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Effects of Internal Control Activities and Control Environment on Organizational Performance of Selected Tertiary Institutions in Osun State, Nigeria

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ABSTRACT

This study investigated the effects of internal control activities and control environment on organizational performance of selected tertiary institutions in Osun state. The qualitative research was adopted and the population comprised of all non-academics' staff in Audit, Bursary and Account department of the selected institutions. A structure questionnaire was used to collect information from the respondents. Data obtained was analyzed using multiple regression analysis. The results of the findings revealed that internal control activities have positive significant relationship on organisation performance in the tertiary institutions in Osun State at 5% level of Significant and that control environment has no significant relationship with organizational performance at 5% level of Significant. The study concluded that internal control activities and environment were the key determinant to promote organizational performance. Internal control activities can be enhanced, when the necessary factors to improve services are provided in an organization.
Keywords: Internal Control, Organizational performance, Control environment, performance.
JEL Classification Code: F65, G39, M42

1. INTRODUCTION

Control is the key function of an organisation that are put in place by the management to ensure effective and efficient utilization of the organisation resources to achieve the set goal and objectives. For an organisation to achieve workable environment, activities control and sustainability, there is need for proper control to be put in place. According to Nyakundi, et al. (2014) control activities are the policies and procedures that guarantee management directives that are followed. This helps to ensure that the necessary procedures are taken to manage risks and achieve the entity's objectives. Control activities occur at all levels and in all areas within the organization. The two components of control activities are normally a policy describing what should be done and procedures to carry out the policy.

Internal control activities are procedures, policies, organizational structures and compliance-related or management-initiated concerns put in place to provide reasonable assurance that an organization's business goals will be accomplished and undesirable risk events will be prevented, discovered and corrected. Internal controls are policies that protect an organization's assets, offer reliable financial reporting, improve compliance with rules and laws and increase operational efficiency (Ahmed & Nganga, 2019). They are set of procedures and policies adopted by an entity to make sure that transactions within the organization are handled properly in order to prevent theft, waste, and improper use of

International Journal of Innovative Research in Accounting and Sustainability
ISSN: 2736-1381 (Print), ISSN 2736-1500 (Online)
Vol. 8, No. 1, 2023

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resources. Tinega, et al. (2014) are of opinion that Internal Controls are policies created and implemented by those charged with management, governance and other personnel to give a reasonable level of assurance about the accomplishment of an entity's objectives with regard to the accuracy and dependability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations (Abiodun, 2020).

An organization's performance is established on how well and effectively it uses both financial and non-financial resources (Owolabi & Amosun, 2020). Several procedures of control are executed by management and the board of directors to advance the use of the resources given to all employees of an organization. Controls within the organization are the policies, methods, structures, and practices that are put in place to give a reasonable assurance of an organization's goals (Maaroufi & Elhaji, 2022). An organization effectiveness is measured by how well it accomplishes its particular aims. Performance is the capacity to carry out operations profitably and successfully by surviving, develop and to respond to environmental opportunities and threat performance. However, it is considered as one of the factors contributing to the level of development of an organization (Muhunyo & Jagongo, 2018). Many managements of institutions are obligated to provide reports of their efficiency of internal control on financial reporting, which obliges them to create detailed documentation to support their certification and statements. Internal control guarantees that the company follows all applicable rules and regulations, that its operations are effective and efficient carried out and that its financial reporting is reliable (Krishnan, 2015).

Effectiveness of an organizational performance is an ongoing challenge. Stakeholders and beneficiaries have been dissatisfied by various organizations' performance (Amponsah & Darmoe, 2014). Creating policies that aid in improving an organization's performance has long been a top goal for company managements at all level (Mutua, 2023). Despite all the efforts of the organisations toward structuring the internal control system. They are still struggling with corruption, fraud, breaches of control, untimely financial reporting, continuous errors, inefficient financial accountability and mismanagement of the company's resources, inadequate enlightenment and several decisions made that do not yield the anticipated results.

