

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Internal control is very crucial in organisations, whether profit or non-profit making. Every organisation has objectives to be achieved and needs finance/funds to meet their requirements in the economic world (Ironkwe & Promise, 2015). For profit making organisations, the main goal is to maximise shareholder wealth, while satisfaction of citizens needs is the sole purpose of non-profit making organisations. For these purposes or objectives to be achieved, supervision, which is a form of control, plays a key role in the organisation (Sahabi, Gordon & Mohammed, 2017). For any organisation to survive, resources at its disposal must be effectively and efficiently utilised (Eniola & Akinselure, 2016). In order to optimise the utilisation of resources at the disposal of employees in an organisation, various forms of control mechanisms are put in place by the management of the organisation. Among these control measures are internal control and internal audit, (Eniola et al., 2016).

An internal control system is defined as the policies and procedures put in place to ensure the protection of an organisation's assets and the reliability of financial reporting (Zuraidah, Razana, Jamaliah & Takiah, 2015). Similarly, International Standard on Auditing (ISA 400) defines internal control as all policies and procedures adopted by the management of an entity to assist in achieving the primary objectives of the organisation by making sure the business is conducted in the most possible efficient way and also ensuring strict adherence to management policies, safeguarding of assets, prevention and detection of fraud and timely preparation of reliable account. Internal control is designed for various organisations, depending on the size of such an

organisation, its complexity, the risk such an organisation is exposed to and its environment (Adeniyi, 2014). According to Edith (2015), the presence of internal controls in any organisation is very crucial to ensure efficiency and effectiveness of operations and delivery of services. Internal control system is wide, but for the sake of this study, internal control system will be limited to; internal audit, segregation of duties, and inventory audit.

Internal control must be able to achieve the objective of bringing about cooperation among people with divergent objectives in the organisation (Eniola et al., 2016). Control measures are put in place to avert, detect and eliminate fraudulent occurrence thereby creating an atmosphere for profitability (Muhunyo et al., 2018). Control mechanisms refer to the processes established to monitor and to direct, promote or restrain different activities of an organisation to ensure the objectives of the organisation are met (Ejoh & Ejom, 2014). Internal control is a process that aims at achieving three objectives which includes; operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulation (Esther, Agnes & Josphat, 2017).

On the other hand, financial management is an integral part of overall management. It has to do with the functions of a financial manager in a business. According to Akosile and Akinselure (2016), financial management refers to the planning, organising, directing and controlling of the financial activities such as procurement and utilisation of funds. This simply means financial management has to do with managing the finances of a business/organisation in order to achieve financial objectives. Some factors such as materials, money, machine and people must be put in place in an organisation in order to ensure smooth running of the business and these factors need to be properly coordinated for the success of the organisation to be achieved; these factors are used by a group of people known as “management” (Ironkwe & Promise, 2015). For there to be

a sound financial management system which would lead to improved financial performance of an organisation, there has to be a whole system of control established by the management in order to safeguard the assets of the business and ensure accuracy of records. This is simply the reason why a sound and effective financial management depends on the activities of internal control system. The sound financial management of an organisation therefore depends on how effective its internal control system is (Ironkwe et al., 2015). To ensure effective and efficient operation of an enterprise, the presence of internal control is very important (Sahabi et al., 2017). Having examined the activities of manufacturing companies, it became obvious that internal control is very crucial in order to avoid errors and fraud and for systematic control of activities. Internal control system differs among organisations depending on nature and size. For a business to operate successfully and survive in any environment, appropriate management control system must be put in place (Zuraidah et al., 2015). In pursuit of organisational objectives regarding reliable financial reporting, effective and efficient operations, managers and boards of organisations resort to establishing internal control systems in ensuring effective outcomes (Crawford, 2011). Properly enforced internal control systems will lead to better financial reporting, thereby producing reliable report that improves management accountability function (Sahabi et al., 2017). Therefore, this study looks at the functionality of internal control system and its impact on financial management.

1.2 Statement of Research Problem

The presence of internal control system in an organisation, regardless of the kind of business, is without any doubt believed to be relevant to the financial management practices of the organisation. There is a general perception that internal control systems are used as management

tools in financial management (Mwakimasinde, Odhiambo & John, 2014). This is so because internal control acts as prevention from wastages, fraud and errors, safeguard assets, promotes efficiency among many others. It is generally believed that the absence of internal control in an organisation exposes it to several threats that are capable of crumbling the organisation in less or no time (Ironkwe et al., 2015). Some of such threats are; loss of the company's assets, incorrect financial statements, stealing and miss-management of the organisation's documents, non-adherence of annual budgets (Ironkwe et al., 2015). Internal control system has been in existence for years, but still, financial crimes have been on the increase (Eniola et al., 2016). It has been observed by researches that measures of management control put in place in most organisations has not been able to completely curb fraudulent activities because these measures have not been able to reduce corruption and fraud perpetuated by employees in most organisations (Eniola et al., 2016). The failures in many businesses recently around the world can be traced to internal control failures (Eke, 2018). It is therefore in an attempt to fill this gap that this study examines the impacts of internal control system on financial management of organisations.

