EFFECT OF INTERNAL CONTROL SYSTEM ON FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

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Abstract

This study examined the effect of internal control system on financial performance of manufacturing firms in Nigeria. The objectives of the study include to examine the effect of control environment on the financial performance of manufacturing firms in Nigeria, to determine the extent to which risk assessment affect the financial performance of manufacturing firms in Nigeria, to investigate the effect of control activities on the financial performance of manufacturing firms in Nigeria, to examine the extent to which Information and Communication affect financial performance of manufacturing firms in Nigeria and to determine the effect of monitoring on the financial performance of manufacturing firms in Nigeria. The study adopted a descriptive survey design. The target population for this study is the consumer goods manufacturing companies in Nigeria. A total number of 25 consumer goods manufacturing firms listed on Nigerian Exchange Group were selected for this study. The instrument to gather data for this study is questionnaires. The data collected via the questionnaire was analyzed with the use of the Statistical Package for the Social Sciences (SPSS). Frequency and percentage were used to describe the demographic information of the respondents and to analyze the items of the questionnaire, however, linear regression was used to test the formulated hypothesis. The findings of the study revealed that majority of the respondents rated control environment as highly effective in manufacturing firms, it also revealed that risk assessment is also very effective in the sampled manufacturing firms. Moreover, the result of the study still revealed that control activities, information and communication and monitoring are all effective in the sample manufacturing firms. The study concluded that internal control system have a significant effect on the financial performance of manufacturing firms in Nigeria. Based on the findings of the study, it was recommended that manufacturing firms must improve on its risk assessment by use of appropriate tools to identify fraud- related risks.

Key words: *Assets, Internal Audit, Internal Check, Compliance Test*

Introduction

How effectively a company can generate profits using the money on the market is reflected in its financial performance. Financial performance, as shown by consistent earnings growth, reveals a company's ability to profit from each of its business segments. In a competitive market, a company must decide how to achieve an ideal level of financial position, which includes defining the financial results of the company's policies and activities (Babalola, 2015). According to Siddikin (2017), financial performance is a gauge of an organization's profitability position and is calculated as the difference between the proceeds from the sale of an output and the total opportunity cost of the input that was used to create that output. Any organization's ability to sustain itself depends on how effectively and efficiently it uses its resources, both financial and non-financial. Consequently, management employs a range of controls, including internal control and internal audit, to name a few, in order to optimize the use of resources entrusted to all employees in an organization. According to Ouchi (2019), internal control must be able to achieve the goal of fostering cooperation among people in an organization who have different goals. Kirsch (2022) defined internal control as a set of mechanisms designed to motivate an individual or a group toward the achievement of a desired objective. Similar to how internal control is described in the International Standard on Auditing (ISA 400), internal control is "all policies and procedures adopted by the management of an entity to assist in achieving the primary objectives of the management by ensuring strict adherence to management policies, asset protection, prevention and detection of fraud, and timely preparation of reliable accounts.". Manyika (2016) emphasized that the manufacturing sector is crucial in developed economies like the United States of America and China because it is a crucial source of innovation and competitiveness, significantly boosting GDP, exports, and productivity growth. According to Tybout (2017), manufacturing enterprises in China account for 20% of global manufacturing output and 27% of the country's total national output. The financial success of manufacturing companies is crucial because they foster the development of the entrepreneurial sector. According to Landry (2018), manufacturing businesses play a significant role in the development of physical and human capital in developing nations like Ethiopia, Morocco, Malaysia, and Turkey. A strong manufacturing sector, in contrast to one that is overly dependent on primary commodities, is thought to benefit a nation's external account balances by reducing imports and diversifying exports, which increases resilience to external shocks. Furthermore, according to Handania (2017), manufacturing companies contribute significantly to the economic development of emerging nations by fostering strong and inclusive growth. Oyedokun, Tomomewo, and Owolabi (2019) noted that a significant number of manufacturing enterprises in Nigeria have stopped operating while bigger firms have merged with or acquired smaller ones. A few manufacturing companies that are still active in the Nigerian market are not operating at their best due to managerial inefficiencies, internal control breakdowns, fraud, and a poor corporate governance framework.

