statement	SA(%)	A(%)	N(%)	D(%)	SD(%)	Total(%)
1	The working environment in my organization is conducive.	54 (17.3)	216 (69.2)	29 (9.3)	13 (4.2)	0 (0)	312 (100)
2	The transactions are executed in accordance with integrity and ethical values/codes.	63 (20.2)	225 (72.1)	14 (4.5)	10 (3.2)	0 (0)	312 (100)
3	The role and responsibilities are clearly stated for the employee.	61 (19.6)	210 (67.3)	28 (9.0)	13 (4.2)	0 (0)	312 (100)
4	The staff is regularly trained and equipped with resources to carry out their duties professionally.	60 (19.2)	203 (65.1)	24 (7.3)	19 (6.1)	6 (1.9)	312 (100)
5	The company has a code of ethical conduct that has been made available to all employees	56 (17.9)	223 (74.7)	16 (5.1)	7 (2.2)	0 (0)	312 (100)

Source: Field Survey, 2022

disagreed but not strongly, 4.5% (14) were indifferent, and none strongly disagreed. Additionally, none of the respondents strongly disagreed with the statement "the role and duties are specified for the employee," 67.3% of respondents strongly agreed, 9.0% of respondents agreed, and 4.2% of respondents disagreed.

Furthermore, 19.2% (60) of respondents strongly agreed that workers are regularly trained and given the tools they need to carry out their duties properly. Among the 203 responses, 65.1% said they agreed, 7.3% said they were indifferent, 6.1% said they disagreed, and 1.9% said they strongly disagreed. The organization has an ethical behavior code that has been made accessible to all workers, according to 17.9% (56) of respondents, 74.7% (223) of respondents, 2.2% (7) of respondents, 5.1% (6) of respondents who are neutral on the statement, and none of the respondents who are highly opposed.

It may be deduced that, when the total answers are added and a percentage is calculated for each item, 18.8% of the respondents strongly agreed with all of the statements made about the control setting, 69% agreed, 7.11% were neutral, 3.97% disagreed, and 0.38% strongly disagreed. As a result, the majority of respondents (87.8%) agreed with the claims made about the various elements of the control environment, including the working environment, integrity and ethical values/codes, roles and responsibilities, regular training, and a code of ethical behavior.

Statistical inferences on the elements of risk management are shown in Table 3. The chart shows that 27.9% (87) of respondents highly agreed, 67.9% (212) agreed, 4.2% (13) are indifferent, and none disagreed or strongly disagreed that SMEs recognize risks that may impair the attainment of goals swiftly. Additionally, 23.4% (73) of respondents strongly agreed that SMEs had a standard for identifying

**Table 3: Risk Management**

<i>S/N</i>	<i>Statement</i>	<i>SA(%)</i>	<i>A(%)</i>	<i>N(%)</i>	<i>D(%)</i>	<i>SD(%)</i>	<i>Total(%)</i>
1	The SMEs identify risks that may affect the achievement of the objectives promptly.	87 (27.9)	212 (67.9)	13 (4.2)	0 (0)	0 (0)	312 (100)
2	The SMEs have a criterion for ascertainment of the risks that are most critical to the organization such as the opportunity to commit fraud.	73 (23.4)	222 (71.2)	12 (3.8)	5 (1.6)	0 (0)	312 (100)
3	The SMEs have in place a mechanism for mitigating risks that may arise during doing business	71 (22.8)	220 (70.5)	21 (6.7)	0 (0)	0 (0)	312 (100)
4	The appropriate actions are taken to improve the effectiveness	57 (18.3)	229 (73.4)	9 (2.9)	17 (5.4)	0 (0)	312 (100)
5	The SMEs have a functioning internal audit unit to review their operations	78 (25)	219 (70.2)	15 (4.8)	0 (0)	0 (0)	312 (100)

*Source:* Field Survey, 2022

the greatest organizational risks, such as the potential for fraud. 1.6% of the respondents (or 222) disagreed, none strongly disagreed, and 71.2% (222) agreed. 3.8% (12) of those surveyed were unsure, nevertheless. Similarly, 70.5% (225) of respondents agreed, 6.7% (21) disagreed, and 22.8% (71) strongly agreed that SMEs have a process in place to manage risks that may develop when doing business. Nobody in the group agreed or disagreed vehemently.