1.3 Objective of the Study

The major objective of this study is to critically examine the effect of internal control system on the financial management of manufacturing organisations in Nigeria. Some other specific objectives are;

- 1) To examine the effect of inventory audit on the financial management of manufacturing organisations.
- 2) To determine the effect of internal audit on the financial management of manufacturing organisations.

- 3) To determine the effect of segregation of duties on the financial management of manufacturing organisations.

1.4 Research Questions

In light of the objectives of the research, the following questions will serve as guide for the study;

- 1) What is the effect of inventory audit on the financial management of manufacturing firms?
- 2) What is the effect of internal audit on the financial management of manufacturing organisations?
- 3) What is the effect of segregation of duties on the financial management of manufacturing organisations?

1.5 Research Hypotheses

Hypotheses 1

H₀₁: There is no significant relationship between inventory audit and financial management of manufacturing organisations

H_{I1}: There exists a significant relationship between inventory audit and financial management of manufacturing organisations

Hypotheses 2

H₀₁: There is no significant relationship between internal audit and financial management of manufacturing organisations

HI₁: There exists significant relationship between internal audit and financial management of manufacturing organisations

Hypotheses 3

H₀₁: There is no significant relationship between segregation of duties and financial management of manufacturing organisations.

HI₁: There exists significant relationship between segregation of duties and financial management of manufacturing organisations.

1.6 Significance of the Study

This research was carried out to establish whether there is a relationship between internal control system and the financial management of manufacturing organisations. This study will be of utmost importance to organisations, especially manufacturing companies, the general public and other researchers that might be interested in this topic. This study will determine the degree of impact internal control has on financial management, and as such would prompt management of organisations to rekindle their effort in establishing a sound internal control. It will provide management with reasonable assurance that goals and objectives it believes are important to the company will be met through the establishment of internal control. Hence, it will be useful to manufacturing organisations by emphasising on internal control as a tool for organisations profitability, effectiveness and efficiency. The study will also be useful to researchers and students who are willing to know more about internal control as it relates to financial management in organisations. This study will also help to reduce fraud, errors, and manipulations in organisations.

1.7 Scope of the Study

In pursuance of the objective of this study, attention shall be focused on manufacturing organisations, specifically healthcare companies located in Lagos state listed on the Nigerian Stock Exchange. In order to conduct an empirical investigation into the adoption of internal control, the nature of internal control would be examined through the collection of primary data.

1.8 Limitation of the Study

The limitations of the study include delay in responses to the questionnaire, and high financial cost of administering the questionnaire to the large population sample.

1.9 Definition of Terms

Impacts: means a significant or strong influence, an effect.

Internal control: is a system put in place by the management of an organisation which involves checking the activities of each department, ensuring transactions are traceable, ensuring financial statements are prepared in alignment with accounting concepts and principles, in other to ensure smooth running of the business and to detect, prevent, or minimise fraudulent activities.

Corporate Financial Management: involves setting goals, planning how to achieve them, and deciding the best way to pay for them. It may also be defined as the act of formulating plans and making decisions on investment that positively affect the operations of a business.

Financial management: refers to the operations of a business that is responsible for obtaining funds and the effective utilization of the funds required or needed for efficient operations.

Control activities; are policies, procedures and mechanisms that ensure management's directives are properly carried out

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, the literature on the impact of internal control on corporate financial management is reviewed. The chapter also covered the theoretical and conceptual framework of internal control in organisations which includes the definition of internal control, types and components of internal control, relevance of internal control, and limitations of internal control. It also includes the result of past impact assessment studies of internal control as it relates to financial management in manufacturing organisations.

2.2 Conceptual Framework

2.2.1 Definition of Internal Control

Internal control is described as a broad concept that covers the entire range of procedures, methods and controls established by an organisation to increase the profitability to achieve its business goals (Institute of Internal Auditors (IIA), 2012). There is a common belief that the need for an internal control system develops as the organisation grows. Internal control provides assurance to management that the reports generated are accurate and their directives have been carried out by responsible subordinates (James, Godwin & Victoria, 2014).

Yousef (2017) defined internal control as a group of policies and procedures embedded to form control on an entity's activities to ensure the entity follows objectives put in place by management and board of directors. It should be noted that internal control cannot provide absolute assurance but reasonable assurance regarding the achievement of an organisation's

objectives (Sulaiman et al, 2008) cited in (Zuraidah, Razana, Jamaliah & Takiah, 2015). Internal controls can therefore be referred to as measures established by an organisation so as to ensure attainment of the organisation's objectives, goals and missions (Ogneva, 2007) cited in (Sahabi, Gordon & Mohammed, 2017). Internal controls in some cases are check mechanisms used to avoid wastages, theft and mismanagement of the organisation's assets.