Statement of the problem

It is impossible to overstate the importance of an organization's internal control system. Even though the majority of businesses have internal control systems in place and have for a while, financial crimes remain a problem. The internal controls implemented by management in the majority of organizations have not been able to completely stop these fraudulent incidents, according to numerous researchers, because these controls have not significantly decreased the ongoing fraud and corruption committed by employees. The majority of the empirical studies on service-oriented organizations were conducted by Kinyua (2016), Kiabel (2017), Nyakundi, Nyamita, and Tinega (2018), Njeri (2018), Ejoh and Ejom (2019), and Etengu and Amony (2020). Eniola and Akinselure (2016) and Okharedia et al. (2022), among others, examined the relationship between internal control systems and financial performance in manufacturing enterprises, taking into account the entire manufacturing sector of the economy. The current study would, however, restrict the relationship between internal control systems and financial performance to only Nigerian consumer product manufacturing businesses. The majority of earlier empirical studies focused on one or two internal control system components; however, the current study will combine five different internal control system components, including control environment, risk assessment, control activities, information and communication, and monitoring, and look at how they affect financial performance.

Research Questions

i. How does the control environment affect the financial performance of Nigerian manufacturing firms?
ii. To what extent does risk assessment influence the financial performance of Nigerian manufacturing firms?

Objectives of the study

The general objectives of this study is to examine the effect of internal control system on financial performance of manufacturing firms in Nigeria. The specific objectives include to

i. Investigate the impact of the control environment on the financial performance of Nigerian manufacturing enterprises.
ii. Determine the extent to which risk assessment influences the financial performance of Nigerian manufacturing enterprises.

Research hypothesis:

H_{01}: Internal control systems have no meaningful effect on the financial performance of Nigerian manufacturing enterprises.

Significance of the Research

The findings of this study will be very valuable to manufacturing organizations since they will assist management in stating all of the variable (controlled and uncontrolled) variables that surround the proper regulation of financial activities. It will also enable them to recognize the benefits it could have on their organization's financial control. It is also developing as an effective instrument for assisting public bodies in ensuring a reasonably acceptable control system and accountability. This research will also help students and teachers implement effective learning in the classroom. These instructors and students are assured of a competitive advantage by knowing the demands of the students and the benefits of superior education. The study focused on information over a five-year period (2015-2020), giving the researcher ample time to collect appropriate data on how financial performance has been done in the selected manufacturing enterprises over the last five years. This study will provide insights into the effect of internal control systems on financial performance in consumer goods manufacturing firms. It will focus on five internal control system components: control activities, risk assessment, control environment, information and communication, and monitoring as they relate to financial performance in manufacturing firms.

Conceptual Evaluation

Internal Control Concept

Millichamp (2016) explained internal control is defined as a process that ensures an organization's goals in operational effectiveness and efficiency, trustworthy financial reporting, and compliance with laws, rules, and policies. Internal control is a wide notion that encompasses anything that regulates hazards to an organization.

It is a method of directing, monitoring, and measuring an organization's resources. It is critical in detecting and preventing fraud as well as preserving an organization's resources, both tangible (e.g., machinery and equipment) and intangible (e.g., reputation or intellectual property such as trademarks) (Oyetunji, 2016).

Internal control objectives at the organizational level are related to the dependability of financial reporting, timely feedback on the attainment of operational or strategic goals, and compliance with laws and regulations. Internal controls refer to the measures done to achieve a given goal (e.g., how to verify the organization's payments to third parties are for valid services performed). Internal control systems reduce process variability, resulting in more predictable results. Internal control is a crucial component of the Foreign Corrupt Practices Act (FCPA) of 1977 and the Sarbanes-Oxley Act of 2002, both of which demanded improvements in internal control in publicly traded companies in the United States.

Internal Control Classifications

Internal Control System is classified by the Institute of Chartered Accountants of England and Wales (ICAEW) into three major categories, which are as follows

i. Preventive controls: These are controls that anticipate future problems and make adjustments before they arise. They also keep mistakes, omissions, and malevolent acts from happening. Preventive controls involve using well-designed documents to prevent errors and setting appropriate procedures for transaction authorization.
ii. Detective controls are intended to detect and report the occurrence of an omission, error, or malicious act. Duplicate calculation checking, periodic performance reporting with variance error message over tape labels, and hash totals counter cheques post-due account reports are examples of investigative controls.
iii. Corrective controls: These controls aid in reducing the impact of a threat, identifying the source of an issue, and correcting errors caused by the problem. They also rectify errors detected by detective controls and adjust the processing system (s) to reduce the likelihood of the problem recurring in the future. Contingency planning, backup procedures, and rerun procedures are examples of corrective controls.