In addition, 18.3% (57) of respondents strongly agreed with the statement "The proper activities are taken to increase effectiveness," 74.4% (229) agreed, 5.4% (17) disagreed, 2.9% (9) were indifferent, and none strongly disagreed. Similar to the previous finding, none of the respondents objected or strongly disagreed, and 25% (78) of respondents agreed or strongly agreed that SMEs have an operational internal audit unit to assess their operations.

By adding together all of the respondents' replies and computing a percentage for each item, it can be determined that 23.46% of respondents strongly agreed, 70.6% agreed, 4.49% agreed, 1.4% disagreed, and 0% strongly disagreed with all of the assertions about the components of risk management. This indicates that risk assessment enhanced the financial performance of SMEs since the majority of respondents (94.06%) agreed with the assertions about the various risk management components.

**Table 4: Control Activity**

S/N	Statement	SA(%)	A(%)	N(%)	D(%)	SD(%)	Total(%)
1	Controls are in place to check on incurring expenditures more than allocated funds.	49 (15.7)	221 (70.8)	32 (10.3)	10 (3.2)	0 (0)	312 (100)
2	There is segregation of duties in my organizations	71 (22.8)	198 (63.5)	32 (10.3)	11 (3.5)	0 (0)	312 (100)
3	The corrective actions are taken to address the weakness	70 (22.4)	216 (69.2)	18 (5.8)	8 (2.6)	0 (0)	312 (100)
4	All transactions are verified before making payments.	54 (17.3)	219 (70.2)	31 (9.9)	8 (2.6)	0 (0)	312 (100)
5	Advice to voluntarily resign from staff involved in fraud.	78 (25)	219 (70.2)	15 (4.8)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2022

15.7% (49) of respondents, as shown in the data in Table 4, strongly agree that restrictions are in place to avoid spending more than is authorized. Of the responders, 78% (221) agreed, 10.3% (32) were indifferent, 3.2% (10) disagreed, and none strongly disagreed. This indicates that the majority of respondents agreed that measures are in place to stop spending more than is authorized. According to the 22.8% (71) respondents who strongly agreed with the statement, 63.5% (198) respondents agreed, 10.3% (32) respondents who are neutral, 3.5% (11) respondents who disagreed, and none of the respondents who severely disagreed, there is a division of roles in my organization. This indicates that the majority of respondents were in agreement that "there is a division of roles in my organization." Additionally, 70 out of 22.4% of respondents agreed that steps had been done to fix the vulnerability. Among the responders, 69.2% (216) agreed, 2.6% (8) disagreed, and 5.8% (18) were neutral. None of the respondents strongly disagreed with the statement. This shows that the deployment of remedial steps to remedy the vulnerability was supported by the majority of respondents.

Similar to this, 17.3% (54) respondents highly agreed, 70.2% (212) agreed, 2.6% (8) opposed, 9.9% (31) are indifferent, and none of the respondents strongly disputed that all transactions are confirmed before payments are made. According to this, most respondents agreed that every transaction should be validated before a payment is made. Aside from that, none of the respondents disagreed or strongly disagreed with the claim that employees who commit fraud need to willingly quit. No responders, however, disputed or strongly disagreed with the assertion. This suggests that the majority of respondents embraced the advice to voluntarily leave fraud-related personnel 80.8% (252) of respondents agreed that the

