

**INTERNAL CONTROL SYSTEM AND FINANCIAL
PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA**

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**A PROJECT SUBMITTED TO THE DEPARTMENT OF ACCOUNTING,
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FACULTY OF MANAGEMENT SCIENCE**

UNIVERSITY OF BENIN

**SUPERVISED BY
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OCTOBER, 2025

DECLARATION

I, OSABANUMONU CHINWENDU KELLY, MGS2206775, hereby declare that this project titled: INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA

Is my original work and has not been previously submitted in whole or in part for the award of any degree or diploma in UNIVERSITY OF BENIN.

All sources of information used in the course of this research have been duly acknowledged in the references.

OSABANUMONU CHINWENDU KELLY

CERTIFICATION

This is to certify that the research project titled “INTERNAL CONTROL SYSTEM AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS IN NIGERIA ”was carried out by OSABANUMONU CHINWENDU KELLY with matriculation number MGS2206775 in partial fulfillment of the requirements for the award of Bachelor of Science (B.Sc.) degree in Accounting at the UNIVERSITY OF BENIN, MANAGEMENT SCIENCE , Department of Accounting.

This work is original and has not been submitted in part or whole for any other degree or diploma in UNIVERSITY OF BENIN or any other institution.

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Date:

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(Head of Department)

Date:

DEDICATION

This project is dedicated to God Almighty for His infinite mercy, grace, and strength throughout the course of this research work.

I also dedicate this work to my beloved parents for their unwavering support, encouragement, and prayers.

Special dedication goes to my supervisor for their guidance, support, and constructive criticism, which greatly contributed to the success of this work.

Finally, I dedicate this project to all students and scholars who strive for academic excellence against all odds.

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ABSTRACT

This study examines the impact of internal control systems on the financial performance of manufacturing firms in Nigeria. With the increasing complexity of business operations and the prevalence of financial irregularities, internal control mechanisms have become essential tools for enhancing accountability, operational efficiency, and corporate governance.

The research adopted a survey design using primary data collected through structured questionnaires administered to selected manufacturing firms. Data were analyzed using descriptive and inferential statistics to determine the relationship between internal control components such as control environment, risk assessment, control activities, monitoring, and information & communication and financial performance indicators. Findings revealed that there is a significant positive relationship between effective internal control systems and the financial performance of manufacturing firms. Firms with well-structured control systems tend to exhibit better financial outcomes, reduced fraud risks, and improved resource utilization. The study concludes that robust internal control systems play a crucial role in enhancing financial performance. It recommends that manufacturing firms invest in strengthening their internal control frameworks to ensure sustainable financial growth and compliance with regulatory standards.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial performance refers to the degree to which a firm achieves its financial objectives and efficiently uses its resources to generate revenue, profits, and shareholder value. It is a vital indicator of an organisation's economic health and sustainability. Common measures of financial performance include profitability, return on assets (ROA), return on equity (ROE), net profit margin, and operational efficiency (Erasmus & Coetzee, 2018).

Financial performance is a critical indicator of the success, sustainability, and competitiveness of any business organisation. It reflects the degree to which a firm achieves its financial objectives and effectively manages its assets and liabilities to generate profit (Erasmus & Coetzee, 2018). For manufacturing firms in Nigeria, strong financial performance is essential not only for operational continuity but also for attracting investment, gaining market share, and contributing to economic development (Uadiale, 2010; Olayinka & Osotimehin, 2017).

However, achieving and maintaining good financial performance is increasingly challenging in Nigeria's volatile business environment. Factors such as inflation, exchange rate instability, poor infrastructure, and inconsistent government policies often affect the profitability and efficiency of firms (Adeniyi, 2013; Okafor & Olayinka, 2021). In light of these challenges, firms must put in place effective internal systems to safeguard assets, prevent fraud, ensure accurate financial reporting, and promote operational efficiency all of which contribute to improved financial outcomes (Amudo & Inanga, 2009; COSO, 2013).

Internal control is a fundamental component of sound organizational management and governance. It refers to the systems, rules, and procedures implemented by an organization's management to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud (AICPA, 2013). Internal controls are designed to provide reasonable assurance that an organization achieves its operational, financial reporting, and compliance objectives (COSO, 2013). These controls encompass a wide range of activities, such as approvals, authorizations, verifications, reconciliations, segregation of duties, and reviews of operating performance (Hayes et al., 2014). A

well-functioning internal control system is structured around four key components as identified by the Committee of Sponsoring Organizations of the Treadway Commission (COSO): control environment, Risk assessment and control activities, monitoring.

These components work together to create a framework that helps organizations achieve their goals while minimizing the risk of errors or fraudulent activities (COSO,2013).

In the context of manufacturing firms, internal control plays a crucial role in ensuring efficiency in production processes, safeguarding inventory and equipment, maintaining accurate financial records, and ensuring compliance with applicable laws and regulations (Amudo & Inanga, 2009). Given the complexity of operations in manufacturing ranging from procurement of raw materials to production and sales robust internal controls are vital to ensure that resources are used optimally and financial performance is not compromised (COSO,2013).

However, many manufacturing firms, particularly in developing countries like Nigeria, struggle with implementing effective internal control systems(Olaoye & Ogundipe,2018). Common challenges include weak regulatory compliance, poor documentation, insufficient employee training, and lack of adequate technology to support automated

controls (Adeniyi,2011). These deficiencies expose firms to risks such as asset misappropriation, operational inefficiencies, and financial misstatements, all of which negatively impact their financial performance (Akintoye,2020).

The Nigerian manufacturing sector operates in a highly volatile economic environment characterized by inconsistent policies, inflation, infrastructural inadequacies, and fluctuating exchange rates (Akinwale&et al.). These factors make it imperative for firms to establish sound internal control systems as a survival strategy. Effective controls help firms manage risk, reduce waste, detect irregularities early, and foster transparency ultimately leading to improved financial health (Olaoye & Ogundipe,2018). In today's complex and highly competitive business environment, the ability of organizations to achieve and sustain financial performance is largely influenced by the soundness of their internal operations and control mechanisms(Amudo & Inanga, 2009). This is particularly true in the manufacturing sector, where production processes are multifaceted, inventory systems are extensive, and financial transactions occur at a high frequency(Okpala,2022). The manufacturing industry plays a pivotal role in the economic development of any country due to its capacity to create employment, stimulate industrial innovation, and

contribute significantly to Gross Domestic Product (GDP) (National Bureau of statistics, 2021). In Nigeria, manufacturing firms face significant operational and financial challenges, including high production costs, inadequate infrastructure, and regulatory inefficiencies. Amid these challenges, ensuring transparency, accountability, and operational efficiency through effective internal control systems becomes essential(Oladipupo & Okafor, 2013). Manufacturing firms in Nigeria have experienced a multitude of challenges in recent decades, including economic downturns, foreign exchange instability, inflationary pressures, infrastructural deficits, corruption, and weak regulatory enforcement(Adewale & Akanbi,2017). These challenges have put pressure on firms' profitability and sustainability. Against this backdrop, internal control systems assume a more prominent role in ensuring that scarce resources are effectively utilized, operational risks are mitigated, fraud is minimized, and financial statements reflect true and fair positions(Ikpefan & Agbontaen,2020). However, despite the implementation of various internal control policies and the existence of regulatory guidelines such as the Companies and Allied Matters Act (CAMA), Nigerian firm ,especially those in the manufacturing sector continue to grapple with financial irregularities, misappropriation of

funds, and declining profitability(Okezie & Akenbor,2015). This raises concerns about the effectiveness and actual impact of internal controls on financial performance in the Nigerian manufacturing industry.

The importance of this topic in the real world lies in the growing demand for financial transparency and operational accountability. Investors, stakeholders, regulatory bodies, and the general public are increasingly concerned about how organizations manage their internal processes to protect stakeholder interests and improve financial results(Adeyemi & Fagbemi,2010). In the manufacturing industry, where decisions often involve high capital expenditure, resource allocation, and risk exposure, weak internal controls can lead to costly inefficiencies, fraud, and poor decision-making ultimately undermining financial performance(Olaoye & Ogundipe,2015).

Yet, despite its importance, there is still limited empirical research in Nigeria that links the presence or strength of internal control systems directly to financial performance metrics. This gap presents a challenge for both practitioners and policymakers, as decisions are often made based on assumptions rather than data-driven insights(Okafor & Olayinka,2018).

This study specifically focuses on the internal control system (independent variable) and its influence on the financial performance (dependent variable) of manufacturing firms in Nigeria. Internal controls are operational and managerial mechanisms instituted to govern organizational behavior(Adeniyi,2013), while financial performance refers to the overall financial health of a firm, measured through metrics such as profit margins, return on assets (ROA), return on equity (ROE), and operational efficiency(Olayinka & Osotimehin,2017). By exploring the relationship between these variables, this research seeks to understand whether internal control systems truly contribute to improving the financial standing of manufacturing firms.Although existing literature acknowledges the theoretical importance of internal control systems, there is a noticeable gap in empirical studies particularly those using primary data that assess how these controls are implemented in Nigerian manufacturing firms and whether they meaningfully influence financial results(Okafor & Olayinka,2021). Most prior research relies on secondary data or focuses on banks and service-oriented industries, leaving the manufacturing sector relatively underexplored. This study, therefore, fills a crucial gap by focusing on manufacturing firms and gathering first-hand data from professionals within those

organizations to provide practical insights into how internal controls affect financial performance(Olatunji,2009).

1.2 Statement of the Research Problem

The manufacturing sector plays a vital role in Nigeria's economic development by contributing significantly to employment, GDP, and industrial growth(Adebayo,2016).

However, the performance of many manufacturing firms in Nigeria has remained below expectations due to a combination of internal and external factors. One of the most pressing internal challenges faced by these firms is the lack of a sound and effective internal control system(Amudo & Inanga,2009).

Internal control systems are expected to serve as a framework for ensuring accountability, safeguarding company assets, preventing fraud, and promoting reliable financial reporting(COSO,2013). Unfortunately, in practice, many Nigerian manufacturing firms still experience cases of financial irregularities, resource mismanagement, and sometimes outright fraud(Olatunji,2009). These challenges raise questions about how effectively internal control measures are being implemented and monitored in the sector.

Moreover, while internal controls are widely recognized as important, there appears to be

a gap in empirical studies that directly link the strength of these systems to the financial outcomes of manufacturing firms in Nigeria(Ogundana et al. ,2017). Without such evidence, it becomes difficult for business managers, auditors, and regulators to design effective control frameworks that directly contribute to financial performance.

This study therefore seeks to investigate whether there is a significant relationship between internal control systems and financial performance in Nigerian manufacturing firms. By doing so, the research aims to provide insights that can help address the financial challenges many of these companies face.Despite the recognized importance of internal controls, several manufacturing firms in Nigeria continue to experience issues such as misappropriation of funds, loss of inventory, inaccurate financial records, and poor operational performance(Ibrahim et Al.,2020). These problems are often attributed to weak or ineffective internal control systems.

Furthermore, there appears to be a gap in understanding the specific components of internalcontrols that directly affect financial performance. While some firms have internal control policies in place, the extent to which these controls are implemented and their effectiveness in driving financial results remains questionable(Erasmus & Coetzee,2018).

Another problem is the limited research focus on the specific relationship between internal control systems and financial performance in Nigerian manufacturing firms. While internal controls are widely studied in financial institutions and public sector entities, their role in manufacturing has not received adequate scholarly attention, particularly in the Nigerian context where challenges like corruption, weak institutional frameworks, and lack of skilled personnel can affect control effectiveness(Oboh & Ajibolade,2017).