Internal Control System Elements

Certain characteristics are shared by all internal control systems: checklists, principles or rules, and the concept of internal control. Awe (2015) discusses the following characteristics of internal control:

1. Supervision: Any internal control system should involve the supervision of day-to-day transactions and recordkeeping by competent officials. Thus, managers and directors must ensure that employees work under their supervision and that workers are held accountable for their activities in an effective and efficient manner.

2. Physical safeguards: These are primarily concerned with asset custody and include procedures and security measures meant to limit asset access to authorized persons. Thus, management should ensure that the organization's assets, such as computers and their accessories, automobiles, and so on, are protected from theft, abuse, and accident.

3. Management control and management information system: These are forms of management control that are exercised outside of the day-to-day operations of business systems. This involves management's overall supervisory supervision. Thus, management must ensure that information systems are acquired to ensure that work and operations operate smoothly and effectively.

4. Duties Segregation: A person should not be responsible for recording and processing a whole transaction. The separation of roles decreases the danger of purposeful manipulation or errors while increasing the aspect of inspection. Separate functions include authorisation, execution, possession, and recording in the case of 20 computer-based accounting systems, as well as system development and daily operations. To prevent fraud and error, managers should guarantee that employees' roles are shared for more than one individual in a single task.

5. Authorizations and Approval: Every transaction should be authorized or approved by a responsible person or authority. To maintain credibility and validity, managers and directors should ensure that all cheques and other critical papers are authorized and approved by them.

Financial performance

Financial performance is a subjective assessment of how successfully a company can utilise assets from its principal method of operation to generate income (Mills, 2018). This word is also used as a broad measure of a firm's overall financial well-being during a certain time period, and it can be used to compare similar enterprises in the same industry or to compare industries in aggregate. Employees can raise the value of a firm by increasing the magnitude of its future cash flows, hastening their receipt, or making them less hazardous, according to the performance assessment concept (Carreta & Farina, 2010). Wairegi (2011) contends that financial indicators based on accounting information are insufficient to establish shareholder value. The financial performance of a manufacturing organization is directly affected by its market position. Smith (2009) contends that both can have a one-time impact on a company's profitability. If a greater turnover indicates that the company's assets are being used more effectively, a bigger profit margin indicates that the business has significant market power.

Financial Performance Metrics

Increase in Sales

Sales growth is defined as the annual change in sales. According to Sitorus (2020), sales growth is defined as an increase in the number of sales from year to year or from time to time. Sales growth is a sign of an industry's demand and competitiveness. When sales increase rapidly, income increases, and dividend payouts tend to rise. Companies that have raised their profitability have more retained earnings. An rise in firm profits increases the amount of retained earnings that is available for investment. In a corporation, sales are relatively stable and always expand, making it easier to secure external capital or debt flows to improve its operations. enterprises with relatively constant sales can receive more loans and suffer higher fixed expenses than enterprises with volatile sales (Rakasiwi, Pranaditya, & Andini, 2017).

Cash Flow

The word cash flow refers to the net amount of cash and cash equivalents moving into and out of a business. Cash received indicates inflows, while money spent represents outflows. The ability of a corporation to produce value for its shareholders is basically defined by its ability to generate positive cash flows or, more specifically, to optimize long-term free cash flow (CFC). FCF is the cash generated by a corporation from its normal business activities after deducting any money spent on capital expenditures.

Net profit Margin

The net profit margin is the percentage of revenue that remains after deducting all expenses from sales. The assessment displays how much profit a company can make from its overall sales. The net profit margin is supposed to be a measure of a company's overall success. A high net profit margin implies that a company is effectively pricing its products and performing good cost control. It is beneficial for comparing the outcomes of organizations in the same industry because they are all subject to the same business environment and client base and may have similar cost structures.

ROI (Return on Investment)

Return on investment (ROI) is a performance metric that is used to assess the efficiency or profitability of an investment or to compare the efficiency of several projects. ROI attempts to directly assess the amount of return on a certain investment in relation to the cost of the investment. The benefit (or return) of an investment is divided by the cost of the investment to compute ROI. The outcome is given as a percentage or a ratio.