**Table 5: Information and Communication**

<i>S/N</i>	<i>Statement</i>	<i>SA(%)</i>	<i>A(%)</i>	<i>N(%)</i>	<i>D(%)</i>	<i>SD(%)</i>	<i>Total(%)</i>
1	The organization obtained or generate and uses relevant information to support the functioning of other components of internal control.	30 (9.6)	252 (80.8)	12 (3.8)	18 (5.8)	0 (0)	312 (100)
2	The organization internally communicates information including objectives and responsibilities for internal control	51 (16.3)	251 (80.4)	10 (3.2)	0 (0)	0 (0)	312 (100)
3	The organization communicates with external parties regarding matters affecting the functioning of other components of internal control.	46 (14.7)	258 (82.7)	8 (2.6)	0 (0)	0 (0)	312 (100)
4	Organizations obtain information both horizontally and vertically and ensure communication among employees.	97 (31.1)	203 (65.1)	12 (3.8)	0 (0)	0 (0)	312 (100)

*Source:* Field Survey, 2022

organization created and utilized relevant information to support the functioning of other internal control components, 3.8% (12) of respondents were indifferent, 5.8% (18) of respondents disagreed, and none of the respondents strongly disagreed. In addition, 80.4% (251) of respondents agreed, 80.3% (51) of respondents strongly agreed, and 3.2% (10%) of respondents are ambivalent about how well the organization internally communicates information about internal control duties and goals. Nobody who replied either agreed with the statement or vehemently disagreed with it. The organization interacts with outside parties with problems impacting the operation of other internal control components, as none of the respondents strongly objected or disagreed, and 14.7% (46) strongly agreed, 82.7% (258) agreed, and 2.6% (8) respondents are indifferent about this. Additionally, 65.1% (203) respondents concurred, 3.8% (12) disagreed, and 31.1% (97) strongly concurred that businesses should promote employee communication and the collecting of both horizontal and vertical data. Nobody who replied either agreed with the statement or vehemently disagreed with it.

The results show that 17.95% of respondents highly agreed, 77.2% agreed, 3.37% agreed, 1.44% disagreed, and none strongly disagreed with the statements concerning information and communication after adding up all the respondents'

replies and dividing the total by the number of entries. This indicates that the majority of respondents (95.2%) agreed with the statements about information and communication.

**Table 6: Monitoring**

S/N	Statement	SA(%)	A(%)	N(%)	D(%)	SD(%)	Total(%)
1	Monitoring determines whether internal control is effective, properly executed, and adequately designed.	48 (15.4)	234 (75)	21 (6.7)	9 (2.9)	0 (0)	312 (100)
2	Monitoring able to identify risks that may occur due to some changes within the organization among employees	61 (19.6)	219 (70.2)	18 (5.8)	14 (4.5)	0 (0)	312 (100)
3	Management emphasizes monitoring efforts on internal control and accomplishments.	47 (15.1)	247 (79.2)	13 (4.2)	5 (1.6)	0 (0)	312 (100)

Source: Field Survey, 2022

Table 6 above lists the monitoring-related claims. Monitoring evaluates if internal controls are efficient, correctly applied, and effectively structured, according to 7.5% (234) of respondents, 15.4% (48) strongly agreed, 6.7% (21) were neutral, 2.9% (9) disagreed, and none strongly disagreed. This may indicate that the majority of respondents agreed that monitoring is useful in determining how effective internal controls are implemented, efficient, and well-designed. Similar to this, 19.6% (61) of the respondents believed that monitoring can spot hazards that might materialize as a consequence of workforce turnover inside the company. A total of 219 respondents, or 70.2%, agreed with this statement; the remaining respondents, or 5.8%, agreed but did not strongly disagree, while 14 respondents (or 4.5%), disagreed but did not strongly disagree. This indicates that the vast majority of respondents agreed that monitoring can spot potential dangers brought on by personnel turnover inside an organization.

The assertion that "Management focuses monitoring efforts on internal control and succeeds" is also supported by this. No respondents strongly disagreed, yet 15.1% (47) agreed, 79.2% (247) agreed, 1.6% (5) disagreed, and 4.2% of respondents are indifferent. No respondents strongly disagreed. It seems from this that the majority of respondents agree that management puts a high priority on tracking internal control initiatives and accomplishments.