The term internal control was defined by the institute of Chartered Accountants of England and Wales (ICAEW) as "the whole system of control financial and otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records". Similarly, International standard on Auditing (ISA 400) defines internal control as all policies and procedures adopted by the management of an entity to assist in achieving the primary objectives of the management by ensuring that the business is conducted in the most efficient way possible and also ensuring strict adherence to management policies, safeguarding of assets, prevention and detection of fraud and timely preparation of reliable accounts records.

According to statements of accounting standards, (SAS) internal control is the combined plan, method and procedures which can safeguard the firm's assets, promote operational efficiency and encourage adherence to prescribed policies.

Internal controls is useful to several aspects of a business, whether "strategic, financial, operational, and compliance" (Financial Reporting Council). According to Adeoye and Adeoye (2014), "internal control system is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries".

Internal control was also defined by Gamage (2014) as the process designed and affected by those charged with management, governance, and other personnel to provide reasonable assurance about the attainment of entity's objectives, about efficiency and effectiveness of operations, compliance with applicable laws and regulations; the reliability of financial reporting.

Internal control consists of policies and procedures established to provide management with reasonable assurance that the company would achieve its goals and objectives (Basel committee, 2011). These policies and procedures are often referred to as controls and collectively they comprise the entity's internal control.

Inventory audit; this can be defined as an accounting procedure designed to keep track of a company's products and merchandise (Eighme & Cashell, 2012). Inventory audit can be carried out through stocktaking which involves the physical counting of a company's stock for a particular period.

Segregation of duties; this can be defined as having more than one person required to complete a task (Njiru, 2016). It can also be described as assigning portions of a specified task to individuals in order to ensure effectiveness and accountability.

Internal auditing; is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes (OCED, 2011).

2.2.2 Types of Internal Control System

According to DiNapoli (2005) the types of internal controls are; directive controls, preventive controls, compensating controls, detective controls and corrective actions (Douglas, 2011). Each of these is explained below

1) Directive Controls

These controls are policies established by top management to ensure compliance with regulations. Management is expected to send message that control procedures are very important in order to promote directive controls compliance (Douglas, 2011). Also, directive controls provides evidence about the proper functioning of preventive controls (Douglas, 2011; Afia, 2015).

2) Preventive Controls

Preventive controls have to do with measures put in place by management of an organisation to deter and prevent non compliance with directives, policies and procedures (Ofori, 2011). They are proactive controls intended to prevent risk of error, frauds and irregularities from occurring and to prevent losses. Preventive controls are include; segregation of duties, proper authorization and approval, adequate documentation, constant training of staff, and physical control over assets (Afia, 2015).

3) Compensating Controls

These are controls intended to make up for lack of control elsewhere in the system. For example firms with electronic database could maintain a hardcopy of the client list in the office library.

Such a list would compensate for downtime in electronic systems and difficulties in locating client names in an electronic system (Douglas, 2011).

4) Detective Controls

These are controls put in place to detect and uncover problems such as fraud, errors and irregularities after they have occurred. Although detection is necessary prevention is more desirable (Ofori, 2011). These controls are in the form of post audits, exception report and validation. Detective controls helps in identifying the occurrence of an error but do not prevent errors from occurring (Afia, 2015). These controls provide evidence that preventive controls are functioning and preventing losses. Examples of detective controls are reviews, reconciliation, variance analysis, physical inventories and audits.

5) Corrective Controls

Corrective controls are established to address every problem that has occurred in the system. Examples are system redesign, follow ups, post audits and application of punishments by management for wrong doing (Ofori, 2011).

2.2.3 Components of Internal Control

The components of internal control have been unveiled by many writers; Woolf (2005), the Committee of Sponsoring Organisations (COSO) 1992 cited in Eke (2018), Millichamp & Tailor (2008) and many others. All of these writers have stated the same components which include; control environment, risk assessment, information and communication, control activities, and monitoring. Each of these is discussed below.

1) Control Environment: this component provides the basis for implementing internal control across the organisation (COSO, 2013). It is the foundation for other components of internal control Eke (2018). It includes the attitudes, awareness, and actions of management and directors, management and those charged with governance concerning the entity's internal control and their importance in the entity (Mwakimasinde, Odhiambo, & Byaruhanga, 2014). The control environment also provides the discipline and structure for achieving the primary objectives of internal control (Douglas, 2011). It is important for the board of directors to be concerned about integrity and ethical values.