Theoretical Review

Stewardship Theory

Stewardship theory derives from psychology and sociology, and it is characterized by Davis, Schoorman, and Donaldson (1997) as "a steward protects and maximizes shareholders' wealth through firm performance, because doing so maximizes the steward's utility functions." Unlike agency theory, stewardship theory emphasizes the role of senior management as stewards, integrating their aims as part of the company rather from the perspective of individuality (Donaldson & Davis, 1991). According to the stewardship concept, when an organization achieves success, stewards are satisfied and driven. Argyris (1973) contends that while agency theory views an employee or people as economic beings, suppressing an individual's own aspirations, Donaldson and Davis (1991) contend that stewardship theory recognizes the importance of structures that empower the steward and offer maximum autonomy built on trust. It emphasizes the position of employees or executives to operate more autonomously in order to maximize shareholder returns.

Empirical Evidence

Tsedal (2015) investigated the level of internal auditing in Ethiopian public universities in Addis Abeba. He used an unstructured questionnaire to collect data. He analyzed data using ordinary least square regression. The findings of his investigation revealed that there is no clear line of duty in universities. This researcher's findings are not explicit. The findings did not reveal whether the lack of a clear chain of accountability in universities was caused by a lack of an internal control system or a weakness in the controls.

Ironkwe and Promise (2015) conducted a study on the impact of internal controls on financial performance in Nigerian manufacturing firms. To collect data, they used a questionnaire and an interview. Panel regression was used to evaluate the given data. Their findings demonstrated that there is no substantial relationship between an organization's internal control system and the use of its finances and assets. Furthermore, their findings demonstrated that there is no link between insufficient controls and fraud perpetration in companies throughout the country. Their findings contradict our findings. According to our findings, internal control systems prevent and identify fraud. Amanj and Akram (2016) examined the effects of internal control systems on financial performance in Australian telecommunications companies in 2016. They used a survey questionnaire to collect data. They used percentages to assess their data. They discovered that the control served the function for which it was intended in the companies. Their findings also found that not all organizations in the country placed a high importance on internal control systems. The first finding of their study aligned with ours in that internal control systems improved financial performance in manufacturing enterprises. The researchers did not warn readers about the dangers of not valuing internal controls in a business, which is why these findings are concerning.

Conceptual structure

A conceptual framework is a theoretical structure of assumptions, principles, and rules that keeps the concepts that comprise a wide notion together (Huberman, 2018). It is a collection of broad concepts and principles drawn from relevant fields of study that are utilized to frame a subsequent presentation. The linking of independent and dependent variables completes the framework for specific predicted outcomes.