Table 7 presents the different financial performance statements. According to the table, 1.9% of respondents disagreed, although none strongly disagreed,

**Table 7: Financial Performance**

S/N	Statement	SA(%)	A(%)	N(%)	D(%)	SD(%)	Total(%)
1	My organization's profit has increased.	66 (21.2)	220 (70.5)	20 (6.4)	6 (1.9)	0 (0)	312 (100)
2	Shareholders' return in my organization has increased.	39 (12.5)	241 (77.2)	32 (10.3)	0 (0)	0 (0)	312 (100)
3	There is an increased source of revenue in the organization.	89 (28.5)	187 (59.9)	36 (11.5)	0 (0)	0 (0)	312 (100)
4	There has been consistent patronage of customers to the organizations.	47 (15.1)	248 (79.5)	17 (5.4)	0 (0)	0 (0)	312 (100)
5	There is an increase in ROA in my organization	104 (33.3)	174 (55.8)	34 (10.9)	0 (0)	0 (0)	312 (100)
6	There is an increase in ROI in my organization	72 (23.1)	214 (68.6)	26 (8.3)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2022

whereas 21.2% (66) of respondents highly agreed, 70.5% (220) agreed, 6.4% (20) agreed, and 1.9% (6) disagreed. This indicates that the majority of the respondents agreed that their organization's profit had grown. The assertion that shareholders' returns on investments in the organizations have grown was also supported by 12.5% (39) respondents, 77.2% (241) respondents, and 10.3% (32) respondents who were uncertain. Nobody who responded objected or strongly disagreed with the statement. This indicates that the majority of those surveyed believed the organizations' returns to shareholders had grown. Additionally, none of the respondents strongly opposed or disputed the least, while 59.9% (187) agreed, 11.5% (36) were neutral, and 28.5% (89) strongly agreed that the organization had a larger source of income. This indicates that the majority of respondents acknowledged the organization's greater income source.

Similar to this, 15.1% (47) respondents strongly agreed, 79.5% (248) respondents agreed, and 5.4% (17) respondents were indifferent to the statement that "there has been a steady patronage of customers to the organizations." Nobody who replied either agreed with the statement or vehemently disagreed with it. This indicates that the majority of respondents agreed that the organization has continuously received support from its consumers. There were no respondents who disagreed or strongly disagreed, along with 33.3% (104) who strongly agreed, 55.8% (174) who agreed, 10.9% (34) who were indifferent, and none (54.8%) who disagreed. As for the growth in ROI in their organization, 68.6% (214) of respondents agreed, 68.1% (72) of respondents strongly agreed, and 8.3% (26) of respondents were indifferent. Nobody who replied either agreed with the



statement or vehemently disagreed with it. This indicates that the vast majority of respondents agreed that the ROI of their firm had grown.

**Table 8: Regression Analysis**

<i>Model Summary</i>				
<i>Model</i>	<i>R</i>	<i>R Square</i>	<i>Adjusted R Square</i>	<i>Std. Error of the Estimate</i>
1	.425 <sup>a</sup>	.181	.167	2.05616

a. Predictors: (Constant), Information\_and\_comm, Monitoring, Control\_Activity, Control\_Env, Risk\_Mgt

Source: Authors' 2022

According to Table 8, R Square equals 0.181. When R Squared is applied to a percentage, the result is 18.1%. In Kebbi State, Nigeria, this figure demonstrates that monitoring activities, control activities, information and communication, the control environment, and risk assessment account for 18.1% of the variation in the financial performance of SMEs

**Table 9: ANOVA**

ANOVA<sup>a</sup>

<i>Model</i>		<i>Sum of Squares</i>	<i>df</i>	<i>Mean Square</i>	<i>F</i>	<i>Sig.</i>
1	Regression	285.683	5	57.137	13.515	.000 <sup>b</sup>
	Residual	1293.702	306	4.228		
	Total	1579.385	311			

a. Dependent Variable: Financial\_Performance

b. Predictors: (Constant), Information\_and\_comm, Monitoring, Control\_Activity, Control\_Env, Risk\_Mgt

Source: Authors' 2022

Table 9 shows that at a 95% level of confidence, the p-value is 0.000, which is extremely small because it is less than 0.05. The F-test concludes that there is variation in financial performance due to control activities, control environment, risk assessment, monitoring, and information and communication, thus rejecting the null hypothesis that none of the independent variables have a significant relationship with financial performance.