2) Risk Assessment: after a strong control environment has been implemented, it is important to conduct the risk assessment which has to do with the identification and analysis of relevant risks. This analysis will contribute to the attainment of the organisation's objectives and to find suitable response to the detected risks (Azahry & Taouab, 2018). Risk assessment is the identification and analysis of risks relevant to the achievement of corporate objectives, determination of how such risk should be managed and implementation of a process to address such risk (BPP Learning media, 2010) cited in Eke (2018).

3) Information and Communication: relevant and reliable information, both financial and non financial, which relates to internal and external events is essential for an organisation to run smoothly and control its operations (Douglas, 2011). Such information should be made available to management and others within the organisation who need it in a form and within a time frame that enables them carry out their internal control and operational responsibilities. Communication refers to the continuous process of providing, sharing and obtaining necessary information (COSO, 2013). Through the information and communication systems, all personnel are able to understand their roles and how their roles relate to others (Ofori, 2011).

4) Control Activities: these include policies, procedures and mechanisms that help ensure management directives are carried out properly (Aikins, 2011). Effective and efficient control activities should be established by management to accomplish the organisation's objectives and mission (Umaru & Umar, 2018). According to Walker (1999) cited in (Douglas, 2011) control activities occur at all levels and functions of the entity. They include a wide range of several activities such as approvals, authorizations, verifications, reconciliations, performance reviews, maintenance of security and the creation and maintenance of related records which provide evidence of execution of these activities as well as appropriate documentation.

5) Monitoring: monitoring has to do with the processes used to assess the quality of internal control performance over time (Eke, 2018). Monitoring is carried out to ascertain whether internal control is adequately designed, properly executed and effective. Internal control is adequately designed and properly executed if all five internal control components (control environment, risk assessment, control activities, information and communication, and monitoring) are in place and functioning as designed (Ofori, 2011). In summary, monitoring refers to the process of self auditing within the internal control system and includes the assessment of the control environment to determine whether it is satisfactory, whether risk assessment is timely and accurate, whether control operations are appropriate and accurate, and whether information and communication system have the right content (ICDF Internal controls handbook).

2.2.4 Elements of Internal Control

The elements of internal control according to the guidelines issued by the Institute of Chartered Accountants of England and Wales (ICAEW) mnemonically put as "PAPAMOSS" are as follows;

“P” Physical controls over assets

“A” Arithmetical and Accounting Controls

“P” Personnel Controls

“M” Management Controls

“O” Organisational Controls

“S” Segregation of Duties

“S” Supervisory Controls

Physical Controls Over Assets: this has to do with the physical custody of assets and it involves those procedures and measures set up to limit the access to these valuable corporate assets, (Ironkwe & Promise, 2015). It involves security measures put in place to prevent unauthorized access to these assets. It is necessary to safeguard all assets of an organisation at all times especially the valuable and portable assets such as cash, stock, and motor vehicle (James, et al., 2014).

Arithmetical and Accounting Controls: These are controls put in place to ensure that all transactions that occur during a particular period have been authorised, correctly and accurately recorded and processed (James, et al., 2014). It assists the recording function to be properly done and includes checking the arithmetic accuracy of records (Sambo & Benneth, 2018).

Personnel Controls: No matter how well a system is designed, its efficient and effective functioning will depend on the operators. Controls are therefore necessary to ensure that personnel have capabilities commensurate with their responsibilities (Ironkwe et al., 2015).

These controls also known as personnel controls, ensures that recruitment and remuneration is based on qualification and experience (Sambo et al., 2018).

Authorizations and Approvals: these controls specify the persons responsible for authorization and approval of transactions and the limit of such authority (James et al., 2014). Responsible officials should authorise and approve all transactions and such authority should be specified in writing (Ironkwe et al., 2015).

Management Controls: these are controls used by management to make decisions daily (Sambo et al., 2018). Management is responsible for the establishment of control for day to day operation of the affairs of the organisation which include review of management account and comparison of actual results with budget (James et al., 2014).

Organizational Controls: these controls define and allocate duties and responsibilities and identify lines of reporting in an organisation (Sambo et al., 2018). Staff should be allocated responsibilities according to experience and proficiency (James et al., 2014).

Segregation of Duties: these controls ensure that separate individuals or groups of individuals are responsible for the main functions of an organisation which include authorization, custody and recording (Ironkwe et al., 2015). This is to ensure that all aspects of a transaction are not handled by one person. The risk of error or deliberate fraud is reduced when more individuals are involved (Sambo et al., 2018).

Supervisory Controls: these controls ensure that the works of less experienced members of staff are under the supervision of senior and responsible staff as well as responsible officials (James et al., 2014).

In addition to the above control (PAPAMOSS), the other categories are (AB) which is now known as “PAPAMOSSAB”. The other two (2) categories are explained thus;

Acknowledgement of Performance: this control explains that for each activity performed, the person responsible for the activity must acknowledge in writing that he performed the activity. The acknowledgement may be in form of simply signing-off with date or with brief comment on the activity carried out.