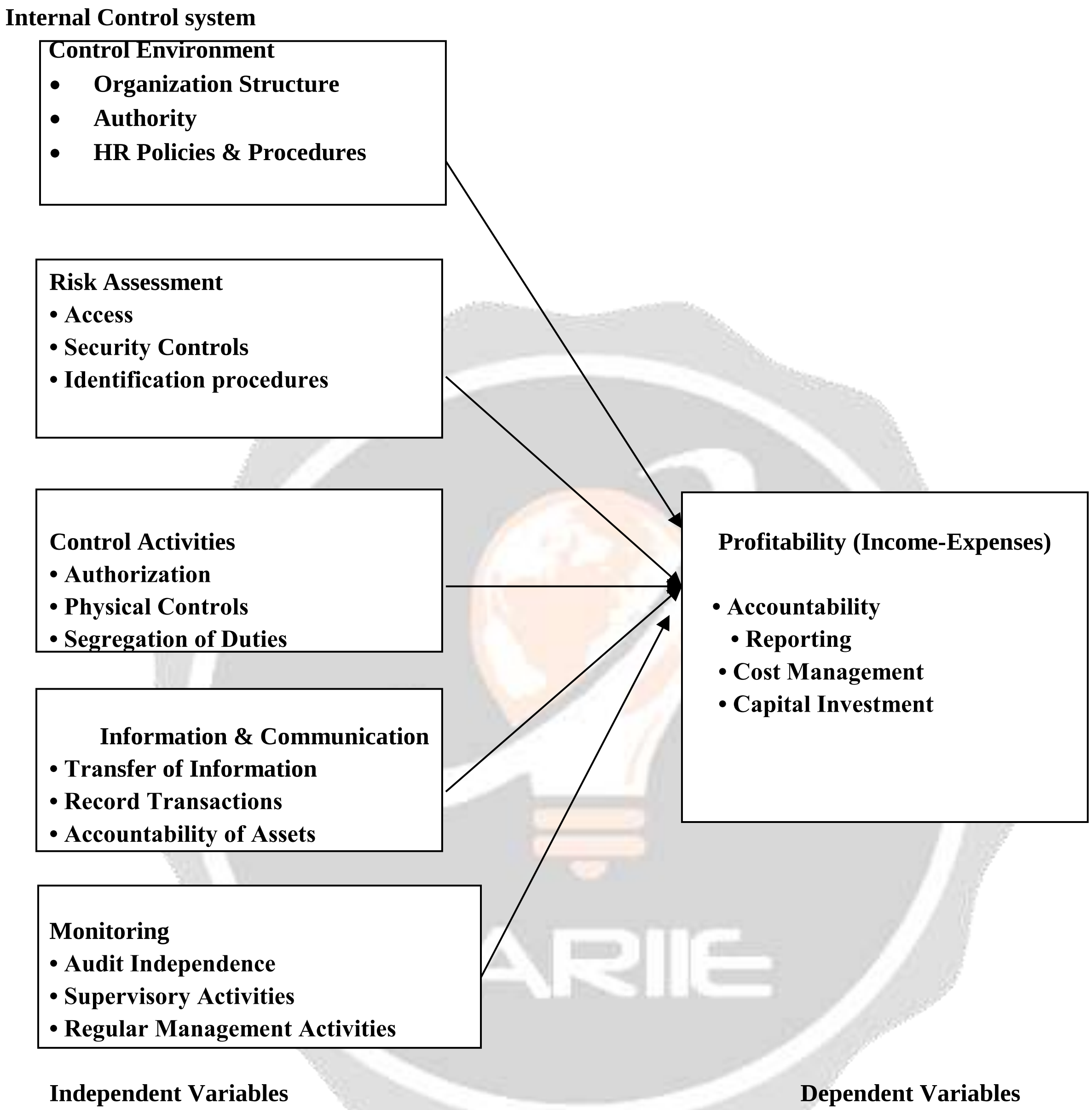

Figure 2.1 Conceptual Framework
Source: Author's idea (2023)

Methodology

Research Design

A descriptive survey design was used in this investigation. According to Churchill (2011), descriptive survey design is ideal for attempting to define the characteristics of specific groups, estimate the number of persons who have certain traits, and make predictions. The study aimed to collect data from consumer goods manufacturing companies at a single point in time and analyze the effects of internal control systems on the financial performance of Nigerian consumer goods manufacturing enterprises.

Population of the Study

The consumer goods manufacturing companies in Nigeria are the study's target population. As of November 2019, Nigeria had 161 listed companies, with 8 domestic companies on the premium board, 144 on the mainboard, and 9 on the Alternative Securities Market (ASeM) board (Nigerian Exchange Group, Fact book, 2019).

Research Sample

Because it is almost difficult to investigate all of Nigeria's manufacturing enterprises. For this study, 25 consumer products manufacturing firms listed on the Nigerian Exchange Group were chosen. However, 100 responders were chosen from among the 25 manufacturing enterprises, with four chosen from each.

Sampling Method

A intentional sampling strategy will be used to choose the 25 manufacturing enterprises and four respondents from each of the selected firms. Because of the following reasons, this procedure was deemed appropriate: It requires selecting a sample from the population that possesses the features of the researcher's interest. This method was also utilized since it is a quick and inexpensive way of collecting data if the units of analysis are in places accessible to the researcher, as was the situation in this study. Furthermore, the method is quite simple to implement because there are few rules to follow when selecting a sample. Finally, additional studies have widely employed this strategy.

Data Requirement and Sources

Primary data is required for this project. The researcher cannot easily access secondary data to gauge internal control components used in the study, hence primary data was used.

Data Collection Instrument

Questionnaires will be used to collect data for this project. A questionnaire is a pre-written collection of questions to which respondents record their responses, usually within narrowly defined options. A five-point Likert scale will be utilized.

Validity of the Instrument

The degree to which a study accurately reflects or accesses the precise concepts that the researcher is aiming to measure is referred to as validity. It refers to the surveys' ability to measure the desired constructs (Raaijmakers, 1999). To reduce the possibility of bias from the study, a systematic questionnaire consisting primarily of closed-ended questions was carefully designed for the investigation.