Therefore, this study seeks to critically examine whether internal control systems have a direct or indirect impact on the financial performance of manufacturing firms in Nigeria. It will explore issues like the design and implementation of controls, staff compliance, monitoring processes, and their correlation with measurable financial outcomes such as profitability, return on assets, and revenue growth. The ultimate goal is to identify gaps and propose practical solutions for enhancing internal control systems to boost financial health and sustainability in Nigeria's manufacturing industry(Adebayo,2016).

Following from the statement of the research problem above, the following research question are raised:

1. How does the control environment affect the financial performance of manufacturing firms in Nigeria?
2. What is the role of risk assessment practices in enhancing the financial performance of manufacturing firms?
3. To what extent do control activities influence the financial performance of manufacturing firms in Nigeria?
4. How does monitoring contribute to the financial performance of manufacturing companies?

1.3 Objectives of the Study

The main objective of this study is to examine the relationship between internal control systems and the financial performance of manufacturing firms in Nigeria.

In line with this overall goal, the study will pursue the following specific objectives:

1. To examine the effect of control environment on the financial performance of manufacturing firms in Nigeria.
2. To assess the role of risk assessment practices in enhancing financial performance.
3. To evaluate the impact of control activities on the financial performance of manufacturing firms.
4. To determine how effective monitoring contributes to improved financial performance in manufacturing companies.

1.4 Research Hypotheses

In order to investigate the relationship between internal control systems and the financial performance of manufacturing firms in Nigeria, the following hypotheses have been formulated. These hypotheses will serve as a guide for the empirical aspect of the research and help in testing the assumptions underlying the study:

1. The control environment has no significant effect on the financial performance of manufacturing firms in Nigeria.
2. Risk assessment practices do not significantly influence the financial performance of manufacturing firms.
3. Control activities do not have a significant impact on the financial performance of manufacturing firms in Nigeria.
4. Monitoring has no significant relationship with the financial performance of manufacturing companies.

1.5 Scope of the Study

This study focuses on selected manufacturing firms in Benin city, Nigeria. It examines how internal control systems affect financial performance, using indicators like profitability, return on assets, and operational efficiency(Erasmus & Coetzee, 2018). The study covers key components of internal control such as control environment, risk assessment, control activities, information and communication, and monitoring (COSO, 2013). Primary data will be collected from staff in the accounting and internal control departments. The time frame for financial data will cover the most recent three years

available (Amudo & Inanga, 2009). It is also important to note that the study will not go into the technical or forensic aspects of auditing. Rather, it will be limited to assessing the structure and perceived effectiveness of internal control systems and how they relate to financial performance based on available data and responses from selected staff or management where necessary(Olatunji, 2009).

Although the focus is on the manufacturing sector, the findings of the study may be useful to other sectors that face similar internal control and financial management challenges(Ogundana et al., 2017).

1.6 Significance of the Study

This study is significant because it addresses a key gap in existing literature by focusing specifically on the relationship between internal control systems and financial performance in the manufacturing sector of Nigeria. While several studies have examined internal controls in banks and public institutions (Olatunji, 2009; Uwuigbe et al., 2018), few have focused on manufacturing firmsparticularly those located in mid-tier cities like Benin City, which are often overlooked in academic research. This gives the study a fresh and localized perspective that contributes to a broader understanding of internal control

practices in Nigeria (Ibrahim et al., 2020).

One of the new contributions of this research is its emphasis not just on the existence of internal control policies, but on their practical implementation and perceived effectiveness from the point of view of employees directly involved in financial management (Amudo & Inanga, 2009). By using primary data, the study moves beyond desk-based literature and financial statement reviews to provide real-world insights into how internal controls function within organizations on a day-to-day basis (Ogundana et al., 2017).

For researchers, this study offers a valuable reference point for future investigations into internal control systems in non-financial sectors. It contributes empirical evidence to an area that remains under-researched in Nigeria, helping scholars better understand the practical challenges, implementation gaps, and sector-specific risks that affect internal control effectiveness in manufacturing settings (Okafor & Olayinka, 2021). This may also inspire comparative studies across sectors, regions, or even countries, thus enriching the global discourse on internal control best practices in developing economies.

In addition, the study contributes to the theoretical development of internal control

frameworks by assessing how globally recognized models such as the COSO Framework apply in the context of manufacturing firms in a developing economy like Nigeria (COSO, 2013; Erasmus & Coetzee, 2018). It raises important questions about whether these frameworks align with the local business environment or need adaptation to suit Nigeria's institutional and operational realities.

Ultimately, the research provides a foundation for building stronger internal control systems that support financial accountability, efficiency, and sustainability not just in manufacturing, but in other sectors facing similar governance and operational challenges (Adeniyi, 2013).

The study may assist policymakers and regulatory bodies by offering insights into how internal control systems are functioning in practice. Agencies such as the Financial Reporting Council of Nigeria (FRCN) and the Corporate Affairs Commission (CAC) can benefit from this research when designing policies to strengthen corporate governance in the country. Finally, students and future researchers will also benefit from this work, as it can serve as a useful source of information or a foundation for further studies on corporate control systems and financial management in Nigeria or similar environments.

1.8. Definition of Terms

To ensure clarity and proper understanding of key concepts used in this study, the following terms are defined in the context of how they are applied within the research:

1. Internal Control System

This refers to the process, policies, and procedures put in place by the management of an organization to safeguard assets, ensure accuracy of financial records, promote operational efficiency, and encourage compliance with laws and regulations. In this study, it includes components like control environment, risk assessment, control activities, information and communication, and monitoring(Amudo & Inanga,2019).

2. Financial Performance

Financial performance is the measure of how well a firm uses its resources to generate profit and achieve financial goals. In this research, financial performance will be assessed using indicators such as return on assets (ROA), return on equity (ROE), and net profit margin, based on the financial statements of selected manufacturing firms(Erasmus & Coetzee,2018).

3. Manufacturing Firms

These are companies engaged in the production or processing of goods using labor, machinery, and raw materials. For the purpose of this study, manufacturing firms refer to Nigerian companies operating in sectors such as food and beverages, cement, textiles, and similar industries(Ibrahim et Al.,2020).

4. Control Environment

This represents the overall attitude, awareness, and actions of management and staff concerning the importance of internal controls. It sets the tone for the organization and influences the control consciousness of its people(Uwuigbe et al.,2018).

5. Risk Assessment

Risk assessment involves identifying and analyzing potential events or situations that could negatively affect the achievement of an organization's goals. In this study, it refers to how manufacturing firms identify and manage financial and operational risks(COSO,2013).

CHAPTER TWO

LITERATURE REVIEW

2.1 Conceptual Review

The conceptual review serves as a visual and narrative representation of the key variables in your study and the hypothesized relationships between them. In this context, the framework focuses on how various components of the internal control system (independent variables) influence the financial performance (dependent variable) of manufacturing firms in Nigeria.

2.1.1 Financial Performance

Financial performance can be seen as the extent to which an organisation achieves its financial goals and uses its resources efficiently. Pandey (2015) defines financial performance as “the degree to which financial objectives are being or have been accomplished.” It is a subjective measure, typically based on profitability, liquidity, leverage, and efficiency indicators.

According to Frimpong & Boachie-Yiadom (2014), financial performance represents the outcome of management policies and decisions, reflected in the firm’s financial

statements and performance indicators.

Performance relates to the attainment of a given task measured against predetermined standards of fact, completeness, cost, and velocity (Chuke, Iman& et al.,2017).

Performance is the level at which achievement has been attained in an organisation (National Treasury Publication (NTP)et al., 2008). Performance implies the behaviour of the activities of an organisation over a specified period of time (Angus, Artsberg & et al.,1993). Financial performance is the deed of performing financial activities. In a broad term, financial performance refers to the level to which financial objectives has been attained.

It is the process of measuring the performance of an organisation's policies and operations in pecuniary terms. It is used to measure organisation's overall financial status over a period of time and can also be used to compare similar industries or sectors in the same economy. Financial performance is a critical measure of an organisation's success, reflecting how well it utilizes its resources to generate income and sustain its operations over time. In the context of manufacturing firms, financial performance serves as a key indicator of operational efficiency, profitability, and overall financial health. It provides

essential insights into a firm's ability to create value for shareholders, meet its financial obligations, and remain competitive in a dynamic business environment.

Manufacturing firms are typically capital-intensive, with significant investment in equipment, inventory, labor, and raw materials. As such, their financial performance is influenced by both internal and external factors. Internally, cost control, production efficiency, inventory management, and investment in technology play vital roles. Externally, macroeconomic variables such as inflation, exchange rates, interest rates, and government policies can significantly impact performance.

According to Pandey (2015), financial performance is not just about profit generation but also about the firm's ability to manage its assets efficiently, maintain liquidity, and control costs. For manufacturing firms, this includes minimizing wastage, reducing production costs, optimizing supply chain operations, and effectively managing working capital.

Frimpong & Boachie-Yiadom (2014) argue that financial performance is a reflection of managerial effectiveness and strategic decision-making. For example, firms that adopt lean manufacturing practices or invest in automation may report better performance due

to reduced operational costs and improved productivity.

In the Nigerian manufacturing sector, firms often operate in challenging environments characterized by infrastructure deficits, high energy costs, unstable foreign exchange rates, and regulatory bottlenecks. These challenges demand that firms adopt proactive financial management strategies to sustain performance. According to Olaoye & Olorunleke (2017), many manufacturing firms in Nigeria face profitability pressures due to rising operational costs and stiff competition from imported goods.

Financial performance in this context, therefore, becomes a measure not only of profitability but also of resilience and adaptability. Indicators such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin provide valuable insights into how well firms can convert resources into financial returns despite external challenges. Ross, Westerfield, and Jordan (2013) emphasize that these ratios help stakeholders especially investors, creditors, and regulators understand a company's financial condition and growth potential.

Furthermore, Brigham & Houston (2014) note that effective financial performance analysis helps management make informed decisions regarding expansion, financing,

cost-cutting, and investment opportunities. For example, a firm with strong ROA and ROE may be in a better position to attract funding or invest in new technologies.

Finally, it is important to understand that financial performance is not an isolated outcome. It is influenced by a range of factors, including the strength of internal control systems. Weak controls can lead to fraud, financial misstatements, and mismanagement of funds all of which negatively impact financial outcomes. This highlights the importance of integrating strong financial and operational controls into the strategic management process of manufacturing firms.

2.1.1.1 Measures of Financial Performance

Financial performance is commonly evaluated using a variety of financial ratios and metrics that help measure how well a company is managing its resources and generating returns. These indicators are especially important in the manufacturing sector, where firms must constantly balance production costs, capital investment, and operational efficiency. The key measure include:

2.1.1.1.1 Return on Assets (ROA)

This ratio indicates how efficiently a firm utilizes its total assets to generate profit. It is calculated by dividing net income by total assets. A higher ROA suggests that the company is effectively using its assets such as machinery, equipment, and facilities to generate earnings (Ross & Westerfield, 2013). For manufacturing firms, where asset investment is often substantial, ROA serves as a critical measure of operational efficiency and profitability.

2.1.1.1.2 Return on Equity (ROE)

ROE measures the return generated on shareholders' equity, which is the capital invested by the owners or shareholders of the firm. It is calculated by dividing net income by shareholder's equity. A higher ROE indicates that the company is generating more profit for every unit of equity invested by the owners, which reflects strong financial performance and value creation (Brigham & Houston, 2014). In manufacturing, this metric is essential for assessing how well management is using shareholder funds to grow the business and improve returns.

2.1.1.1.3. Net Profit Margin

This ratio reflects the percentage of revenue that remains as profit after all operating expenses, interest, and taxes have been deducted. It is calculated by dividing net profit by total revenue. A higher net profit margin indicates better cost control and efficient management of production, supply chain, and administrative expenses (Pandey, 2015). For manufacturing firms, maintaining a healthy net profit margin is crucial, given the pressure of fluctuating raw material costs, labor, energy, and logistics.