From Table 10, the constant is 9.667, which is an estimate of  $\hat{\alpha}_0$  and is highly significant at 0.000. In addition, the independent variables of monitoring, control environment, risk management, control activities, and information and

**Table 10: Coefficient of Relationship between Dependent and Independent Variable**

		<i>Coefficients<sup>a</sup></i>				
<i>Model</i>		<i>Unstandardized Coefficients</i>	<i>Standardized Coefficients</i>	<i>Beta</i>	<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>			
1	(Constant)	9.667	1.856		5.209	.000
	Monitoring	.152	.115	.087	1.319	.019
	Control_Env	.082	.052	.089	1.584	.014
	Risk_Mgt	.097	.076	.087	1.272	.020
	Control_Activity	.082	.053	.086	1.548	.012
	Information_and_comm	.482	.095	.282	5.088	.000

a. Dependent Variable: Financial\_Performance

Source: Authors' 2022

communication all have a positive link with financial success. So, to rephrase, the five tenets of COSO contribute favorably to monetary success (monitoring, control environment, risk management, control activity, and information and communication). This lends credence to a study published under the title Internal control systems and operating performance: Evidence from small and medium-sized enterprises (SMEs) in Ondo state, which found that a controlled environment increases the likelihood of an SME achieving high operational performance (Adegboyegun, et al., 2020),

According to the standard error, there is a positive relationship between the five tenets of COSO—monitoring, control environment, risk management, control activity, and information and communication—and financial performance (dependent variable). In this case, the t-test results are significant enough to warrant rejecting the null hypothesis. Also, the t-test findings for the independent variables are significant (monitoring  $P=0.019$ , control environment  $P=0.014$ , risk management  $P=0.020$ , control activity  $P=0.012$ , and information and communication  $P=0.00$ , as all of these values are lower than 0.05). This corresponds to an F-value of 13.515, which is statistically significant at the  $p=0.00$  level.

Therefore, the F-test can be said to have statistical weight. The dependent variable can be predicted with a high degree of accuracy using the independent variables of monitoring, control environment, risk management, control activity, and information and communication (financial performance). This lends credence to the findings of a study conducted by Bett and Memba (2017) on the effect of internal control on the financial performance of Kenyan processing enterprises. Thus, the entire regression achieves statistical significance

## DISCUSSION OF FINDINGS

Global economic growth, more employment, and diminished poverty are just some of the many benefits that small and medium-scale enterprises (SMEs) bring to the table. However, these SMEs face a variety of challenges, such as a lack of funds to pay for trained labor, a lack of investment in employee training and development, a lack of written policies and procedures, sloppy bookkeeping, and inadequate capitalization. The majority of respondents think that small and medium-sized enterprises (SMEs) in Nigeria may boost their financial performance and expand their operations by creating a work environment with clear roles, responsibilities, and ethical standards. Results from this study are in line with those from a 2022 study by Oyedokun and Felejaye on internal control systems and the financial performance of non-governmental organisations in Nigeria. Those authors found that the control environment had a small but measurable effect on the surveyed organizations.

The second goal aimed to examine the effects of risk assessment on the bottom lines of Nigerian small and medium-sized enterprises. According to the survey, the internal audit department is tasked with preventing risks and frauds from occurring to improve performance, and the vast majority of SMEs have procedures in place to identify such threats. Internal control system and financial performance of non-governmental organisations in Nigeria, by Oyedokun and Felejaye, found that risk assessment was related to the monetary success of the NGOs they studied.