Reliability Evaluation

To test the instrument's reliability, 40 copies were administered to respondents from construction companies outside the study's demographic. Their replies to the instrument will be assessed, and the data obtained will be subjected to a reliability test based on Cronbach's Alpha.

Data Presentation and Analysis Method

The data gathered through the questionnaire was analyzed using the Statistical Package for the Social Sciences (SPSS). Frequency and percentage were employed to characterize the respondents' demographic information and to assess the questionnaire items, but linear regression was utilized to test the formulated hypothesis.

The following multiple linear regression model was used to examine the relationship between the dependent variable (Y) and the independent variable (X):

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

Y = Financial Performance

x1 = Control environment

x2 = Risk assessment

x3 = Control Activities

x4 = Information and Communication

x5 = Monitoring

α = Constant

ε = Error term

Results and Discussion

The findings of data analysis are presented in this chapter. In the data analysis, responses from 92 respondents from the selected consumer products manufacturing enterprises (representing a 92% response rate) were used. The chapter gives findings on the effects of internal control systems on the financial performance of Nigerian consumer goods manufacturing enterprises. The data was acquired from the finance department's workforce, which included financial accountants, management accountants, internal auditors, and managers.

Table 4.1
Demographic Information of the Respondents

S/N	Demographic	Variable	Frequency	Percentage	Cumm percentage
1	**Gender**				
		Male	47	51.1%	51.1%
		Female	45	48.9%	100.0%
2.	**Marital Status**				
		Single	41	44.6%	44.6%
		Married	51	55.4%	100.0%
3.	**Age**				
		18-25 years	19	20.7%	20.7%
		26-35 years	23	25.0%	45.7%
		36-45 years	25	27.2%	72.9%
		46-55 years	17	18.5%	91.4%
		Above 55 years	8	8.6%	100.0%
4.	**Educational Qualification**				
		OND/HND	22	23.9%	23.9%
		BSc	27	29.3%	53.2%
		MSc/MBA	25	27.2%	80.4%
		Professional Qualification	18	19.6%	100.0%
5.	**Duration in the org.**				
		Less than 2 years	10	10.9%	10.9%
		2 – 5 years	37	40.2%	51.1%
		5 – 10years	27	29.3%	80.4%
		10 – 15years	18	19.6%	100.0%

Table 4.1 above shows that 47 (51.1%) of the respondents are male, while 45 (48.9%) of them are female. This analysis indicates that there are more male respondents than female. The table also shows that 41 (44.6%) of the respondents are single while 51 (55.4%) of them are married. The table also shows that 19 (20.7%) of the respondents are within the age range 18-25 years, 23 (25.0%) are within the age range 26-35 years, 25 (27.2%) are within the age range 36-45 years, 17 (18.5%) are within the age range 46-55 years, while 8 (8.6%) are above 55 years. This analysis indicates that majority of the respondents are within their productive age. Table 4.1 also revealed that 22 (23.9%) of the respondents are OND/HND certificate holder, 27 (29.3%) are B.Sc certificate holder, 25 (27.2%) are M.Sc/MBA certificate holder, while 18 (19.6%) have professional qualifications. This analysis indicates that the respondents are well educated. Lastly, table 4.1 shows that 10 (10.9%) of the respondents have spent less than two years in their firms, 37 (40.2%) of them have spent 2-5 years in their organization, 27 (29.3%) of them have spent 5-10 years in their organization while 18 (19.6%) of them have spent 10-15 years in their organizations. This analysis indicates that a good number of the respondents have acquired a considerable work experience.

Research Question One: What is the effect of control environment on the financial performance of manufacturing firms in Nigeria?
In order to answer this research question, two approaches were adopted. In the first instance, respondents' responses to 5 items measuring the control environment were scored such that a Agree response was allotted 5, Strongly Agree response 4, undecided response 3, Disagree response as 2 and Strongly Disagree Response 1. These responses were then subjected to a descriptive analysis of frequency and percentage. The result is presented in 4.2 below.