Budgeting Controls: these controls are responsible for setting targets for activities, volumes and other financials of the organisation. Various targets are set such as for the number of new customers for the marketers, for expenses, sales, production, stock levels, purchases, fixed asset acquisition etc. These budgets form reasonable basis for assessing staff efforts. Budget is a common control technique applied in business, and can be defined as quantitative plan of action. Budgets are compared with actual performance and differences are investigated.

2.2.5 Importance of Internal Control System

Sambo (2016) identifies the following as the importance of internal control system;

- 1) To ensure that all transactions are recorded
- 2) Detection of errors, waste and fraud that have occurred
- 3) It assists the organisation in utilizing the limited funds to achieve its aims and objectives effectively and efficiently
- 4) To safeguard the assets of the organisation
- 5) To ensure that all recorded transactions are; real, properly valued, recorded timely, classified correctly, correctly summarized, posted correctly
- 6) Prevention of errors, waste and fraud.

2.2.6 Limitations of Internal Control System

Kenyon (2006) identified the following as some of the limitations of an effective control system.

- 1) **Abuse of Authority**; this happens when members of staff who have been given authority to exercise authorization take advantage of such authority to satisfy selfish ends or engage in fraudulent activities.
- 2) **Staff Collusion**; this explains that the control system depending on segregation of duties can become ineffective by the collusion of staff performing complementing functions.
- 3) **Management Overriding Established Control**; members of an organisation whether in management or not must submit themselves to control procedures put in place. For instance, if management refuses to submit to security checks by gatekeepers, officers below the management imitate such actions which jeopardises control and renders it ineffective.
- 4) **Incompetence and Human Factors**; this happens when unqualified or inexperienced members of staff are assigned positions of authority beyond their capabilities. Whenever an error or mistake occurs in course of carrying out personnel control, the consequence may be fatal to other controls put in place.

2.2.7 Financial Management

Financial management has to do with planning, organising, directing, and controlling the financial activities of an organisation such as the procurement and utilization of funds of the organisation (Akosile & Akinselure, 2016).

It can also be defined as the application of general managerial principles to the area of financial decision making (Olena, 2016).

According to Akosile & Akinselure (2016), the main objective of financial management is to procure, allocate, and control financial resources of a business concern. The specific objectives of financial management include;

1. For regular and adequate supply of funds to the business concern.
2. To make sure funds are properly utilized.
3. To ensure funds are invested in safe ventures to achieve adequate rate of return.
4. To control the entire resources of the organisation.
5. To provide financial guidance to all departments especially concerning the preparation and monitoring of their budgets.
6. To maintain the financial information system.
7. To administer payroll, loan, and pension schemes.
8. To arrange adequate insurance cover for the company's assets.
9. To ensure that surplus funds are invested and properly management.

2.2.7.1 Importance of Financial Management

Financial management is essential for the following reasons (Olena, 2016)

- 1) It is a tool for financial planning
- 2) It helps in acquisition of funds
- 3) It increases the value of the firm
- 4) It improves profitability
- 5) It promotes savings

- 6) It helps to ensure proper use of funds
- 7) It assists in taking financial decisions

2.3 Theoretical Review

2.3.1 Agency Theory

Agency theory was developed by Jensen and Meckling in 1976. The agency relationship is referred to as a contract under which one or more persons (the principal) engage the services of another person (the agent) which involves delegating some decision-making authority to the agent. The theory involves the relationship between two parties; investors and managers. The agent (manager) undertakes to perform certain duties for the principal (investor) and the principal undertakes to reward the agent (Muhunyo & Jagongo, 2018). The theory is concerned with the conflicting interest that often arises between principal and agent. The theory examines the conflict between shareholders and managers, shareholders are owners of the enterprise while managers are agents or stewards appointed by the shareholders (Esther, Agnes, & Josphat, 2017). According to Jensen and Meckling (1976), the agency problem is usually caused as a result of the problem of separation of power in some organisations. They emphasised that agency problem occurs often as a result of relationship between owners and managers, which is similar to the relationship between principal and agent. They further explained that the relationship is such that the owners contract the managers to perform the controlling task of the firm and then both of them seek to maximise their own utility and self interest. This happens because the manager knows he has effective control of the firm's resources and often develop various ways to ensure he can consume a lot of benefit from the firm at the expense of the owner, while the owner often develop various means of supervising and monitoring the agent to reduce all his ulterior motive

about the business (Akosile et al., 2016). In the event that managers insubordinate the firm's interest while prioritizing their personal interests, the firm they work for is likely to lose its value (Jensen & Meckling, 2001). The theory further states that the managers' strong desire for high rewards encourages them to manipulate overestimate or underestimate indicators in order to make them appear more achievable to the detriment of the firms. Agency theory is applicable to this study because internal control is one of the many mechanisms used in business to address the agency problem by reducing agency costs that affects the overall performance of the relationship as well as the benefits of the principal (Muhunyo, 2018). To this effect, the authors advised that the agency costs of separating ownership from control should not be excessive as long as factors such as competition and incentive plans are designed to reduce the self-interest of managers (Esther et al, 2017).