These indicators help stakeholders assess how well a manufacturing firm is performing financially and whether it is sustainable over time.

Furthermore, Brigham and Houston (2014) note that effective financial performance analysis helps management make informed decisions regarding expansion, financing, cost-cutting, and investment opportunities. For example, a firm with strong ROA and ROE may be in a better position to attract funding or invest in new technologies.

Finally, it is important to understand that financial performance is not an isolated outcome. It is influenced by a range of factors, including the strength of internal control systems. Weak controls can lead to fraud, financial misstatements, and mismanagement

of funds all of which negatively impact financial outcomes. This highlights the importance of integrating strong financial and operational controls into the strategic management process of manufacturing firms.

2.1.2 Internal Control System

Internal control can be seen as a system of control and regulation of administration in the best interests of the company. This includes being accountable to shareholders who appoint members of the board and the auditors. How a company is governed affects rights, privileges and relations among organisational stakeholders, it affects how an organisation is run, and has an influence on its success or failure. According to Ighodalo, Omankhanlen, & et al., (2021), organisations do not flop, boards do. Internal control structure is the amalgamation of mechanisms to guarantee that the board of directors (agents) runs the organisation for the advantage of the stakeholders (principals) (Omodero, & Isibor, 2021). The stakeholders include but are not limited to; creditors, suppliers, shareholders, employees, clients, and any other party that is directly or indirectly with the firm.

Internal control is the sum of all procedures followed by the board of directors, and its

associated groups, in representation, and for the advantage of the stockholders, to deliver bearing, authority, and oversights to management (Hunziker, 2016).

In comprehensive terms, internal control is referred to as the manner in which establishments are managed, directed, and organized. Internal control is also concerned with the dealings between the numerous internal and external stakeholders involved as well as the control procedures aimed at assisting in the achievement of an organisation's goals. Those mechanisms and controls are of prime importance. They are designed to diminish or eradicate the issues of the principal-agent concept (Uwuigbe & Irene, 2018).

Internal control is the relations between internal stakeholders, external stakeholders and the board of directors in guiding an organisation for the creation of value.

In all these definitions, one can see that internal control is considered an effective instrument for the management of organisations, and it is mostly aimed at organisational efficiency and stakeholder satisfaction. It employs ethical standards and control in ensuring that resources are efficiently put to use, and that there is accountability for every activity.

Internal control systems play a central role in the governance, risk management, and

overall operational performance of organisations. Particularly in manufacturing firms, where operational activities are complex and capital-intensive, the existence of a sound internal control framework is vital. It serves not only as a safeguard against inefficiencies and financial misstatements but also as a mechanism to ensure strategic objectives are achieved through prudent use of resources.

A robust internal control system helps in addressing the risks inherent in business operations by establishing procedures that promote transparency, accountability, and reliability in financial reporting. According to Hunziker (2016), internal control systems enable organisations to function effectively by ensuring that decision-making processes are backed by accurate and timely information, thereby minimizing errors and irregularities.

In manufacturing firms, internal control procedures are particularly essential due to the nature of activities such as procurement, inventory management, production, and distribution. The control system must ensure that raw materials are acquired at reasonable costs, inventories are accurately tracked, production waste is minimized, and finished goods are adequately recorded and safeguarded. These processes, if not properly

controlled, can lead to significant financial losses or even reputational damage.

Moreover, internal control systems help to enforce compliance with laws, regulations, and internal policies. This is critical in countries like Nigeria, where regulatory compliance is increasingly becoming a focus due to past corporate failures. As noted by Ighodalo, Omankhanlen, Omodero, and Isibor (2021), a properly structured internal control framework ensures that the board of directors fulfills its fiduciary responsibilities while also aligning management's actions with the interests of stakeholders.

The effectiveness of internal controls also directly affects the integrity of financial reporting. Financial statements that are free from material misstatements whether due to fraud or error are essential for decision-making by investors, creditors, and regulatory authorities. Uwuigbe et al. (2018) emphasize that internal control systems are instrumental in addressing principal-agent issues by reducing information asymmetry and ensuring that management acts in the best interest of shareholders.

Another important aspect is the monitoring and evaluation of the internal control system itself. Regular reviews, internal audits, and updates to control procedures are necessary to adapt to changes in the business environment. Static or outdated controls may lose their

effectiveness and expose the firm to operational or financial risks.

Despite their benefits, internal control systems are not without limitations. They provide reasonable, not absolute, assurance. Human error, collusion among employees, or management override can still undermine even the most well-designed systems. As such, cultivating a strong control culture where ethical conduct and compliance are embedded in the corporate mindset is just as important as designing the system itself.

In summary, a well-implemented internal control system is not just a compliance requirement, but a strategic asset for manufacturing firms. It contributes significantly to organisational sustainability, financial integrity, and stakeholder trust three pillars that are critical for long-term success in a competitive and highly regulated environment.

2.2.1.2.1 Measures of Internal Control System

An internal control system is a structured and dynamic framework of rules, procedures, and activities designed by an organisation to ensure effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. It encompasses all the coordinated methods and measures adopted within an organization to safeguard its assets, enhance the accuracy and reliability of its accounting records,

promote operational efficiency, and encourage adherence to prescribed managerial policies. According to the Committee of Sponsoring Organisations of the Treadway Commission (COSO, 2013), internal control is composed of four interrelated components:

2.1.2.1 Control Environment

The control environment forms the foundation of the internal control system. It reflects the organization's attitude toward control, ethics, and integrity. It sets the tone for all employees and establishes the organisational culture. This sets the tone at the top, influencing the control consciousness of employees. It includes the integrity, ethical values, and competence of personnel, management's philosophy and operating style, and the way management assigns authority and responsibility.

Key Measures Include:

Leadership Ethics & Integrity: Senior management and the board of directors demonstrate ethical behavior, modeling expected conduct.

Code of Conduct: Implementation of a documented code of ethics and conduct for all employees.

Hiring Practices: Hiring qualified, competent, and trustworthy personnel through rigorous

recruitment and background checks.

Organisational Structure: Clear hierarchy and reporting lines, defining roles, responsibilities, and authorities.

2.1.2.2 Risk Assessment

This involves identifying, analyzing, and evaluating risks that may hinder the achievement of business objectives, and determining how to mitigate them. Organisations must identify and analyze relevant risks that may affect the achievement of objectives, forming a basis for determining how the risks should be managed.

Key Measures Include:

Risk Identification: Performing risk assessments at department, process, and enterprise levels.

Risk Analysis: Assessing the likelihood and impact of risks (e.g., using a risk matrix).

Setting Risk Tolerance: Management defines acceptable levels of risk and documents risk appetite.

Change Management: Recognizing risks from internal or external changes (e.g., new technology, market trends, regulations).

Fraud Risk Assessment: Specific assessments to detect fraud vulnerabilities.

2.1.2.3. Control Activities

These are the policies, procedures, and mechanisms implemented to mitigate risks and help ensure objectives are met. These are the policies and procedures put in place to address risks and achieve organisational goals.

Key Measures Include:

Segregation of Duties (SoD): Dividing responsibilities among different individuals to reduce the risk of error or fraud (e.g., no one person handles both cash and accounting).

Authorizations and Approvals: Requiring prior approval for transactions like purchases, payments, or access changes.

Verifications and Reconciliations: Matching and reviewing data for accuracy (e.g., bank reconciliations).

Access Controls: Restricting access to systems and physical assets based on user roles.

Documented Procedures: Clear, accessible manuals and SOPs for consistent execution of tasks.

2.1.2.4 Monitoring

Monitoring ensures that internal controls are functioning as intended over time and are updated as needed based on changing conditions. These are processes used to assess the quality of internal control performance over time.

Key Measures Include:

Ongoing Monitoring: Regular supervisory reviews, automated alerts in systems, and continuous auditing techniques.

Periodic Evaluations: Scheduled audits (internal or external), control self-assessments, and risk reviews.

Corrective Actions: Procedures to correct identified control deficiencies promptly and track their resolution.

Audit Committees: Oversight by independent audit committees that review internal control performance.

Documentation & Reporting: Keeping records of monitoring results and reporting them to appropriate levels of management.

2.2 Empirical Review

Several empirical studies have examined the link between internal control systems and financial performance in Nigeria, especially within the manufacturing sector. These studies consistently highlight the critical role internal control mechanisms play in promoting financial integrity, reducing operational inefficiencies, and supporting long-term profitability.

For instance, Olaoye and Olorunleke (2017) conducted a study on selected manufacturing firms in Nigeria to determine the effect of internal control on organisational performance. Their findings revealed that internal control components such as segregation of duties, authorization procedures, and internal audits had a significant positive effect on firm profitability. The authors emphasized that companies with well-structured control systems tend to experience reduced fraud cases, better financial accuracy, and improved decision-making.

Similarly, Adebayo, David, and Samuel (2020) carried out an empirical study using panel data from manufacturing companies listed on the Nigerian Stock Exchange (NSE). Their results showed that firms with strong internal controls exhibited higher return on assets

(ROA) and return on equity (ROE), indicating better financial performance. The study found a particularly strong link between financial reporting controls and profitability, suggesting that transparent and accurate reporting attracts investor confidence and supports sustainable growth.

In another study, Olatunji (2013) examined the impact of internal control on the financial performance of small and medium manufacturing enterprises (SMEs) in South-West Nigeria. The research adopted a survey design and analyzed responses from 150 firms. Findings indicated that internal control practices were generally weak among SMEs, contributing to poor financial performance. The study concluded that the absence of formal control structures made these firms more vulnerable to mismanagement and financial loss.

2.2.1 Control Environment and Financial Performance

The control environment is regarded as the foundation of an effective internal control system. It refers to the general attitude, awareness, and actions of management and the board of directors regarding internal control and its importance in the organization. Key elements of the control environment include integrity and ethical values, management

philosophy, organizational structure, assignment of authority, and human resource policies.

Empirical studies have shown that a strong control environment positively influences the financial performance of firms. Akinyemi et al. (2023) carried out a study on the internal control systems of listed manufacturing companies in Nigeria. Their findings indicated that control environment factors such as management competence, board independence, and effective organizational structure had a positive but indirect effect on financial performance. They argued that a strong control environment improves other internal control components, which in turn improve the overall performance of the firm.

In contrast, Okharedia et al. (2023) in a study on construction firms (which share some operational similarities with manufacturing firms) reported that the control environment showed a weak or statistically insignificant effect on financial performance. They suggested that although a good control environment is necessary, it must be supported by other components like control activities and monitoring to have a full effect.

From these studies, it is clear that the control environment lays the groundwork for other control processes and contributes indirectly to profitability and efficient operations.

2.2.2 Risk Assessment and Financial Performance

Risk assessment is the internal process by which an organization identifies and evaluates internal and external risks that may prevent it from achieving its goals. In manufacturing firms, such risks could include supply chain disruptions, foreign exchange volatility, machine failure, fraud, or economic downturns.

According to Akinyemi et al. (2023), effective risk assessment practices significantly impact the financial performance of manufacturing firms in Nigeria. In their study, the authors found that firms that conducted regular risk assessments and updated their risk management policies recorded higher return on assets (ROA) and return on equity (ROE) compared to those that did not. Their regression analysis showed a statistically significant and positive relationship between risk assessment and financial performance. However, a different perspective was presented by Okharedia et al. (2023) who reported that in some firms, risk assessment practices were not effectively implemented. As a result, the relationship between risk assessment and financial performance was weak and insignificant. They emphasized that risk assessment must go beyond documentation it must be acted upon to bring financial benefits.

In general, empirical studies support the argument that risk assessment, when properly applied, helps firms reduce uncertainties and improve financial results.

2.2.3 Control Activities and Financial Performance

Control activities are the specific procedures and processes designed to ensure that management directives are carried out properly. These include approvals, authorizations, reconciliations, segregation of duties, security of assets, and periodic checks. Control activities help prevent errors, detect fraud, and ensure smooth operational processes.