Table 4.2. The effect of control environment on financial performance

S/N	Statement	**A**		**SA**		**U**		**D**		**SD**	
		F	%	F	%	F	%	F	%	F	%
1	Corrective action is taken to address weaknesses	33	35.9%	25	27.2%	34	37.0%	-	-	-	-
2	Our organization has a well-	47	51.1%	33	35.9%	8	8.7%	4	4.3%	_	_

	developed Chart of Accounts										
3	It is impossible for one staff to have access to all information without the consent of senior staff	47	51.1%	43	46.7%	1	1.1%	1	1.1%	_	_
4	Controls are in place to exclude incurring expenditure in excess allocated funds	36	39.1%	45	48.9%	3	3.3%	7	7.6%	1	1.1%
5	Departments have budget reviews where actual expenditure is compared with budgeted expenditure and explanations for the variances given	31	33.7%	50	54.3%	3	3.3%	5	5.4%	3	3.3%

Source: Field Survey, 2023

Thereafter, in order to determine the effect of control environment on financial performance, their responses to the 5 items were scored and cumulated. The minimum and maximum responses obtainable were 12 and 48. High scores on this scale represent high effective and vice versa. Scores of 12 through 24 on this scale were adjudged as little effective, scores of 25-36 as effective while scores of 37 through 48 were adjudged as highly effective. The summary of this result is presented in Table 4.3.

Table 4.3: effect of control environments on financial performance

Level of effect	Score-Range	Frequency (f)	Percentage (%)
Not effective	12-24	-	-
Effective	25-36	42	45.6%
Highly effective	37-48	50	54.4%
Total		92	100.0%

Source: Field survey, 2023

Result in Table 4.3 shows that out of the 92 (100.0%) respondents that participated in this study, 42 (45.6%) rated control environment effective in manufacturing firms while 50(54.4%) rated control environment as highly effective in manufacturing firms. As shown in the result, the majority of the respondents rated control environment as highly effective in manufacturing firms.

Research Question Two: To what extent does risk assessment affect the financial performance of manufacturing firms in Nigeria?

Table 4.4

Effect of Risk assessment

S/N	STATEMENT	A	%	SA	%	U	%	D	%	SD	%
1	Management has defined appropriate objectives	34	37.0%	30	32.6%	11	12.0%	8	8.7%	9	9.8%
2	Management identifies risks that affect objectives	50	54.3%	34	42.4%	2	2.2%	-	-	1	1.1%
3	Management has a criteria for ascertainment of which fraud-related risks to the organization are most critical	37	40.2%	47	51.1%	3	3.3%	3	3.3%	2	2.2%
4	Management has put in place mechanisms for mitigation of critical risks that may result from fraud	41	44.6%	45	48.9%	2	2.2%	3	3.3%	1	1.1%
5	There are structures to eliminate potential threat	30	32.6%	53	57.6%	2	2.2%	3	3.3%	4	4.3%

Source: field survey, 2023

Table 4.4 above shows that 34 (37.0%) of the respondents agreed that management has defined appropriate objectives in their organiozations, 30 (32.6%) strongly agreed with the statement, 11 (12.0%) were undecided, 8 (8.7%) disagreed with the statement while 9 (9.8%) strongly disagreed with the statement. This analysis indicates that management has defined appropriate objectives in the respondents' organizations. Item 2 on table 4.4 shows that 50 (54.3%) of the respondents agreed that management identifies risks that affect objectives, 34 (42.4%) strongly agreed with the statement, 2 (2.2%) were undecided while 1 (1.1%) strongly disagreed with the statement, it can be concluded from the analysis that management identifies risks that affect organization objectives. Item 3 on table 4.4 shows that 37 (40.2%) agreed that management has a criteria for ascertainment of which fraud-related risks to the organization are most critical, 47 (51.1%) strongly agreed with the statement, 3 (3.3%) were undecided, 3 (3.3%) disagreed with the statement while 2 (2.2%) of them strongly disagreed with the statement, this analysis indicates that management of the respondents' organization has a criteria for ascertainment of which fraud-related risks to the organization are most critical. Item 4 on table 4.4 shows that 41 (44.6%) of the respondents agreed that management has put in place mechanisms for mitigation of critical risks that may result from fraud, 45 (48.9%) strongly agreed with the statement, 2 (2.2%) were undecided, 3 (3.3%) of them disagreed with the statement while 1 (1.1%) strongly disagreed with the statement, this analysis indicates that management of the respondents' firms has put in place mechanisms for mitigation of critical risks that may result from fraud. Item 5 on table 4.4 shows that 30 (32.6%) of the respondents agreed that there are structures to eliminate potential threat, 53 (57.6%) strongly agreed with the assertion, 2 (2.2%) were undecided, 3 (3.3%) of the respondents disagreed with the assertion while 4 (4.3%) of them strongly disagreed with the assertion, it can be concluded from the analysis that as there are structures to eliminate potential threat facilitate prediction of financial milestones by the organization.