Many researchers like Hamidu (2020) carried out research which focus on internal audit system, financial accountability and performance of tertiary institution and the scope were limited to Bauchi. Kolawole and Akinleye (2019) investigated internal controls and their activities in selected tertiary institutions in Ekiti State in Nigeria. Akosile and Akinselure (2016) investigated internal control procedure on financial performance of firms in Nigeria. However, the dearth of such studies in Nigeria is apparent and this create the gap and need for this study, hence, this researcher will fill this gap by empirically look into some factors that may not allow for successful control of internal activities in the environs of tertiary institutions in Osun State in Nigeria. Therefore, this study examined the effect of internal control activities and control environment on orgnisational performance of selected tertiary Institutions in Osun State Nigeria. In the line with the above-mentioned problem, the following questions will be answered:

i. To what extent do internal control activities affect organizational performance of the selected tertiary Institution in Osun state?
ii. Does control environment affect organizational performance of the selected tertiary Institution in Osun State?

Collaborate with the aforementioned questions, the main objective of this study is to examine the effect of internal control activities and control environment on organizational performance of the selected tertiary institutions in Osun State. The specific objectives are as follows:

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i. To investigate to what extent do internal control activities affect organizational performance of the selected tertiary Institution in Osun state?
ii. Does control environment affect orgnisational performance of the selected tertiary Institution in Osun State?

2. LITERATURE REVIEW

2.1 Internal control Activities

Internal controls are established to ensure that all assets are safeguarded, to avoid abuse or theft of the company's assets and to detect and to protect against potential frauds (Eniola, 2020). Internal controls help to assure the quality of internal and external reporting, which includes methods for reporting prompt appropriation of levels of management substantial control and shortcomings or weaknesses that are identified together with details of corrective action (Kolawole & Akinleye, 2019). Internal control ensures that internal policies, rules and regulations are obeyed. It is critical to remember that a competent internal control system provides reasonable, absolute confidence that cannot hinder a company from attaining its objectives. Control activities are actions established through policies and procedures that help ensure that management's directives to mitigate risks toward achieving predetermined objectives that are carried out. Mire (2016) stated that control activities are performed at all levels of the organisation and various phases within business processes and across the technology environment. These activities can be preventive or probing in nature and they can include a variety of human and automated tasks like as authorizations and approvals, verifications, reconciliations and business performance reviews. Management should implement control activities in order to effectively and efficiently achieve the organization's objectives and mission.

2.1.2 Control Environment

Control environment is viewed as the cornerstone of internal control systems because it establishes the tone and shapes the control consciousness of all employees of an organization. Kinyua, Gakure, Gekara and Orwa, (2015) investigated the effect of internal control environment on the financial performance of companies quoted in the Nairobi Securities Exchange. Data was collected through structured questionnaires and secondary data extracted from audited annual reports. Data analysis technique used were descriptive, linear regression and inferential statistics. The results of findings revealed that there was significant relationship between internal control environment and financial performance. The control environment has an impact on the entire internal control system. Elements of control environment according to Maaroufi and Elhaji (2022) includes the organizational structure of the institution, management's operating philosophy, style, integrity, ethics, competence of personnel, external influences that affects the operations of the organization and risk management.

2.1.3 Organizational Performance

Organizational performance depends on how well an organisation is able to achieve its goals and objectives (Simon, 2021). This involves analyzing a company's performance against its objectives and goals by comparing the actual results with standard outputs. According to Eleonora (2020), defined organizational performance as analyzing the impact of leadership at organizational and individual levels. Performance measured of how well and appropriate organizational objectives are accomplished by enhancing both the effectiveness of the organisation and its control environment. Organizational performance depends on how you adapt to an external environment (Bratianu & Bejinaru, 2019). Richter, Schmidt,

Ladwig and Wulhorst, (2017) asserted that effectiveness of organizational performance supposed to reflect in financial performance in the medium and long run because performance improvement is the heart strategic management and organizational performance.

2.1.4 Internal Control Activities and Organizational Performance

Internal audit is also one of the internal control measures employed by organizations (Maaroufi. & El haji, 2022). According to Nyakundi, et al. (2014), control activities are the rules and processes that helps to guarantee management directions are followed. Control activities comprise of strategies, procedures, approvals, authorizations, verifications, reconciliations, asset security and segregation of roles within the company (Kgabo, 2013). Nantunda et al. (2020) demonstrated how reviewing and validating internal controls adhered to authorization protocols, improved financial performance at all levels and functions of the organization. They comprise a wide range of tasks such as approvals, authorizations, verifications, reconciliations, operational performance assessments, asset security and segregation of duties. Control activities typically includes two components a policy outline what should be accomplished and procedures for putting the policy into action. All policies must be properly, conscientiously, and consistently implemented (Muhunyo and Jagongo, 2018). Control operations occur throughout the business and includes a wide range of responsibilities like reviews of operational performance, employee separation of functions, authorization and verification of assertions as supported by (Cantwell, 2019).