According to Agapia et al. (2025), control activities have a direct and strong positive effect on the financial performance of manufacturing firms. In their study on food and beverage companies in Nigeria, they found that firms with clearly defined approval systems, regular internal checks, and strong control over procurement and production had better operational efficiency and higher profit margins. Ogunwale & Areghan (2024) also explored this area and found that manufacturing companies with strong internal audit functions and detailed financial control procedures experienced higher returns on investment. The study emphasized the importance of aligning control activities with company objectives and operational needs.

These studies collectively suggest that control activities are among the most effective internal control tools for enhancing financial performance in manufacturing firms.

2.2.4 Monitoring and Financial Performance

Monitoring refers to the continuous evaluation of internal control systems to ensure that they are working as intended. It can be carried out through regular internal audits, management reviews, and feedback mechanisms. Monitoring helps to identify weaknesses and areas that need improvement in the internal control process.

Adu et al. (2024) found that monitoring significantly improves financial performance by ensuring timely detection of irregularities and errors. Their study revealed that manufacturing firms that implemented regular internal audits and compliance checks experienced fewer cases of fraud and improved stakeholder confidence, leading to better financial outcomes. Akinyemi et al. (2023) found a positive relationship between monitoring and the accuracy of financial reporting in manufacturing companies. Accurate financial reports attract investors and reduce the cost of capital, both of which contribute to stronger financial performance.

However, in some cases, monitoring is poorly implemented or treated as a routine activity,

which reduces its effectiveness. Therefore, the quality and frequency of monitoring are important factors in determining its impact on financial performance.

From the empirical studies reviewed, it is evident that each of the internal control components plays a significant role in influencing the financial performance of manufacturing firms. While some components like control activities and monitoring have a direct and measurable impact, others like control environment and risk assessment provide indirect support to ensure stability and strategic alignment.

Overall, manufacturing firms that adopt a comprehensive and well-implemented internal control system are more likely to achieve improved profitability, operational efficiency, and long-term financial sustainability.

2.3 Theoretical Framework

2.3.1 Agency Theory

Agency Theory states that conflicts of interest may arise between managers and owners. Agency theory is developed by Jensen and Meckling (1976), is the principal theoretical lens through which this study is anchored. It explains the relationship between principals (owners/shareholders) and agents (managers/executives) in a firm. In many organizations,

especially manufacturing firms, owners delegate decision-making authority to managers who may not always act in the best interest of the principals. This divergence of interests often gives rise to agency problems, such as mismanagement, fraud, and inefficiency. To mitigate these agency problems, mechanisms like internal control systems are introduced. Internal controls, including segregation of duties, authorization procedures, monitoring, and reporting structures, serve as tools to align the interests of agents with those of the principals. Relevance to Internal Control Systems

Internal control systems are mechanisms developed to monitor and guide agents' behavior, ensuring that they act in the best interest of the owners. These systems include procedures such as:

Authorization of transactions, Segregation of duties, Periodic audits and reconciliations, Supervision and reporting structures

By implementing strong internal control systems, firms can reduce the risk of mismanagement, fraud, and resource misuse by their agents.

Link to Financial Performance

Agency theory suggests that effective internal controls reduce agency costs, improve

decision-making, and enhance financial accountability. This leads to:

Better resource utilization, Reduced financial losses, Accurate financial reporting,
Increased profitability and return on investment

Several empirical studies in Nigeria (e.g., Akinyemi et al., 2023; Adu et al., 2024) have confirmed a positive relationship between agency-driven internal controls and the financial performance of manufacturing firms.

2.3.2 Stewardship Theory

Stewardship theory views the agent(managers) as trustworthy stewards who are motivated to act in the business's best interest.

Stewardship Theory, developed by Donaldson and Davis (1991), presents a contrasting view to Agency Theory. It assumes that managers and employees are trustworthy and act as responsible stewards of the organization's resources. Rather than focusing on self-interest, stewards are believed to act in alignment with the goals of the organization.

Relevance to Internal Control

In this context, internal controls are not seen as mechanisms of distrust or enforcement, but rather as tools that help support and enable effective performance. Internal controls

can assist stewards by:

Clarifying roles and responsibilities, Providing feedback on performance, Supporting compliance and operational excellence

Link to Financial Performance

By fostering an environment of accountability, transparency, and trust, stewardship-supported controls promote greater operational efficiency, better planning, and enhanced morale all of which can lead to improved financial performance.

In Nigerian manufacturing firms, Stewardship Theory explains how a well-structured internal control system can support committed managers and employees in achieving financial goals, not just limit bad behavior.

CHAPTER THREE

METHODOLOGY OF RESEARCH

3.1 Research Design

The research design used for this study is the survey research design, which is suitable for systematically collecting data to describe existing conditions, practices, or relationships without manipulating any variables. The survey research is appropriate because it allows the researcher to collect quantitative data from a defined population using structured questionnaires. This approach enables the assessment of the effectiveness of internal control components such as control environment, risk assessment, control activities, and monitoring and how they correlate with financial performance indicators like profitability, return on assets (ROA).

Additionally, the survey method allows the researcher to obtain standardized data from multiple firms across different locations, making it possible to generalize findings within the manufacturing sector. This is particularly important because internal control practices and financial performance can vary depending on firm size, structure, and management policies.

3.2 Population of the Study

The population of this study consists of all the manufacturing firm in Nigeria for the period of year 2025. The choice of this population is based on the fact that manufacturing firms typically deal with large volumes of financial transactions, assets, inventories, and operational risks, making the implementation of internal control systems highly necessary. This population is appropriate for the research because it provides access to firms with formal internal control procedures, audited financial reports, and staff in key positions who are knowledgeable about the firm's internal processes. It also increases the chances of obtaining reliable data, since these firms are expected to adhere to regulatory and accounting standards that require proper documentation and control mechanisms.

In summary, the population is made up of Nigerian manufacturing firms with formal operational and financial structures, as they provide a suitable environment for assessing the role of internal controls in financial performance.

3.3 Sample and Sampling Techniques

This study adopts a purposive sampling technique, also known as selective sampling, which is a non-probability sampling technique where the researcher intentionally selects

participants based on specific features, knowledge, or experience relevant to the study. This method allows the researcher to deliberately select firms that possess the characteristics necessary for the study such as having a formal internal control structure and regularly preparing financial reports. This technique is justified because the focus of the research is on firms with existing internal control mechanisms and measurable financial outcomes. This guideline ensures that respondents can provide relevant and informed responses based on consistent accounting experience.

The sample size was determined using Yamane's formula (1967):

$$n = N / [1 + N (e^2)]$$

Where:

n= Sample size

N= Total population

e = Margin of error (typically 0.05 for 95% confidence level)

$$n = 130 / [1 + 130 (0.05^2)] \approx 100$$

Therefore, a sample size of approximately 100 respondents was considered adequate for this study so as to ensure representativeness and accuracy.

The sampling technique used was purposive sampling, focusing on employees knowledgeable about internal control and financial matters.

In addition, within each selected firm, “stratified random sampling” is used to choose respondents from key departments such as finance, internal audit, and operations. Stratification ensures that data is gathered from different functional areas that directly engage with internal control procedures and financial reporting, enhancing the quality and depth of responses.

This approach ensures that the study captures diverse perspectives across multiple firms and departments, providing a well-rounded insight into how internal control systems influence financial performance in the Nigerian manufacturing sector.

3.4 Source of Data

This study used primary data as its main source of information. The data will be collected directly from the respondents, through well structured instruments, so as to ensure the accuracy, relevance, and reliability of the responses. The primary data, which were gathered through a structured questionnaire designed to assess the components of internal control systems and how they affect financial performance indicators. The questionnaire

consists of a combination of close-ended questions (e.g Likert- scale items) to allow for quantitative analysis and also ensure consistency, as well as a few open-ended questions to gather sound qualitative insights from respondents.

To ensure a better response rate, the questionnaires were distributed using both physical (hard copy) and digital (soft copy) methods. Physical copies were hand-delivered to some firms, while electronic versions were sent via email or messaging platforms like WhatsApp for firms that preferred online participation. This hybrid approach was adopted to increase accessibility, reduce delays, and accommodate respondents preferences and availability.

In addition to the questionnaire responses, brief follow-up discussions were conducted with some participants to clarify responses and confirm interpretations where necessary. However, no secondary data (e.g., published financial statements or industry reports) were used in the analysis, ensuring that the study strictly reflects firsthand perceptions and experiences of the participants.

3.5 Research Instrument

The primary research instrument employed in this study is a structured questionnaire. The choice of this instrument is based on its effectiveness in gathering standardized data across multiple respondents, particularly when assessing perceptions, experiences, and implementation of internal control systems within organizations.

questionnaire was divided into three main sections:

Section A: Demographic Information

This section collected basic information about the respondents to establish context and ensure diversity in the sample. Variables captured include:

Gender, Age Range, Educational qualification, work experience in the organisation, This section was important to help understand the background of the respondents and to assess whether demographics may have influenced perceptions of internal controls or financial performance.

Section B: Internal Control System

This section focused on the five components of internal control as outlined in the COSO framework:

Control Environment – Questions assessed management philosophy, organizational culture, ethical values, and the integrity of the workforce.

Risk Assessment – Items explored how risks are identified, analyzed, and managed within the firm.

Control Activities – These questions examined the policies, procedures, and authorization practices that help ensure directives are followed.

Information and Communication – Items focused on the effectiveness of internal and external communication channels in supporting control functions.

Monitoring Activities – Questions assessed ongoing and periodic monitoring, including internal audits and corrective actions.

Each question in this section was measured using a 5-point Likert scale, ranging from:

Strongly Disagree, Disagree, Neutral, Agree, Strongly Agree.

This format allowed respondents to express varying degrees of agreement or disagreement with each statement, facilitating quantitative analysis of perceptions and practices related to internal control.

Section C: Financial Performance

This section assessed the perceived financial performance of the respondents' organizations, based on key financial indicators such as:

Return on Assets (ROA), Return on Equity (ROE),

Net Profit Margin, Revenue Growth, Overall profitability. Respondents were asked to rate their organization's performance in relation to these indicators, also using a 5-point Likert scale.

3.6 Model Special Specification

In order to empirically examine the relationship between the internal control system and the financial performance of manufacturing firms in Nigeria, a quantitative research model is specified. The model is structured to assess how different components of internal control influence financial performance, using measurable proxies for each variable.

The model adopts a linear regression framework, where financial performance serves as the dependent variable, while elements of the internal control system function as the independent variables. The control variables are also incorporated to account for

firm-specific factors that may affect performance independently of internal control practices.

The model is specified as follows:

$$FP_i = \beta_0 + \beta_1 ICS_{1_i} + \beta_2 ICS_{2_i} + \beta_3 ICS_{3_i} + \beta_4 ICS_{4_i} + \beta_6 AGE_i + \varepsilon_i$$

Where:

FP_i = Financial Performance of firm i (measured using Return on Assets (ROA), Return on Equity (ROE), or Net Profit Margin)

ICS_{1_i} = Control Environment (such as organizational structure, integrity, ethical values)

ICS_{2_i} = Risk Assessment (identification and management of relevant risks)

ICS_{3_i} = Control Activities (policies and procedures to mitigate risks)

ICS_{4_i} = Monitoring (ongoing evaluation of internal control performance)

AGE_i = Age of the firm (number of years in operation)

β_0 = Intercept

β_1 to β_6 = Coefficients of the independent and control variables

ε_i = Error term capturing unobserved factors

This model is grounded in the COSO (Committee of Sponsoring Organisations of the

Treadway Commission) framework, which identifies the four key components of an effective internal control system. These four components serve as the basis for the independent variables in the model. The COSO framework is widely accepted and provides a comprehensive structure for evaluating internal control systems within organisations.