Test of Hypothesis

Table 4.5

Regression Analysis Result

Dependent Variable: Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.437330	0.170176	-2.569862	0.0107
CE	0.071143	0.083038	0.856752	0.3923
RA	0.102269	0.081768	1.250725	0.2121
CA	0.342578	0.068994	4.965348	0.0000
INFCOM	0.222287	0.076864	2.891954	0.0041
MON	0.333583	0.062163	5.366235	0.0000
R-squared	0.829219			
Adjusted R-squared	0.826159			
F-statistic	270.9346			
Prob(F-statistic) 0.000000				

Source: Authors' Computation, (2023)

The data in Table 4.5 suggests that Control Environment has a favorable influence on financial performance, while it is statistically insignificant because P-value of 0.3923, is more than the 0.05 significance level. Risk Assessment also has a favorable influence on financial performance and also statistically, not significant. The P-value is 0.2121 and more than 0.05 significance level. The influence of control activities on financial performance is significant and positive; a lower than 0.05 percent P-value of 0.0000. The positive result of information and communication on financial performance is statistically significant. The P-value is 0.0041 and is lesser than the 0.05 significance level. Monitoring has a statistically significant favorable impact on financial performance, the P-value is 0.0000 and is lower than 0.05 significance level. The coefficient of determinant R-squared (R2) is 0.829219, implying that the independent variables can explain 82.92 percent of changes in financial performance (dependent variable). Because the P-value is 0.000000 and is lesser than 0.05 significant level at a 95 percent confidence interval for accepting the null hypothesis of the model not being a good fit, the F-statistic (270.9346) indicates that the regression model is a good match.

Conclusion and Recommendations

Conclusion

This study examined the effect of internal control system on financial performance of manufacturing firms in Nigeria. The objectives of the study include to examine the effect of control environment on the financial performance of manufacturing firms in Nigeria, to determine the extent to which risk assessment affect the financial performance of manufacturing firms in Nigeria, to investigate the effect of control activities on the financial performance of manufacturing firms in Nigeria, to examine the extent to which Information and Communication affect financial performance of manufacturing firms in Nigeria and to determine the effect of monitoring on the financial performance of manufacturing firms in Nigeria. The study adopted a descriptive survey design. The target population for this study is the consumer goods manufacturing companies in Nigeria. A total number of 25 consumer goods manufacturing firms listed on Nigerian Exchange Group were selected for this study. However, 100 respondents were selected from the selected 25 manufacturing firms, picking 4 from each of the selected firms. The instrument to gather data for this study is questionnaires. The data collected via the questionnaire was analyzed with the use of the Statistical Package for the Social Sciences (SPSS). Frequency and percentage were used to describe the demographic information of the respondents and to analyze the items of the questionnaire, however, linear regression was used to test the formulated hypothesis. The findings of the study revealed that majority of the respondents rated control environment as highly effective in manufacturing firms, it also revealed that risk assessment is also very effective in the sampled manufacturing firms. Moreover, the result of the study still revealed that control activities, information and communication and monitoring are all effective in the sample manufacturing firms.

Based on the findings of this study, the research established that control environment has a positive link with financial performance, but it was statistically insignificant. Risk assessment has a positive relationship, and the relationship was statistically insignificant, control activities have a statistically significant positive relationship. Information and communication have a positive and statistically significant relationship and monitoring equally; has a positive and statistically significant connection. Hence, the study conclude that internal control system have a significant effect on the financial performance of manufacturing firms in Nigeria.

Recommendations

Following the research findings, the following recommendations will improve the existing internal control system in manufacturing firms.

i. Manufacturing firms must recognize that the presence of internal control system will not suffice to attain an effective internal control system, it must be functioning as well.
ii. Continuous risk assessments are fundamental to financial performance so, manufacturing firms must improve on its risk assessment by use of appropriate tools to identify fraud- related risks.
iii. In control activities, adequate segregation of duties checks errors and fraudulent tendencies and thus; enhances checks and balances. Take corrective measures against deviation to alter weak internal control measures.
iv. Manufacturing firms must measure the effectiveness of their internal control system against operational efficiency and also, with set goals or objectives.

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