H0$_1$: There is no significant relationship between internal control activities and organizational performance.

2.1.5 Control Environment and Organizational Performance.

Mire (2016) stated that control environment is the basis upon which a successful system of internal control was developed and operated. This consists of the standards, procedures and organizational framework that serve as the basis for implementing internal control throughout the organization. The control environment includes the constraints that allow the board of directors to carry out its governance- oversight duties, the organizational structure and delegation of authority, which is the process for attracting, developing and retaining skilled personnel and the consistency of performance measures, incentives, and rewards to encourage performance accountability. Committee of sponsoring organisations (COSO, 2013) claimed that the effective control environment provides a mental attitude within which the institution's internal control process will function across all stages of functions and prevent or reduce risk.

Oyedokun and Felejaye (2022) investigated the impact of internal control and financial performance of non-governmental organisations in Nigeria. Descriptive survey research design was adopted and questionnaire was used to collect data from the respondents. Data collected were analyzed using inferential statistic and linear regression model. The findings revealed that control environment and risk assessment have significantly influence the financial performance of surveyed Nigeria government organisation (NGOs) while control activities have a significant effect.

H0$_2$: There is no significant relationship between control environment and orgnisational performance

2.2 Theoretical Review

This paper can classify the theoretical review for the relationship between internal

control activities and control environment proxy with reduction of irregularities, increase transparency, implementation of control for decision making and organizational performance.

2.2.1   Stewardship theory

Stewardship theory was propounded by Davis, Schoorman and Donaldson (1989) and further developed by Donaldson and Davis in 1997. The theory described the process by which stewards increase shareholder wealth through greater business performance because they realize that doing so maximizes their utility function. Gabriel (2023) stated that good stewards cooperate with others rather than working alone and they were motivated by their own interest. According to this stewardship paradigm, the top executive and manager are largely held accountable for the stewardship function in the organization. Keay (2017) asserted that by recognizing the stewardship relationship and treating followers as owners and partners, the stewardship attitude is demonstrated with dedication to the company over self-interest. This inquiry employs stewardship theory.

According to Madison (2014), who argued that stewardship theory presents a humanistic picture of man, the steward's behavior is oriented on serving others, thus they operate in a manner that satisfy principal's best interests. Owolabi and Amosun (2020) argued that the managers or executives of an organisation are stewards of the owners and share common goals. Structures are set up for better the alignment of the steward's and principal's interests. This study anchored on stewardship theory since the management (agent) or executive are stewards of the organisation saddled with the accountability of instituting internal controls system within the organisation and the managers are responsible to manage and control to achieve the organizational goals and objectives.

2.3   Empirical Review

Maaroufi and El haji (2022) investigated the impact of internal control components on Moroccan public organization performance. The collected literature was analyzed using a documentary. The findings demonstrated a positive association between internal control aspects and organizational performance. They discovered through documentary analysis that the size of this influence changes across different aspects of the internal control system. Simon (2021) conducted research on the influence of administrative internal control on performance in the telecoms business in Nigeria's south-south and south-east. Based on the findings of this study, the study asserted that internal control has a positive and significant effect on the organizational performance of the telecommunications industry in south-south and south-east Nigeria. Thus, telecommunications industries that invested more in effective internal control systems are more likely to experience an overall improved performance, compared to telecommunications industries that had a weak internal control system.

Muhunyo and Jagongo (2018) examined the impact of internal control mechanisms on the financial performance of Nairobi Kenya's governmental institutes of higher learning. The research was founded on theories such as agency theory, stewardship theory, positive accounting theory, and attribution theory. Descriptive research design was adopted in the study. Data collected was analyzed. The results of the findings revealed that control environment, risk assessment, control activities, information and communication as indicators of internal control systems have a substantial influence on the financial performance of institutions of higher learning.

Salma and Ng'anga (2019) examined internal control practices and financial performance of County Governments in Kenya's. Data were collected through the use of structured questionnaire. Descriptive and inferential statistics was the instrument used to analyse data. The findings of the study showed a positive and significant effect between risk assessment, monitoring, control environment, information and communication on financial.