3.7 Operationalization of Variables

The operationalization of variables refers to the process of defining how each variable in the study will be measured, observed, or manipulated in order to test the research hypotheses.

In this study, the key variables are clearly defined and measured to enable a meaningful assessment of the relationship between the internal control system and the financial performance of manufacturing firms in Nigeria. This section explains how each variable will be identified, measured, and analyzed.

1. Dependent Variable: Financial Performance

The financial performance of manufacturing firms serves as the dependent variable in this research. To make the concept measurable, the following accounting-based indicators are

used:

Return on Assets (ROA): This shows how efficiently a firm uses its total assets to generate profit. It is calculated as net income divided by total assets.

Return on Equity (ROE): This reflects the return earned on shareholders' investments. It is measured by dividing net income by shareholders' equity.

Net Profit Margin (NPM): This indicates how much of the firm's revenue is retained as profit after all expenses. It is calculated as net profit divided by total revenue.

These financial ratios will be obtained from the firms' audited financial statements for the most recent financial year(s).

2. Independent Variables: Components of Internal Control System

The internal control system is broken down into four core components, as outlined by the COSO framework. Each component is treated as a separate independent variable in this study:

Control Environment: This refers to the overall attitude, awareness, and actions of management and the board of directors regarding the internal control system. It includes aspects like ethical values, management philosophy, and organisational structure. This

will be measured using questionnaire items based on a 5-point Likert scale.

Risk Assessment: This looks at how the firm identifies and responds to risks that might affect the achievement of its objectives. The frequency and thoroughness of risk assessment processes will be captured through survey responses.

Control Activities: These are the policies and procedures that help ensure that directives from management are properly carried out. Examples include approvals, authorizations, verifications, and segregation of duties. This will also be measured through Likert-scale questionnaire items.

Monitoring: This refers to the regular assessment of internal control performance over time. It will be measured based on whether the firm engages in periodic internal reviews, audits, and feedback systems.

Each of the above components will be measured using structured questionnaire items answered by staff in relevant departments. The responses will be analyzed using average scores or composite indices for each component.

3. Control Variables

To account for other factors that may influence financial performance apart from internal

control, the following control variables will be included:

Firm Age: Older firms may have more experience and possibly more developed internal systems. Age will be calculated based on the number of years since the firm's incorporation.

3.8 Method of Data Analysis

After collecting the necessary data for this study, appropriate statistical techniques will be used to analyze the relationship between the internal control system and the financial performance of manufacturing firms in Nigeria. The goal is to determine whether components of internal control have a significant impact on firm performance, while also accounting for other influencing factors such as age.

The data gathered through structured questionnaires (for internal control variables) and from financial statements (for performance measures) will first be organized, coded, and entered into statistical software likely SPSS or Stata, depending on availability. The data analysis will be carried out in several stages, as outlined below:

1. Descriptive Statistics

Descriptive analysis will be conducted to summarize and describe the main features of

the data collected. This includes calculating means, standard deviations, minimum and maximum values, and frequencies where necessary. This helps to provide a general overview of the sample characteristics and the distribution of variables.

2. Reliability Test

Before proceeding to deeper analysis, a reliability test (using Cronbach's Alpha) will be conducted on the questionnaire items used to measure the components of the internal control system. This will help to confirm whether the items are internally consistent and suitable for analysis.

3. Correlation Analysis

A Pearson correlation analysis will be used to check the strength and direction of the relationship between the independent variables (internal control components) and the dependent variable (financial performance). This also helps to identify any potential multicollinearity between variables.

4. Multiple Regression Analysis

To test the research hypotheses and determine the effect of the internal control system on financial performance, multiple linear regression analysis will be carried out. The

regression model allows for the inclusion of several independent variables at once, so the individual contribution of each internal control component can be assessed while controlling for firm size and age.

The general form of the regression equation is as follows:

$$FP = \beta_0 + \beta_1 CE + \beta_2 RA + \beta_3 CA + \beta_4 M + \beta_5 AGE + \varepsilon$$

Where:

FP = Financial Performance

CE = Control Environment

RA = Risk Assessment

CA = Control Activities

M = Monitoring

AGE = Firm Age

β_0 = Intercept

β_1 to β_6 = Coefficients of the independent and control variables

ε = Error term

This model will help to identify which internal control components, if any, have a

statistically significant influence on the financial performance of manufacturing firms in the Nigerian context.

5. Diagnostic Tests

To ensure that the assumptions of the regression model are not violated, several diagnostic tests will be conducted. These may include tests for:

Multicollinearity (using Variance Inflation Factor – VIF)

Heteroskedasticity (e.g., Breusch-Pagan test)

Normality of residuals (e.g., Shapiro-Wilk test or histogram inspection)

If any violations are detected, appropriate corrective measures (such as transformation of variables or robust standard errors) will be applied to improve the reliability of the results.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Descriptive Statistics

This section presents the data collected from the field survey using structured questionnaires. The responses are organised according to the demographic characteristics of the respondents, followed by the major research questions. Tables are used to summarize the frequency and percentage distribution of the responses for clarity.

4.2.1 Analysis of Demographic Data of Respondents

Table 4.1: Demographic Characteristics of Respondents.

Variable	Category	Frequency	Percent
Gender	Male	39	39%
	Female	61	61%
	TOTAL	100	100.0%
Age	18 – 25 years	82	82%
	26 – 35 years	12	12%
	36 – 45 years	6	6%
	45 & above	0	0%
	TOTAL	100	100.0%
Educational Qualification	OND / NCE	10	10%
	HND / B.Sc	65	65%
	Master’s Degree	9	9%
	Ph.D	4	4%
	Others	12	12%
	TOTAL	100	100.0%
Years in Business	2years	77	77%
	2-5years	15	15%
	6 –10 years	6	6%
	Above 11 years	2	2%
	TOTAL	100	100.0%

Interpretation :

The demographic profile of respondents shows that the majority were female (61%) and predominantly young adults aged 18–25 years (82%). This suggests that the workforce in the studied organisation is relatively youthful, which may reflect the high rate of youth employment in Nigeria’s public sector at entry-level positions.

In terms of educational background, most respondents were Bachelor’s degree holders (65%), indicating a relatively high level of education among the workforce. This educational background strengthens the credibility of their responses, as they are likely to have sufficient knowledge and awareness of tax issues.

Regarding work experience, the largest proportion (77%) had less than 5 years of experience, showing that many respondents are early in their careers. This may suggest limited exposure to long-term administrative processes but fresh perspectives on current practices.

4.2.2 Analysis of Psychographic Data

Research Questions

Research Question 1: How does the control environment affect the financial performance of manufacturing firms in Nigeria?

Table 4.2: Control Environment and Financial Performance of Manufacturing Firms In Nigeria.

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
1.	Management demonstrates commitment to integrity and ethical values	26	62	9	3	0	100	4.11	Agree
2.	There is a clear organisational structure with assigned responsibilities	19	60	13	8	0	100	3.90	Agree
3.	Employees understand the importance of internal control	32	55	8	5	0	100	4.14	Agree
4.	Management leads by example in enforcing compliance	31	54	8	4	3	100	4.06	Agree
5.	The company culture promotes accountability and discipline	9	42	17	2	7	100	3.21	Agree

Interpretation:

Based on table 4.2 ,Management demonstrates commitment to integrity and ethical values (4.11), This indicates that respondents strongly agree that management is committed to integrity and ethical conduct. There is a clear organisational structure with assigned responsibilities (3.90), which is essential for effective internal control. Employees understand the importance of internal control (4.14), This indicate a very strong awareness and understanding of internal control among staff. Management leads by example in enforcing compliance (4.06), This score reflects strong agreement that management is actively demonstrating and enforcing compliance, which reinforces a culture of discipline and adherence to rules. The company culture promotes accountability and discipline (3.21), It suggests that while systems and leadership may be in place, the overall company culture still lacks strong accountability and disciplinary enforcement among all employees.

Research Question 2: What is the role of risk assessment practices in enhancing the financial performance of manufacturing firms?

Table 4.3 Risk Assessment and Financial Performance of Manufacturing Firms In Nigeria.

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
6.	Risk to achieving Financial goals are periodically identified.	32	53	14	1	0	100	4.16	Agree
7.	The organisation evaluate the likelihood and impact of risks.	33	50	12	3	2	100	4.09	Agree
8.	Risk assessment is integrated into operational decision making	29	52	16	1	2	100	4.05	Agree
9.	There are procedures in place for responding to identified risks	22	57	10	4	0	100	4.06	Agree
10.	External and internal risks are regularly monitored	20	61	12	6	1	100	3.94	Agree

Interpretation:

Based on Table 4.3 , Risk to achieving financial goals are periodically identified Mean(4.16), This indicate that Proactive risk identification helps firms avoid disruptions and supports goal achievement..

The organisation evaluates the likelihood and impact of risks Mean(4.09), This suggests the firms use proper risk analysis tools, which is essential for managing financial threats. Risk assessment is integrated into operational decision making Mean(4.05), Also indicates Risk considerations are factored into daily operations, improving the quality of business decisions and financial outcomes. There are procedures in place for responding to identified risk Mean(4.06), Firms have response strategies to manage risks, which boosts stability and financial resilience. External and internal risks are regularly monitored Mean(3.94) ,Risk monitoring is ongoing, though perhaps not as strong as other areas. There's room for improvement in tracking risks consistently.

Research Question 3: To what extent do control activities influence the financial performance of manufacturing firms in Nigeria

Table 4.4: Control Activities and Financial Performance of Manufacturing Firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
11.	Segregation of duties is observed in financial operations.	35	54	9	2	0	100	4.22	Agree
12.	Approval and authorizations are required for transaction.	29	57	10	4	0	100	4.11	Agree
13.	Assets and inventory are regularly checked and secured.	20	56	17	6	1	100	3.89	Agree
14.	Accurate documentation is maintained for all transactions.	25	69	5	1	0	100	4.18	Agree
15.	There are regular reconciliations of accounts and records.	29	51	14	4	2	100	4.01	Agree

Source: Field Survey (2025)

Based on table 4.4, Segregation of duties is observed in financial operations has the mean score of (4.22), This means different people handle different financial tasks, which helps reduce errors. Approval and authorizations are required for transaction has a mean of (4.11), indicating that approvals and authorizations are required before transactions are made. This shows that proper checks are in place to avoid unauthorized transactions, which is good for financial control. Assets and inventory are regularly checked and secured the mean score is (3.89), This means that while assets and inventory are being checked and secured, there is room for improvement in this area. Accurate documentation is maintained for all transactions has a mean of (4.18), This is essential for tracking and verifying company financial activities. There are regular reconciliations of accounts and records has a mean score of (4.01), This indicate to helps the company identify errors and ensure records are accurate.

Research Question 4: How does monitoring contribute to the financial performance of manufacturing companies?

Table 4.5: Monitoring and Financial Performance of Manufacturing Firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
16.	Internal control are reviewed periodically for effectiveness	20	46	21	10	3	100	3.70	Agree
17.	Internal audit functions exist and operate independently	13	41	32	10	4	100	3.49	Agree
18.	Weakness in internal control are reported and corrected	14	62	18	5	1	100	3.83	Agree
19.	Monitoring tools are use to ensure compliance	38	52	6	3	1	100	4.23	Agree
20.	Management takes prompt action on audit recommendations	26	46	24	1	3	100	3.91	Agree

Interpretation:

Based on Table 4.5, Internal control are reviewed periodically for effectiveness has a mean of (3.70), Regular reviews help improve performance by spotting errors early. Internal audit functions exist and operate independently shows a mean of (3.49), It suggests that internal audit functions exist, but their independence or full operation may

be limited in some firms. Weakness in internal control are reported and corrected has a mean score of (3.83), This is important because addressing weaknesses quickly helps maintain financial health. Monitoring tools are use to ensure compliance has the mean of (4.23), This is a good sign that firms take monitoring seriously and it contributes to better control and financial performance. Management takes prompt action on audit recommendations has a mean of (3.91), This indicate to helps fix problems early and improves decision-making.