2.3.2 Stewardship Theory

Stewardship theory was established by Donaldson & Davies in 1989. They explained that most managers have the tendency to act in the best interest of their organisation by focusing on the collective goal of the organisation. Stewardship theory was similarly defined by Davies, Schoorman & Donaldson (1997) as the process where stewards protect and maximise shareholders wealth through improved firm's performance, because by doing so, the steward recognise that his utility function is maximised. Stewardship theory focuses on the role of top management as stewards integrating their goals as part of the organisation (Donaldson & Davies, 1997). Stewardship can be described as the behaviour that considers the long term interest of the organisation as well as that of the shareholders rather than the individual self interest. It was also argued by Donaldson and Davies that stewardship role ignores individualism, but focuses more

on the manager and executive because they are the major ones responsible for playing the role of stewards by ensuring their interest agrees with that of the organisation.

Argyris (1990) noted that sometimes problems might arise as a result of excessive monitoring and supervision of stewards who have been given responsibility to control the activities of the organisation, this problem could lead to demotivation or discouragement and could result in unproductive outcome for the organisation. This theory explains that the stewards will always act in the best interest of the organisation at all times, therefore any attempt of the principal to control or monitor the stewards often demotivate them and which may lead to negative impact on the decision made (Akosile & Akinselure, 2016). The stewardship theory supports this study by the fact that managers of organisations act as stewards of shareholders, suppliers, creditors, consumers and employees of these organisations (Muhunyo et al., 2018).

2.3.3 Stakeholder's theory

Stakeholder theory explains that some individuals or group of individuals are very important for the existence and survival of an organisation (Friedman, 2004). Freeman in an earlier research reported that stakeholder theory refers to an individual or any group who affects or is likely to be affected by the achievement of an organisation's objectives. This explanation by Freeman (1984) was supported by Friedman (2009) whose definition of the stakeholder's theory was more balanced and covers a wider area than those of Stanford Research Institute (SRI) (1963) who described the theory simply as those people who, without their support and ideas the organisation would not exist. Friedman went ahead to explain that Freeman's definition was broader because it included individuals outside the firm and others that may consider them to be stakeholders of

the organisation without the firm acknowledging them to be so. Stakeholders in most organisations include shareholders, employees, customers, lenders, suppliers, various interest group and government (Eniola & Akinselure, 2016).

Craig (2010) reported that the stakeholder's theory emphasises that all stakeholders have the right to be provided with relevant information about the organisation and its operations which includes but not limited to information about community sponsorship, information on provision of employment, information on safety initiative provided by the organisation. He also stated that information should be provided to the stakeholders even though they do not affect the survival of the organisation. According to Friedman (2006), an organisation should be seen as a grouping of stakeholders and the purpose of the organisation should be to manage their interests, needs and viewpoints (Njiru, 2016).

Specifically, stewardship theory is used in underpinning the findings of this study. Management are the stewards who adopt internal control system, play prominent roles in ensuring that the business of an enterprise is carried out in an orderly and efficient manner, assets are secured as far as possible and accounts are prepared timely, free from fraud and errors.

2.4 Empirical Review of the Literature on Internal Control and Financial Management.

Ironkwe & Promise (2015) conducted a research on the impacts of internal controls on financial management; a case of production companies in Nigeria. Many organisations are faced with threats such as; problem of incorrect financial statements and loss of the company's assets, stealing and mismanagement of organisational vital documents etc. when there is no internal control system in place. The general objective of the study was to evaluate and determine the

impacts of internal control measures in an organisational financial management. The study was limited to production companies in Rivers State, Nigeria. The findings revealed that effective internal controls enhance financial management of an organisation. The researcher recommended that management should ensure that there are adequate organisational controls and that each staff knows his duties and equally ensures effective segregation of duties so as to reduce interference in terms of funds, and assets management and controls.

Akosile & Akinselure (2016) investigated the effect of internal control on financial management of universities in Nigeria. The specific objective of the study was to examine the impact of internal control on financial management (specifically in terms of prudent management of resources) in selected private and public universities. The study was limited to selected universities in South West, Nigeria. Questionnaires were administered to these universities. The findings showed that properly established and implemented internal control has significant relationship with the prudent management of organisation resources in the universities in Nigeria. Based on the findings of the study, the researcher recommended that management of universities should have well developed strategies that will ensure the submission of the internal control department are always implemented since this contributes to the prudent management of the universities resources. It was also recommended that management should include some internal control staff in the planning process to ensure the achievement of goals with available resources.