The third objective's findings show that SMEs pay considerable thought to the division of labor and have protections in place to ensure that money is allocated effectively. In addition, the clear majority of SMEs agree that it is important to fix organizational issues, ensure that all transactions are properly verified, and fire any employees who have committed fraud. Similar findings were found by Adegboyegun, Ben-Caleb, Ademola, Oladutire, and Sodeinde (2020) in their study of the impact of control activities on the likelihood of effective operating performance in a corporation.

For Nigerian SMEs to operate effectively, information and communication are crucial parts of internal control. The results show that for businesses to run well, not only must internal information (such as goals and responsibilities) be shared with external parties, but so must information concerning other elements of internal control. Organizations also generate vertical and horizontal data and use this vital information to aid in the operation of other internal control components. However, research from the year 2020 by Adegboyegun, Ben-Caleb, Ademola, Oladutire, and Sodeinde suggests that the internal control system components do not significantly impact the operational performance of SMEs in Ondo State.

Because the outcomes of monitoring establish whether or not internal controls are effective, implemented correctly, and sufficiently planned, SMEs can use it to identify risks that may arise as a result of personnel changes. Internal control and performance evaluation are also highly valued by management. Internal controls that are weak or nonexistent can have a negative impact on an NGO's financial performance, as stated in Oyedokun and Felejaye's Internal control system and financial performance of non-governmental organisations in Nigeria (2022).

Internal controls have been shown to have a significant effect on the financial performance of small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria, through regression analysis of the relationship between the control environment, risk assessment, control activities, information and communication, and monitoring.

## **CONCLUSION AND RECOMMENDATIONS**

This study's findings support and contradict those of previous theoretical and qualitative inquiries into the relationship between internal control methods and financial success. The study's findings suggest that SMEs in Nigeria's Kebbi State benefit significantly from implementing the study's identified internal control components (control environment, risk assessment, control actions, monitoring, information, and communication). Businesses, financial institutions, and possibly even regulatory bodies might all benefit from the findings. They may also be used as a springboard for similar research to be conducted in the North and elsewhere in the country.

The following are some suggestions that the study makes in light of these findings:

- (i) SMEs and other businesses or organisations about the importance of timely and routine financial audits for spotting any flaws in their financial performance and accounting practices.
- (ii) If the leadership of SMEs wants to improve the company's bottom line, they may need to institute some controls over internal processes and communications. These measures are in addition to the implementation of appropriate protocols for the safekeeping and sale of assets.
- (iii) Annually, the SME's management should assess the state of the financial reporting process and set up an internal auditing system to keep tabs on how well things are running.
- (iv) The findings of this study highlight the connection between internal control systems and financial performance, which in turn affects the success of organisations