FINANCIAL PERFORMANCE

Table 4.6: Financial Performance of Manufacturing Firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
21.	The company consistently meets its profits target	19	60	14	5	2	100	4.27	Agree
22.	Return on assets(ROA) has improved over recent years	29	57	10	4	0	100	4.11	Agree
23.	Operational efficiency has increased due to internal controls	13	69	14	3	1	100	4.02	Agree
24.	The company experiences minimal financial irregularities	32	58	6	4	0	100	4.21	Agree
25.	Financial reporting is timely , accurate and reliable.	20	61	12	6	1	100	3.94	Agree

Interpretation:

Based on Table 4.6, The company consistently meets its profits target has the mean score of (4.27), This indicates good financial planning and performance. Return on assets(ROA) has improved over recent years with a mean of (4.11), which indicate that the firm is making better use of its assets to generate profit. Operational efficiency has increased due to internal controls has a mean of (4.02), showing agreement that operational efficiency has increased due to internal controls, This suggests that good control systems contribute positively to performance. The company experiences minimal financial irregularities has a mean of (4.21), This indicate strong financial discipline and accuracy in records. Financial reporting is timely, accurate, and reliable with a mean of (3.94), This indicate that there's some room for improvement in reporting processes.

4.3 Reliability Test

Reliability refers to the degree to which an instrument consistently measures what it is designed to measure. It ensures that the research instrument yields stable and consistent results when administered under similar conditions. To determine the reliability of the research instrument used for this study, the Cronbach's Alpha coefficient was computed

using the Statistical Package for Social Sciences (SPSS, Version 25).

Cronbach's Alpha is considered a suitable measure of internal consistency because it estimates how closely related a set of items are as a group. According to Nunnally (1978), a Cronbach's Alpha coefficient of 0.70 and above is generally regarded as acceptable for social science research.

Table: below presents the reliability statistics for the variables used in this study.

Variables	Cronbach's Alpha
Control Environment	0.82
Risk Assessment	0.79
Control Activities	0.84
Monitoring	0.80
Financial performance	0.87
Overall reliability coefficient	0.83

Source: Researcher's Computation (SPSS Output, 2025)

Interpretation:

The results in Table show that all variables recorded Cronbach's Alpha values above 0.70, indicating a high level of internal consistency of the research instrument. The overall reliability coefficient of 0.83 confirms that the questionnaire used for data collection was reliable and suitable for further statistical analysis. Therefore, it can be concluded that the instrument consistently measured the constructs of internal control components and financial performance among manufacturing firms in Nigeria.

4.4 Test of Hypotheses

This section presents the results of the hypotheses formulated in Chapter One. The study adopted the Chi-Square statistical technique to test the level of significance between internal control components and the financial performance of manufacturing firms in Nigeria. The test was conducted using the Statistical Package for Social Sciences (SPSS, Version 25).

The decision rule is as follows:

If the calculated p-value is less than 0.05, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted.

If the p-value is greater than 0.05, the null hypothesis (H_0) is accepted.

Hypothesis One

H_{0_1} : The control environment has no significant effect on the financial performance of manufacturing firms in Nigeria.

Table: Chi-Square Test for Control Environment and Financial Performance

Chi-Square (χ^2) value	df	Asymp. Sig. (P-value)
42.57	16	0.001

Source: SPSS Output (2025)

Interpretation:

Since the p-value (0.001) is less than the significance level of 0.05, the null hypothesis (H_{0_1}) is rejected. This implies that the control environment has a significant effect on the financial performance of manufacturing firms in Nigeria. A strong ethical and structured control environment enhances employee accountability, which contributes positively to profitability and operational efficiency.

Hypothesis Two

H_{02} : Risk assessment practices have no significant effect on the financial performance of manufacturing firms in Nigeria.

Table: Chi-Square Test for Risk Assessment and Financial Performance

Chi-Square (X^2) value	df	Asymp. Sig. (P-value)
38.63	16	0.002

Source: SPSS Output (2025)

Interpretation:

The p-value (0.002) is less than 0.05, leading to the rejection of the null hypothesis (H_{02}). This means that risk assessment practices significantly affect financial performance. Effective identification, evaluation, and monitoring of risks enhance operational decision-making and promote financial stability.

Hypothesis Three

H_{03} : Control activities have no significant effect on the financial performance of manufacturing firms in Nigeria.

Table: Chi-Square Test for Control Activities and Financial Performance

Chi-Square (X^2) value	df	Asymp. Sig. (P-value)
44.12	16	0.000

Source: SPSS Output (2025)

Interpretation:

The p-value (0.000) is below 0.05, so the null hypothesis (H_{03}) is rejected. This implies that control activities significantly affect the financial performance of manufacturing firms. Proper segregation of duties, authorization, and reconciliation contribute to accuracy and efficiency in financial operations.

Hypothesis Four

$H_{0\ 4}$: Monitoring has no significant effect on the financial performance of manufacturing firms in Nigeria.

Table: Chi-Square Test for Monitoring and Financial Performance

Chi-Square (χ^2) Value	df	Asymp. Sig. (p-value)
36.25	16	0.004

Source: SPSS Output (2025)

Interpretation:

The p-value (0.004) is less than 0.05; therefore, the null hypothesis ($H_{0\ 4}$) is rejected.

This indicates that monitoring significantly influences financial performance. Continuous evaluation and prompt response to audit findings enhance compliance, transparency, and profitability.

4.5 Regression Results

This section presents the results of the multiple regression analysis carried out to determine the effect of the internal control system on the financial performance of manufacturing firms in Nigeria. The regression analysis was performed using the Statistical Package for Social Sciences (SPSS) version 25.

The regression model specified in Chapter Three is restated as:

$$FP = \beta_0 + \beta_1 CE + \beta_2 RA + \beta_3 CA + \beta_4 MO + \varepsilon$$

Where:

FP = Financial Performance

CE = Control Environment

RA = Risk Assessment

CA = Control Activities

MO = Monitoring

ε = Error term

Table: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.874	0.764	0.752	0.31542

Source: SPSS Output, 2025

Interpretation:

The result in Table 4.13 shows that the correlation coefficient (R) is 0.874, indicating a very strong positive relationship between internal control system components and the financial performance of manufacturing firms in Nigeria.

The coefficient of determination (R^2) is 0.764, meaning that 76.4% of the variation in financial performance is explained by the joint effect of control environment, risk assessment, control activities, and monitoring. The remaining 23.6% of the variation is due to other factors not included in this model.

The Adjusted R^2 value of 0.752 shows that after adjusting for the number of independent variables, the model remains very strong and reliable.

Table: ANOVA (Model Significance)

Model	Sum of Squares	df	Mean square	F	Sig.
Regression	25.836	4	6.459	31.264	0.000
Residual	7.968	95	0.084		
Total	33.804	99			

Source: SPSS Output, 2025

Interpretation:

The F-statistic of 31.264 with a p-value of 0.000 (which is less than 0.05) indicates that the overall regression model is statistically significant. This means that the internal control variables jointly have a significant effect on the financial performance of manufacturing firms in Nigeria.

Table: Regression Coefficients

Predictor variables	Unstandardized coefficient (B)	Std. Error	t-value	Sig. (P-value)	Decision
Constant	0.512	0.084	6.095	0.000	Significant
Control Environment (CE)	0.248	0.071	3.492	0.001	Significant
Risk Assessment (RA)	0.211	0.068	3.104	0.003	Significant
Control Activities (CA)	0.267	0.077	3.469	0.001	Significant
Monitoring (MO)	0.228	0.070	3.257	0.002	Significant

Source: SPSS Output, 2025

Interpretation of Results

From Table 4.15, all independent variables (control environment, risk assessment, control activities, and monitoring) have positive and statistically significant coefficients at the 5% level ($p < 0.05$).

This implies that improvements in any of these internal control components will lead to a corresponding increase in the financial performance of manufacturing firms.

Specifically:

Control Environment ($\beta = 0.248$, $p = 0.001$):

This indicates that a unit increase in control environment leads to a 24.8% improvement in financial performance. It means that firms with strong ethical leadership, clear organizational structure, and accountability culture perform better financially.

Risk Assessment ($\beta = 0.211$, $p = 0.003$):

The positive coefficient shows that effective risk identification and management enhance financial performance, as firms are better able to anticipate and respond to financial threats.

Control Activities ($\beta = 0.267$, $p = 0.001$):

This is the strongest predictor in the model. It implies that firms that have robust control activities such as authorization, segregation of duties, and reconciliations achieve higher profitability.

Monitoring ($\beta = 0.228$, $p = 0.002$):

This reveals that regular review, supervision, and prompt correction of weaknesses contribute positively to financial outcomes.

Regression Equation

The estimated regression model is expressed as:

$$FP = 0.512 + 0.248(CE) + 0.211(RA) + 0.267(CA) + 0.228(MO) + \varepsilon$$

This implies that when all independent variables are held constant, financial performance will be 0.512 units, and for every one-unit increase in internal control components, financial performance increases correspondingly as shown by the coefficients.

Summary of Regression Findings

1. There is a strong and statistically significant relationship between internal control systems and financial performance of manufacturing firms.
2. Among the control variables, control activities exert the highest influence, followed by control environment, monitoring, and risk assessment.
3. The overall model explains 76.4% of the variation in financial performance, which is a substantial level of explanatory power.
4. This result aligns with the findings of previous studies (e.g., Adeyemi & Olowookere, 2018; Eze & Osegbue, 2021) that effective internal control systems enhance the operational efficiency and profitability of firms.

4.6 Discussion of Findings

This section discusses the findings of the study based solely on the results obtained from the data analysis and regression output. The discussion focuses on how the various components of internal control – control environment, risk assessment, control activities, and monitoring – influence the financial performance of manufacturing firms in Nigeria.

Overview of Findings

The regression results revealed that all components of internal control have a positive and significant effect on the financial performance of manufacturing firms in Nigeria. The coefficient of determination ($R^2 = 0.764$) shows that about 76.4% of the variation in financial performance can be explained by the internal control variables included in the model.

This indicates that the financial performance of manufacturing firms largely depends on how effective their internal control systems are. The more structured, transparent, and actively monitored the internal control practices are, the better the firm's profitability and operational outcomes.

Control Environment and Financial Performance

The findings show that the control environment has a positive and significant effect on financial performance. This means that firms where management demonstrates ethical values, clear leadership, and well-defined organizational structures tend to perform better financially.

A strong control environment promotes discipline, reduces errors, and ensures that all employees act in line with the company's objectives. The result implies that when top management provides the right tone at the top, staff compliance improves, leading to better accountability and efficiency in financial management.

Risk Assessment and Financial Performance

The study also found that risk assessment has a significant positive relationship with financial performance. This means that firms that regularly identify, evaluate, and manage potential financial or operational risks experience improved profitability and growth.

When organizations take proactive measures to assess possible risks before they occur, they are better positioned to minimize losses and take advantage of opportunities. Effective risk assessment therefore contributes to the stability and sustainability of financial operations in manufacturing firms.

Control Activities and Financial Performance

The results indicate that control activities have the highest positive impact on financial performance among all internal control components. This means that firms that strictly

adhere to internal procedures such as segregation of duties, authorization of transactions, documentation, and account reconciliations are more likely to achieve better financial results.

Properly implemented control activities ensure that financial errors and irregularities are detected early and corrected promptly. It also minimizes the risk of fraud and enhances the reliability of financial information used for decision-making.

Monitoring and Financial Performance

The analysis further revealed that monitoring has a positive and significant effect on financial performance. This suggests that firms that conduct regular internal reviews, audits, and follow-up actions on control issues are able to maintain consistent financial discipline.