A study carried out by Esther, Agnes & Josphat (2017) examined the contribution of internal control systems towards sustainable financial prudence in public universities in Kenya. It was discovered that there had been mediocre financial management systems in public universities which facilitate channelling the funds to non strategic projects rather than equipping the

institutions with the necessary infrastructure for enhanced performance. The study was limited to six public universities in Kenya. The study indicated that strengthening internal control systems in public universities was likely to result in enhanced sustainable financial prudence. The researcher concluded that internal control system is essential in enhancing sustainable financial prudence in universities and recommended that public universities in Kenya should put in place sound internal control systems that advocate for ethical values and integrity.

Ejoh & Ejom (2014) analyzed the effect of internal audit function on the financial performance of tertiary institutions in Nigeria. The research focused on Cross River State College of Education, Akamkpa. The authors indicated that the internal audit department of the college is not sufficiently staffed, does not perform their duties with greater degree of autonomy and independence from management. The findings indicated that internal audit function has no significant effect on the financial performance of Cross River State College of Education. Based on the findings, the following recommendations were made; competence profiling which should be based on what the college expects the internal audit to do and what appropriate number of staff would be required to do the job. The study also recommended that management should establish and implement periodic review of internal audit performance to ensure that its performance and value to the institution is maximised and to ensure compliance with appropriate standards and guidance. The study further recommended that the head of internal audit department should be a professional accountant and registered with any of the professional accountancy body in Nigeria to ensure ethical righteousness.

A research conducted by Umaru & Umar (2018) on the topic “The effect of internal control on performance of commercial banks in Nigeria” revealed that there is a positive and significant relationship between the four components of internal control (control environment, control

activities, monitoring & risk assessment) and bank performance. The result also showed that information and communication had an insignificant positive relationship with bank performance. It was recommended that future research should adopt a longitudinal study with enough time for data collection and intended scholars in this area of research can add other additional variables like risk culture, corporate governance.

Douglas (2011) investigated internal control and its contributions to organisational efficiency and effectiveness. The study was limited to Ecobank, Ghana. The study made use of primary data through interviews. The findings of the study revealed that there are measures put in place by the Ecobank Ghana to ensure compliance. It came to light that the internal audit unit was responsible for monitoring internal control policy compliance while management assesses risk but the internal audit unit is not part of branch operations, they only visit the branches on monthly basis. The researcher recommended that Ecobank Ghana should set internal audit units at their various branches across the country, so that there shall always be internal audit personnel to ensure compliance to the internal controls that exists in the organization.

James, Godwin & Victoria (2014) carried out a research titled “Internal controls and operating performance of small businesses in Lagos Metropolis. Primary data was employed through the use of questionnaires for the sake of the study. The findings of the study showed that the determinants of internal control which include control environment, risk assessment, control activities, information and communication, monitoring and information and technology have significant effect on the efficiency of operations of the small businesses, which consequently enhanced their profitability. The study further recommended that owners/managers of small businesses should be attentive to the issues of internal control in order to maximize the business potential and minimize the risk of fraud or error.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter deals with the procedures used in data collection and processing for the purpose of this study. It shows the research design adopted for the study as well as the population, sampling technique and sample size, method of data collection, research instrument, and validity of research instrument, method of data analysis, model specification and measurement of variables.

3.1 Research Design

Research design has to do with the method by which various components of the research are put together in a logical and coherent way in order to ensure that the research problem is effectively addressed (Ironkwe & Promise, 2015). In carrying out the study, the survey research method was employed. Survey research design is considered appropriate for the study because it entails the use of data collection which are analysed and interpreted in order to evaluate the impact of internal control on corporate financial management.

3.2 Population of the Study

Population may be defined as a group of individuals, items or objects from which samples are drawn for measurement (Muhunyo & Jagongo, 2018). The population of the study includes the employees in accounting/finance, administration departments in the 10 healthcare companies out of the 170 companies listed on the Nigerian stock exchange as at January 2019. The companies listed on the Stock Exchange are; are Fidson, Ekocorp, Evans med, Glaxosmith, Maybaker, Juli, Neimeth, Nig-German, Pharmdeko, and Uniondac.

3.3 Sampling Technique

The technique adopted for the study was the stratified sampling technique. The technique focuses on certain characteristics of a population that are of importance to the researcher.

3.4 Sample Size Determination

It is rarely possible to study every member of a selected population in a research. To overcome the problem of access to the entire population, samples are selected (Ofori, 2011). According to Ezejuele & Ogwo (1990), a minimum of 10% of the population is considered appropriate for sampling. This study made use of 50% of the population, which includes 5 out of the 10 healthcare companies. Due to limitation of time and funds, 20 respondents were selected from each company making a sample size of 100 respondents.