### Reference

- Abubakar, A. S. & Yahaya, Z. A. (2013). Department, strengthening small and medium enterprises (SMEs) as a strategy for poverty reduction in Northwestern Nigeria. *American Journal of Humanities and Social Sciences*, 1(3), 189-201.
- Adegboyegun, A. E., Ben-Caleb, E., Ademola, A. O., Oladutire, E. O. & Sodeinde, G. M. (2020). Internal control systems and operating performance: Evidence from small and medium enterprises (SMEs) in Ondo state. *Asian Economic and Financial Review*, 10(4), 469-79.
- Aladejebi, O. A. (2017). Strategies for Improving Internal Control in Small and Medium Enterprises in Nigeria. Doctoral Study Submitted in Partial Fulfillment of the Requirements for the Degree of Doctor of Business Administration. Walden University ScholarWorks.
- Alawattagama, K. K. (2018). The Impact of Enterprise Risk Management on Firm Performance: Evidence from Sri Lankan Banking and Finance Industry. *International Journal of Business and Management*, 13(1), 225-237.
- Ayagre, P. (2015). The effectiveness of Internal Control Systems of banks/ : The case of Ghanaian banks. *International Journal of Accounting and Financial Reporting*, 4(2), 377-389.
- Ayozie, D. O. & Jacob, S. (2013). DUF & AVU, integrated editorial board (computer science, engineering, medical, management, natural science, social science) John. *Glob J Manag Bus Res*. 13(9).
- Banoura, O. (2008). The world bank. *Ann Trop Med Parasitol*, 102(1).
- Bett, J. & Memba, F. (2017). Effects of internal control on the financial performance of processing firms in Kenya: A Case of Menengai Company. *International Journal of Recent Research in Commerce Economics and Management*, 4(1), 105-115.
- Bubou, G. M., Siyanbola, W. O., Ekperiware, M. C. & Gumus, S. (2014). Science and technology entrepreneurship for economic development in Africa. *Int J Sci Eng Res.*, 5(3), 921-927.
- Fatihudin, D., Jusni & Mochklas, M. (2018). How measuring financial performance. *International Journal of Civil Engineering and Technology*, 9(6), 553-557.
- Gao, J. (2019). A research on the correlation between internal control quality and financial performance. *IOP Conf. Series: Materials Science and Engineering*, 688, 1-6.
- Howe, D. G., Bradford, Y. M., Conlin, T. (2013). ZFIN, the zebrafish model organism database: Increased support for mutants and transgenics. *Nucleic Acids Res.*, 41(D1), 854-860.
- Husaini, U. & Mohammed, U. D. (2018). The effect of internal control on performance of commercial banks in Nigeria. *Int J Manag Res Rev.*, 8(6), 13-32.
- Jahanshahi, A. A., Nawaser, K., Khaksar, S. M. S. & Kamalian, A. R. (2011). The relationship between government policy and the growth of entrepreneurship in the micro, small & medium enterprises of India. *J Technol Manag Innov.*, 6(1), 66-76.

- Mohammed, A. Y. (2017) The impact of internal control requirements on profitability of Palestinian shareholding companies Palestinian Banking Sector. The Islamic University–Gaza Research and Postgraduate Affairs Faculty of Commerce Master of Accounting & Finance.
- Monday, J. U., Inneh, G. E. & Ojo, V. O. (2014). Internal Controls and Operating Performance of Small Businesses in. *International Conference of Accounting, Finance Management*, 237-256.
- Moses, C., Akinbode, M. & Onochie, P. (2015). Strategies for financing small and medium enterprises in Nigeria: Concepts and issues. *Int J Bus Gen Manag.*, 4(5), 25-38.
- Oduyoye, O. O., Adebola, S. A. & Binuyo, A. O. (2013). Services of small and medium enterprises development agency of Nigeria (Smedan) and small business survival in Ogun State, Nigeria. *Singaporean Journal of Business Economics and Management Studies*, 1(1), 1-43.
- Oyedokun, G. E. & Felejaye, O. A. (2022). Internal control system and financial performance of non-governmental organisations in Nigeria. *Account and Financial Management Journal*, 7(8), 2861-2874.
- Shamsuddoha, A. K. & Ali, M. Y. (2006). Mediated effects of export promotion programs on firm export performance. *Asia Pacific J Mark Logist.*, 18(2), 93-110.
- Sijuade, K. (2019). Effects of multiple taxation on SMEs in Nigeria. A paper presented at Businessday Conference, Lagos, Nigeria.
- Siwangaza, L., Smit, Y., Bruwer, J. P. & Ukpere, W. I. (2014). The status of internal controls in fast moving small medium and micro consumer goods enterprises within the Cape Peninsula. *Mediterranean Journal of Social Science*, 5(10), 163-175.
- Yap, A K & Yap, S. T. (2018). COSO enterprise risk management: Small-medium enterprises evidence. *Asia-Pacific Management Accounting Journal*, 13(2), 83-111.
- Yusuf, E. (2017). The influence of entrepreneurship education, technology and globalisation on performance of SMEs in Nigeria. *African Journal of Business Management*, 11(15), 367-374.
- Yusufu, O. S. (2021). Financial management and performance of selected SMEs: A case of Kogi State, Nigeria. *International Journal of Business Studies*, 2(1), 22-26.