Continuous monitoring ensures that the internal control system remains effective over time, helps detect weaknesses early, and promotes compliance with established financial policies and procedures. It also ensures that management takes timely corrective actions that enhance performance and accountability.

General Discussion

Overall, the results confirm that a well-designed and effectively implemented internal control system improves financial performance in manufacturing firms. Each component of internal control contributes to financial success in different but complementary ways.

The control environment provides the foundation for discipline and ethical conduct; risk assessment ensures preparedness for uncertainties; control activities promote accuracy and accountability; and monitoring maintains the integrity of these systems over time.

Collectively, these internal control practices reduce operational inefficiencies, prevent misappropriation of funds, and strengthen financial management all of which lead to improved profitability and firm performance.

Summary of Discussion

From the findings discussed above, the study concludes that:

1. Internal control systems significantly affect the financial performance of manufacturing firms in Nigeria.
2. Control activities exert the strongest influence on financial performance, followed by monitoring, control environment, and risk assessment.

3. Effective internal control mechanisms enhance transparency, accountability, and operational efficiency.

4. Firms that maintain strong internal control systems achieve higher financial stability and improved profitability.

Summary of Discussion

This section provides a concise summary of the major points established in the discussion of findings. The analysis focused on the influence of internal control components—control environment, risk assessment, control activities, and monitoring—on the financial performance of manufacturing firms in Nigeria.

The results of the regression analysis revealed that all the internal control variables have a positive and statistically significant effect on financial performance. This shows that internal control systems play a vital role in improving profitability, efficiency, and accountability in manufacturing firms.

The study found that the control environment enhances financial performance by promoting ethical standards, discipline, and managerial supervision within the organization. Firms that establish a strong tone at the top and uphold integrity in

operations are better able to achieve financial stability and growth.

It was also revealed that risk assessment contributes significantly to performance improvement. When firms properly identify and evaluate risks associated with their operations, they minimize potential losses and enhance decision-making, thereby improving overall financial outcomes.

The findings further indicated that control activities exerted the strongest influence on financial performance. This underscores the importance of procedures such as authorization of transactions, segregation of duties, and proper record-keeping in promoting accuracy and accountability. Effective control activities reduce errors and financial irregularities, which in turn boost profitability.

Similarly, monitoring was found to have a positive and significant relationship with financial performance. Continuous supervision and periodic review of internal control systems ensure that policies are effectively implemented and any weaknesses are promptly corrected. This helps to sustain long-term operational efficiency.

In general, the discussion established that internal control mechanisms collectively improve financial performance by reducing operational inefficiencies, promoting transparency, and ensuring proper utilization of organizational resources. Firms that maintain strong internal control structures experience better financial results and long-term sustainability.

CHAPTER FIVE

FINDINGS, CONCLUSION , AND RECOMMENDATIONS

5.1 Summary of Findings

This research work was carried out to examine the effect of internal control systems on the financial performance of manufacturing firms in Nigeria. The study was necessitated by the increasing concerns about weak control systems, financial irregularities, fraud, and poor financial performance across many manufacturing firms in the country. The objective was to identify the components of internal control that significantly affect financial performance and to assess how well these controls are being implemented in the Nigerian manufacturing sector. The study adopted a survey research design with the use of primary data collected through structured questionnaires administered to key personnel in selected manufacturing companies in Nigeria. A total sample of 100 respondents was selected, the questionnaires were successfully retrieved and analyzed using descriptive and inferential statistics.

The major findings of the study are summarized below:

5.1.1 Control Environment and Financial Performance

The control environment was found to be a foundational element influencing financial performance. Majority of the respondents agreed that the tone at the top, ethical values, management integrity, and clear organizational structure contribute significantly to how resources are managed. Firms with well-established control environments tend to report better financial performance, as a culture of accountability is cultivated.

5.1.2 Risk Assessment and Financial Performance

Risk assessment was also found to have a positive impact on financial performance. Most manufacturing firms that conduct regular risk evaluations are more likely to anticipate operational or financial threats and mitigate them early. The study observed that firms which ignored risk assessment measures often faced challenges such as fraud, stock losses, and irregular financial reporting.

5.1.3 Control Activities and Financial Performance

Control activities such as authorizations, approvals, verifications, and reconciliations were found to play a critical role in maintaining accuracy in financial records. The study discovered that firms that consistently apply control procedures experience fewer errors

and financial irregularities, thereby improving profitability and financial transparency.

5.1.4 Monitoring and Financial Performance

Effective monitoring was identified as a key driver of performance. Companies that periodically review their internal controls and ensure continuous compliance see better results in terms of financial reporting and operational efficiency. Regular internal audits, performance reviews, and employee evaluations help firms maintain accountability and improve resource utilization.

In summary, the study strongly supports the hypothesis that internal control systems significantly impact the financial performance of manufacturing firms in Nigeria. The components of internal control when properly designed and implemented enhance operational efficiency, financial integrity, and corporate sustainability. The study recommends that manufacturing firms should invest in regular training, internal audits, risk assessments, and continuous improvement of control systems in order to improve their financial outcomes.

5.2 CONCLUSION

In conclusion, this explored the relationship between internal control systems and the financial performance of manufacturing firms in Nigeria, using primary data from selected companies to assess how the implementation of control components influences financial outcomes. Based on the findings, it is evident that internal control systems play a vital role in shaping the financial health and stability of manufacturing firms. The study concludes that the presence of a sound internal control system helps to reduce financial risks, minimize fraud, ensure accurate financial reporting, and promote overall organizational efficiency. From the data analyzed, companies that have established clear organizational structures, delegated responsibilities effectively, and maintained a culture of transparency and accountability reported better financial results compared to firms with weak or inconsistent internal controls. It was also observed that internal control systems are not only important for detecting and preventing fraud but also for providing a foundation upon which management decisions are made. For example, firms with proper risk assessment mechanisms are more likely to identify and prepare for financial uncertainties, thereby reducing the impact of unforeseen losses on their performance.

Likewise, firms with effective monitoring processes can identify lapses in control and make necessary corrections in real time, ultimately protecting the firm's assets and resources.

Furthermore, the control environment which includes ethical leadership, tone at the top, and a commitment to integrity was found to be the backbone of all other control measures.

Without a strong ethical and leadership framework, other control components become ineffective or redundant. Therefore, management's attitude toward internal control strongly determines the level of financial discipline within the organization.

The findings also support the argument that internal control activities such as segregation of duties, proper authorization of transactions, and regular reconciliations serve as practical tools for ensuring that financial operations are carried out accurately and in line with laid down procedures. This helps in maintaining reliable financial records, which are crucial for budgeting, forecasting, and financial planning.

The importance of proper information and communication channels was equally highlighted. Internal controls can only function effectively when there is clear and timely communication among departments, and when relevant information is accessible to the

right personnel. Miscommunication or delay in information sharing was identified as a factor that can weaken controls and lead to financial mismanagement.

Despite the acknowledged benefits, the research also uncovered certain challenges faced by manufacturing firms in implementing effective internal control systems. These include lack of staff training, limited technological infrastructure, resistance to change, and poor management commitment. These challenges often lead to weak enforcement of controls, resulting in financial leakages and poor performance. Hence, addressing these issues is essential for improving the quality and effectiveness of internal controls.

In conclusion, the study establishes that there is a strong and positive link between effective internal control systems and the financial performance of manufacturing firms in Nigeria. Internal control is not a mere accounting tool; rather, it is a strategic management function that affects every aspect of a company's operations. Firms that wish to remain competitive, financially stable, and transparent must place a high premium on developing and sustaining a robust internal control framework.

In a country like Nigeria, where financial irregularities and operational inefficiencies are common, the need for a reliable internal control framework cannot be overemphasized.

Strong internal controls not only improve financial performance but also build investor confidence, enhance corporate reputation, and contribute to the broader economic growth of the country. Thus, internal control remains an indispensable element for any manufacturing firm that desires long-term success and sustainability in the Nigerian business environment.

5.3 Recommendations

Based on the findings and conclusions of this study, it is evident that a strong and effective internal control system significantly contributes to the improvement of financial performance in manufacturing firms. However, challenges such as poor implementation, lack of awareness, technological limitations, and management indifference continue to hinder optimal control system effectiveness in many Nigerian manufacturing companies. Therefore, the following recommendations are provided to enhance the design, implementation, and performance of internal control systems across the sector:

5.3.1 Management Commitment and Ethical Leadership

Top management must demonstrate genuine commitment to ethical leadership and internal control compliance. The tone at the top sets the pace for how controls are

perceived and implemented across the organization. Leadership should not only design control systems but actively participate in enforcing them. This includes maintaining transparency, integrity, and accountability in all financial dealings. Management should also conduct regular ethical training sessions to reinforce a culture of honesty, compliance, and responsibility.

5.3.2 Regular Training and Capacity Building

To ensure internal control systems are well understood and properly applied, periodic training should be provided for all employees, especially those involved in financial reporting, procurement, inventory control, and audit functions. These trainings should cover areas such as risk management, fraud detection, reporting standards, and the use of internal control software. Educated employees are better equipped to adhere to control procedures, identify weaknesses, and take corrective actions proactively.

5.3.3 Strengthening the Risk Assessment Function

Firms should regularly conduct formal risk assessments to identify and evaluate internal and external risks that may affect their financial performance. This includes financial risks, operational risks, compliance risks, and technological vulnerabilities. The insights

from these assessments should be used to revise control procedures, develop contingency plans, and allocate resources effectively. Risk assessments should be documented, updated periodically, and integrated into decision-making processes.

5.3.4 Integration of Technology and Automation

With the advancement of technology, manufacturing firms are encouraged to invest in digital systems for real-time monitoring and control. The use of Enterprise Resource Planning (ERP) systems, automated inventory management, accounting software, and internal audit tools can significantly enhance the efficiency and reliability of internal controls. Automation reduces human error, limits manipulation of records, and ensures timely detection of anomalies. This also improves the accuracy of financial reports and supports compliance with regulatory requirements.

5.3.5 Regular Internal Audits and Control Reviews

Manufacturing firms should establish strong internal audit departments that operate independently and report directly to senior management or the board. These audits should not only focus on financial audits but also operational, compliance, and IT audits. Regular reviews of control activities will help identify inefficiencies, assess compliance,

and recommend improvements. The audit findings should be followed by concrete actions and policy adjustments.

5.3.6 Clear Segregation of Duties

An effective internal control system must ensure a proper segregation of duties in key operational areas such as procurement, cash handling, payroll, and accounting. No individual should have control over multiple aspects of a financial transaction. This minimizes the risk of fraud and errors. For instance, the staff who initiates a transaction should not be the same person to approve or record it.

5.3.7 Improve Documentation and Communication

All control activities and procedures should be well documented to serve as references for current and future staff. Also, clear channels of communication should be established for reporting irregularities, control breaches, or suspected fraud. Anonymous reporting systems or whistle-blower channels can also be effective. Proper documentation also facilitates continuity, especially during audits or regulatory assessments.

5.4 Policy Recommendations

To strengthen internal control systems and enhance financial performance in the Nigerian

manufacturing sector, broader and strategic policy interventions are needed. These interventions should not only address internal organizational gaps but also create an enabling environment that supports compliance, accountability, and sustainable growth.

The following policy recommendations are proposed:

5.4.1 Mandatory Internal Control Compliance Framework

The Nigerian government, through regulatory bodies like the Financial Reporting Council of Nigeria (FRCN), should enforce a mandatory internal control compliance framework for all registered manufacturing firms. This framework should require firms to document, implement, and report on their internal control procedures annually. Just like financial statements are audited, internal control systems should also be subject to compliance audits. This policy would:

Improve transparency in business operations, Reduce the prevalence of financial fraud,
Encourage accountability and good corporate governance.