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The study further revealed that, risk identification and mitigation play the most significant impact in influencing the financial performance of county governments.

Eniola, (2020) investigated the company's internal control procedures and firm performance in Nigeria's south-west region. An extensive review of the literature was used to acquire data. Different regression models were used to ascertain if, there was any effect on internal control on firm performance. The findings revealed a nexus between internal audit control, risk management and monitoring methods and organizational effectiveness. However, control techniques and control environment, have negative significant on firm performance.

3. METHODOLOGY

Qualitative research design was adopted to investigate the effects of internal control activities and Control Environment on Orgnisational Performance of selected Tertiary Institutions in Osun State Nigeria. Simple random technique was used to prepare the data collected from the respondents, based on the questionnaire distributed to further research on this study. The instrument for data collection was a researcher designed structure questionnaire. The total population comprised of all one hundred and twenty (180) of non-academic staff of eleven (11) selected institutions from the selected institutions. Six (6) out of the tertiary institutions were randomly selected using ownership status, that is federal, state- and privately-owned universities with a sample size of sixty (60) from bursary and audit department of the selected institutions in Osun State. The choice of this was to capture the heterogeneous characteristics of the universities, Data collected were analyzed using inferential statistics.

3.1 Model specification

The study adopted the model that was developed by Eniola and Akinselure (2016) to check the internal control activities in an organisation. These researchers examined the impact of internal control and financial performance of some selected manufacturing firms in Nigeria. This presented the functional relationship between the dependent and independent variables as follows:

$Y = \beta_0 + \beta_1 X_1 + \mu$ --------------------------------- (1)

Where Y = is dependent variable represented by financial performance,

X_1 = Internal Control which is independent variable.

β_0 = constant, β_1 = regression coefficient and μ = Error term.

The model was substituted for:

$OP = f(IC)$ -- (2)

$OP_t = \beta_0 + \beta_1 ICA_t + \beta_2 CE + \mu_t$ --------------------------- (3)

Where:

OP = Organizational performance, ICA = Internal Control activities, CE = Control Environment, μ = Error term, β_0 = constant, β_1, β_2 = Coefficient of independent variables.

4. DATA ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Descriptive Statistics

Table 1 displayed the descriptive statistics of internal control activities and organizational performance. It revealed that 58 respondents were considered in the study. The minimum, maximum, means and standard deviation of the variables of transparency, confidence, training and independent were presented.

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Table 1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TRANSPARENCY	58	3.00	4.00	3.2931	.45916
CONFIDENCE	58	2.00	4.00	3.0517	.68627
TRAINNING	58	2.00	3.00	2.4483	.50166
INDEPENDENT	58	2.00	3.00	2.4483	.50166
Valid N (listwise)	58				

Source: Authors' Computation (2023)

4.2   Internal control activities and organizational performance.

Table 2 establishes the effect of statistical significance of Internal Control Activities and organizational performance. From the regression analysis, it was revealed that coefficient significance value of 0.003 critical value is lower than   p- value of 5% level of significant (0.03< 0.05). The null hypothesis was rejected. This implies that internal control activities affect organizational performance significantly in the selected tertiary institutions in Osun state. The R –squared of 64.5% expressed a strong influence of the dependent variable of the organizational performance. The remaining 35.5% unexplained variable can be explained outside the independent by other factors. The coefficient table revealed that organizational performance varied directly with reduction of irregularities, increase transparency, implementation of control for decision making and absence of internal control will promote corruption practices and fraudulent financial reporting (0.044,0.597,0.107, and 0.08 respectively.

This showed that a change in organizational performance of the tertiary institutions is accounted for by direct change of 0.044,0.597,0.107and 0.08 respectively in internal control activities. However, Organizational Performance varies negatively with internal control within some institution. Internal control does not protect the assets of the institution, proper implementation of internal Control encourage compliance to management policies, internal control mechanism increases the level of confidence of external users and strong internal system increase the goodwill value of the institutions -.081, -.070, -.228, -.173. This means that for any change in organizational performance, there is an inverse change of -081, -070-228 and -173 respectively for internal control activities.

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Table 2: Internal control activities and organizational performance.

Model Summary of Internal Control Activities and Organizational performance.