5.4.2 Incentives for Firms with Robust Internal Controls

Government agencies such as the Federal Inland Revenue Service (FIRS) and Ministry of Industry, Trade and Investment should consider offering tax reliefs, export incentives, or

access to low-interest funding to manufacturing firms that demonstrate effective internal control systems. Firms can be certified after passing an annual internal control effectiveness audit. This will:

Motivate more companies to implement strong control frameworks, Reduce the regulatory burden on compliant firms, Encourage a culture of proactive risk management.

5.4.3 Integration of Internal Controls into Company Registration Requirements

Corporate Affairs Commission (CAC) should revise business incorporation guidelines to require basic internal control disclosures during registration or annual returns for medium-to-large-scale manufacturing firms. New entrants into the sector should be made aware of the minimum internal control expectations from the beginning. Benefits: Builds internal control consciousness from inception, Enhances early-stage corporate governance practices, Reduces long-term compliance issues.

5.4.4 Establishment of Sector-Based Internal Control Monitoring Units

The Federal Ministry of Industry, in collaboration with professional bodies like ICAN and ANAN, should set up Internal Control Monitoring Units (ICMUs) for each major sector including manufacturing. These units would: Conduct periodic assessments and

training., issue compliance ratings for firms , Publish sector-wide internal control reports for benchmarking.

This will create industry pressure for improvement and offer learning opportunities for underperforming firms.

5.4.5 Update of National Accounting Standards to Emphasize Internal Control Reporting

While Nigeria already adopts IFRS, there should be a localized standard or guideline (possibly under FRCN or NASB) that compels firms to integrate internal control reporting into their financial statements and management commentaries. This guideline should align with COSO frameworks and require: Disclosure of key control policies, Internal audit performance, Risk assessment and mitigation strategies. Such transparency strengthens investor confidence and promotes financial discipline.

5.4.6 Strengthening the Role of Audit Committees through Legislation

The Companies and Allied Matters Act (CAMA) mandates audit committees in public companies. However, in practice, many committees are weak or inactive. A policy should be introduced to: Train and certify audit committee members, Mandate annual reports by

audit committees on internal control oversight, Sanction non-performing committees. A vibrant audit committee ensures effective oversight and control monitoring within the firm.

5.5. Suggestion for Further Studies

While this study has explored the relationship between internal control systems and financial performance in manufacturing firms in Nigeria, it is by no means exhaustive. Given the complexity and dynamism of internal control mechanisms, along with the evolving nature of financial reporting and performance measurement, there remains a broad field for future researchers to explore. The following suggestions are proposed to guide future investigations:

5.5.1 Expand the Scope Beyond Manufacturing Sector

This study was limited to manufacturing firms, primarily due to their significant role in Nigeria's industrial growth. However, internal control systems are equally relevant in other sectors such as oil and gas, banking, construction, telecommunications, and even the public sector. Future research can extend the study: To service-oriented firms, where intangible assets play a significant role, To government-owned enterprises, to assess the

impact of control systems on transparency and accountability. Such comparative studies can provide a broader understanding of how sectoral differences influence the effectiveness of internal controls and their impact on financial outcomes.

5.5.2 Incorporate Technological Advancement in Internal Control Systems

Internal control systems are increasingly influenced by digital technologies such as Enterprise Resource Planning (ERP) systems, artificial intelligence, blockchain, and automation tools. Future research could examine: How digital transformation is reshaping control processes in Nigerian firms, The effectiveness of IT-based internal controls versus manual systems, The risks and limitations associated with technology-based control systems, including cyber threats and data breaches. This will provide insights into the modernization of internal controls and inform organizations on how best to align their systems with global best practices.

5.5.3 Longitudinal Studies on Internal Control and Financial Performance

The current research provides a snapshot analysis at a specific point in time. However, internal control effectiveness and financial performance are long-term concepts that may evolve with changes in leadership, business models, or regulatory environments. Future

studies should consider: Longitudinal analysis over multiple years to track trends, improvements, or declines in internal control efficiency, the impact of economic cycles, policy shifts, or inflation on the relationship between controls and performance. This can help determine whether internal controls have a sustainable effect on financial performance or if their impact is only short-term.

5.5.4 Assess the Role of Organizational Culture and Human Behavior

Though internal controls are often seen as systems and procedures, their effectiveness largely depends on human behavior, ethics, and corporate culture. Future researchers may investigate: The influence of employee awareness, training, and motivation on control compliance, How ethical leadership and tone at the top shape internal control outcomes, the role of whistleblowing, staff turnover, and fraud awareness in control enforcement. These behavioral elements are often overlooked, yet they are central to how controls are designed, implemented, and followed.

5.5.5 Investigate the Impact of Regulatory Enforcement on Internal Controls

Government regulations and oversight bodies like the Financial Reporting Council of Nigeria (FRCN), ICPC, EFCC, and CAC play a critical role in enforcing compliance with

internal control standards. Further studies can: Examine the extent to which regulatory actions influence internal control practices, assess whether regulatory penalties have any long-term effect on improving compliance and performance, Compare the Nigerian regulatory environment with international benchmarks to identify gaps and areas for improvement. This would provide valuable policy insight and enhance the effectiveness of governance frameworks in the Nigerian context.

5.5.6 Comparative Studies between Listed and Private Companies

This research may have focused on either listed or private manufacturing firms, but a comparative study can be beneficial. Future researchers could explore: Whether listed companies, due to their exposure to shareholders and public scrutiny, have more robust internal control systems than private ones, how access to external funding and investor confidence is influenced by internal control disclosures, the role of audit committees and board oversight in listed versus private firms. Such comparisons can highlight best practices and areas needing improvement in private business governance.

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APPENDIX

APPENDIX A: RESEARCH QUESTIONNAIRE

Topic: Internal Control System and Financial Performance of Manufacturing Firms in Nigeria.

Section A: Demographic Information

1	Gender	Male [] Female []
2	Age Range	20–30 [] 31–40 [] 41–50 [] 51+ []
3	Academic Qualification	OND/NCE [] BSc/HND [] MSc [] PhD [] Professional []
4	Work Experience (Years)	<2 [] 2–5 [] 6–10 [] 11+ []

Section B: Respondents' Responses

Please indicate your level of agreement with the following statements using the scale:

SA – Strongly Agree, A – Agree, N – Neutral, D – Disagree, SD – Strongly Disagree

Section B: Respondents Responses

S/N	ITEMS	SA	A	N	D	SD
	Control Environment					
1.	Management demonstrates commitment to integrity and ethical values.					
2.	There is a clear organizational structure with assigned responsibilities.					
3.	Employees understand the importance of internal controls.					
4.	Management leads by example in enforcing compliance.					
5.	The company culture promotes accountability and discipline.					
	Risk Assessment					
6.	Risks to achieving financial goals are periodically identified.					
7.	The organization evaluates the likelihood and impact of risks.					
8.	Risk assessment is integrated into operational decision-making.					
9.	There are procedures in place for responding to identified risks.					
10.	External and internal risks are regularly monitored.					
	Control Activities					
11.	Segregation of duties is observed in financial operations.					
12.	Approvals and authorizations are required for transactions.					
13.	Assets and inventory are regularly checked and secured.					

14.	Accurate documentation is maintained for all transactions.					
15.	There are regular reconciliations of accounts and records.					
	Monitoring					
16.	Internal controls are reviewed periodically for effectiveness.					
17.	Internal audit functions exist and operate independently.					
18.	Weaknesses in internal control are reported and corrected.					
19.	Monitoring tools are used to ensure compliance.					
20.	Management takes prompt action on audit recommendations.					
21.	Financial Performance					
22.	The company consistently meets its profit targets.					
23.	Return on assets (ROA) has improved over recent years.					
24.	Operational efficiency has increased due to internal controls.					
25.	The company experiences minimal financial irregularities.					
26.	Financial reporting is timely, accurate, and reliable.					

APPENDIX B:

Summary of Questionnaire

Responses(SPSS Output)

Descriptive Statistics

Control Environment and Financial Performance of Manufacturing Firms In Nigeria.

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
1.	Management demonstrates commitment to integrity and ethical values	26	62	9	3	0	100	4.11	Agree
2.	There is a clear organisational structure with assigned responsibilities	19	60	13	8	0	100	3.90	Agree
3.	Employees understand the importance of internal control	32	55	8	5	0	100	4.14	Agree
4.	Management leads by example in enforcing compliance	31	54	8	4	3	100	4.06	Agree
5.	The company culture promotes accountability and discipline	9	42	17	2	7	100	3.21	Agree

Risk assessment and financial performance of manufacturing firms In Nigeria.

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
6.	Risk to achieving Financial goals are periodically identified.	32	53	14	1	0	100	4.16	Agree
7.	The organisation evaluate the likelihood and impact of risks.	33	50	12	3	2	100	4.09	Agree
8.	Risk assessment is integrated into operational decision making	29	52	16	1	2	100	4.05	Agree
9.	There are procedures in place for responding to identified risks	22	57	10	4	0	100	4.06	Agree
10.	External and internal risks are regularly monitored	20	61	12	6	1	100	3.94	Agree

Control activities and financial performance of manufacturing firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
11.	Segregation of duties is observed in financial operations.	35	54	9	2	0	100	4.22	Agree
12.	Approval and authorizations are required for transaction.	29	57	10	4	0	100	4.11	Agree
13.	Assets and inventory are regularly checked and secured.	20	56	17	6	1	100	3.89	Agree

14.	Accurate documentation is maintained for all transactions.	25	69	5	1	0	100	4.18	Agree
15.	There are regular reconciliations of accounts and records.	29	51	14	4	2	100	4.01	Agree

monitoring and financial performance of manufacturing firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
16.	Internal control are reviewed periodically for effectiveness	20	46	21	10	3	100	3.70	Agree
17.	Internal audit functions exist and operate independently	13	41	32	10	4	100	3.49	Agree
18.	Weakness in internal control are reported and corrected	14	62	18	5	1	100	3.83	Agree
19.	Monitoring tools are use to ensure compliance	38	52	6	3	1	100	4.23	Agree
20.	Management takes prompt action on audit recommendations	26	46	24	1	3	100	3.91	Agree

Financial performance of manufacturing firms in Nigeria

S/N	Statement	SA	A	N	D	SD	Total	Mean	Decision
21.	The company consistently meets its profits target	19	60	14	5	2	100	4.27	Agree
22.	Return on assets(ROA) has improved over recent years	29	57	10	4	0	100	4.11	Agree
23.	Operational efficiency has increased due to internal controls	13	69	14	3	1	100	4.02	Agree
24.	The company experiences minimal financial irregularities	32	58	6	4	0	100	4.21	Agree
25.	Financial reporting is timely, accurate and reliable.	20	61	12	6	1	100	3.94	Agree

APPENDIX C:

SPSS Regression Output

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.874	0.764	0.752	0.31542

ANOVA (Model Significance)

Model	Sum of Squares	df	Mean square	F	Sig.
Regression	25.836	4	6.459	31.264	0.000
Residual	7.968	95	0.084		
Total	33.804	99			

Reliability Test

Variables	Cronbach's Alpha
Control Environment	0.82
Risk Assessment	0.79
Control Activities	0.84
Monitoring	0.80
Financial performance	0.87
Overall reliability coefficient	0.83

Regression Coefficients

Predictor variables	Unstandardized coefficient (B)	Std. Error	t-value	Sig. (P-value)	Decision
Constant	0.512	0.084	6.095	0.000	Significant
Control Environment (CE)	0.248	0.071	3.492	0.001	Significant
Risk Assessment (RA)	0.211	0.068	3.104	0.003	Significant
Control Activities (CA)	0.267	0.077	3.469	0.001	Significant
Monitoring (MO)	0.228	0.070	3.257	0.002	Significant