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	.722[a]	.649	.638	2.0209

Model		Sum of Squares	Df	Mean Square	F	Sig.
1.	Regression	7.623	9	.847	3.360	.003[b]
	Residual	12.101	48	.252		
	Total	19.724	57			

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.926	1.319		.702	.486
	IRRREGULARITY	.044	.106	.054	.412	.682
	TRANSPARENCY	.597	.161	.466	3.702	.001
	IMPLEMENTATION	.107	.087	.185	1.220	.228
	PROTECT	-.081	.093	-.110	-.875	.386
	MEASURES	.271	.251	.199	1.080	.286
	COMPLIANCE	-.070	.105	-.080	-.667	.508
	ABSENCE	.080	.173	.069	.464	.645
	CONFIDENCE	-.228	.101	-.266	-2.253	.029
	GOODWILL	-.173	.100	-.219	-1.730	.090

Authors' Computation (2023)

4.3 Control Environment and Organizational performance

Table 3 depicts the effect of statistical significance effect of Control Environment on organizational performance. From the regression analysis table, the null hypothesis was accepted since the F-value of 1.202 greater than the critical value. This implies that control environment does not significantly influence on organizational performance at 5% level of significant. Therefore, Control environment is not the key determinant to influences organizational performance. The R –squared of 71.8% expressed a strong influence of the dependent variable of the organizational performance. The remaining of 28.2% unexplained variable can be explained outside the independent by other factors. The coefficient table revealed that organizational performance is directly varied with control environment good quality and independent of 0.171 and 0.050 and 0.032. respectively. This showed that a change in organizational performance of the tertiary institutions are accounted for by direct change of 0.171,0.05 and 0.032 in control environment respectively. Organizational Performance varies negatively with control environment improve organisation revenue and independent of staff to do the right and lawful -0.087 and -0.034 respectively. This means that for any change in organizational performance, there is an inverse change of 0.087 and 0.034.

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Table 3: Control Environment and organizational performance.

Model	R	R. Square	Adjusted R. Square	Std. Error of the Estimate
1	.836[a]	.718	.724	3.58311

Model		Sum of Squares	Df	Mean Square	F	Sig.
1.	Regression	2.03	5	.409	1.202	.321[b]
	Residual	17.681	52	.340		
	Total	19.724	57			

Coefficient of Variables Control Environment and Organizational performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.722	.848		3.209	.002
	CONTROLENVIRONMENT	.171	.099	.232	1.722	.091
	REVENUE	-.087	.101	-.133	-.862	.392
	QUALITY	-.034	.108	-.054	-.314	.755
	GOODQUALITY	.050	.077	.093	.653	.516
	INDEPENDENT	.032	.229	.027	.138	.891

Authors' Computation (2023)

4.4 Discussion of Findings

In hypothesis one, it was observed that internal control activities have positive significant relationship with organizational performance with regression result of 0.003 level of significance which is less than 0.05 significance level in Universities in Osun State. The null hypothesis was rejected. The study revealed a positive significant relationship between control Activities and organizational performance. This is in line with Simon, (2021); Muhunjo and Jagongo, (2018); Kamau, (2014); Njeri (2014); Kinyua (2015) who found that there exists a positive correlation between internal Control and performance of organisations.

In the hypothesis two, the study revealed that there is no significant relationship between control environment and organizational performance with regression result of 0.321 level of significance which is greater than 0.05 significance level. The null hypothesis was accepted. This is consistent with the study of Godwin, et al. (2022); Abiodun (2020) who found negative significant between Control environment and firm performance and disagreed with works of (Kamau,2014; Kinyua et all, (2015), Maaroufi.and El haji (2022); Muhunyo and Jagongo (2018) that established positive significant between internal control environment and financial performance.

5. CONCLUSION AND RECOMMENDATIONS

The study examined the effect of internal control activities and control environment on organizational performance, the following conclusions were made. Firstly, it was revealed that internal control activities have positive significant relationship with organizational performance of the Universities in Osun State. This shows that, there is a

strong internal control implementation on tertiary institutions activities, so as to improve their organizational performance. Secondly, the study showed no significant relationship between control environment and organizational performance. This implies that control environment is not determinant to influence organizational performance. The management should continue to monitor and evaluate the internal control system, to further improve the organisation performance and the management of the selected tertiary institutions should create and maintain a strong internal control environment system by establishing organizational structures, processes, procedure and standard that will serve as fundamental foundation for internal control throughout the organization.

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