TABLE 3.1 PROPORTIONATE DISTRIBUTION OF QUESTIONNAIRE

Companies	Number of questionnaires distributed	Number of questionnaire returned	Number of questionnaire not returned	Number of questionnaires useful for analysis
Glaxosmith	20	20	–	20
Fidson	20	20	–	20
Neimeth	20	17	3	17
Pharmdeko	20	19	1	19
Maybaker	20	20	–	20
Total	100		4	96

Source; Researcher’s Field Study, 2019

3.5 Method of Data Collection

The study employed the use of primary data through questionnaires. Secondary data was sourced from articles, journals, textbooks, and other publications on internal controls, internal auditing and financial management.

3.6 Research Instrument

The instrument used for the purpose of the study as mentioned earlier is questionnaire administration. The questionnaire issued contains certain questions which conform to the objectives of the study and the questions are framed in an understandable way for the respondents to comprehend easily. The questionnaires were subjected to five point liker scale

rating as shown; SA-5 (strongly agree), A-4 (agree), UD-3 (undecided), D-2 (disagree), SD-1 (strongly disagree).

3.7 Pilot Study

This refers to a preliminary test of the research instrument, that is, the questionnaire. The research instrument was subjected to a pilot testing to determine its relevance and proper understanding of the research questions. The questionnaire was checked by the researcher's supervisor as well as knowledgeable individuals in the area of the research topic. The pilot study is important in order to ascertain the reliability of the questionnaire and to have a front sight of the reactions of the respondents.

3.7.1 Validity of Research Instrument

It is important to ascertain the validity of data expected to be collected and by so doing, the research instrument is assessed by the assigned supervisor and lecturers in the department who identify unclear questions that are likely to hinder the respondents from providing sincere answers. The research instrument (questionnaire) is then amended in accordance with the suggestions made before administered.

3.7.2 Reliability of Test

Reliability refers to the ability of the research instrument to return similar results when administered to different respondents (Esther, Agnes & Josphat, 2017). The study adopted the CRONBACH'S ALPHA in SPSS to analyse the data collected from the pilot study.

TABLE 3.2 TEST TABLE

S/N	VARIABLES	NO OF ITEMS	CRONBACH ALPHA COEFFICIENT
FIM	Dependent variable- corporate financial management	3	0.989
	Independent variables;		
IVA	Inventory audit	3	0.879
ITA	Internal audit	3	0.942
SOD	Segregation of duties	3	0.862

Source; Researcher's Field Survey, 2019

The general convention in research has been prescribed by Nunnally & Bernstein (1994), which states that one should strive for reliability value of 0.7 or higher. The result obtained from this analysis shows that the research instrument is reliable since the reliability tests for each hypotheses are higher than 0.7.

3.8 Method of Data Analysis

The data gathered were analysed using the statistical package for social sciences (SPSS). Data was analysed using both descriptive and inferential methods. Descriptive analysis involves finding the frequencies and percentages of respondents' demographic information while inferential analysis is used to ascertain the relationship between the variables using the regression analysis (Esther, Agnes & Josphat, 2017). Regression analysis is used to define the relationship between the dependent and independent variable, in this case, the relationship between internal control and financial management.

3.9.1 Model Specification

Model specification means the mathematical expression of the dependent and independent variable. The model to be stated will show the relationship between internal control and financial management. The model of the study is of the form;

$$FIM = \beta_0 + \beta_1IVA + \beta_2ITA + \beta_3SOD + \varepsilon$$

Where;

FIM represents financial management

IVA represents inventory audit

ITA represents internal audit

SOD represents segregation of duties

3.9.2 Measurement of Variables

$$FIM = \beta_0 + \beta_1IVA + \beta_2ITA + \beta_3SOD + \varepsilon$$

FIM= f (ITC)

FIM=dependent variable

ITC=independent variable

Where

FIM=financial management

ITC= internal control

ITC= (IVA, ITA, SOD)

IVA= inventory audit

ITA= internal audit

SOD= segregation of duties

FIM= f (ITC)

Where:

β =coefficient of independent variables

ε =error term

β_0 =intercept or constant

The independent variables ITA, SOD, and IVA are the variables of internal control used for this research which is measured using the questions in the questionnaire.

3.10 APRIORI EXPECTATION

Table 3.3 (*Apriori expectation*)

S/N	HYPOTHESIS(NULL)	EXPECTED
1.	There is no significant relationship between inventory audit and financial management	Not accepted
2.	There is no significant relationship between internal audit and financial management	Not accepted
3.	There is no significant relationship segregation of duties and financial management	Not accepted

Source; Researcher's Field Survey, 2019

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.0 Preamble

The purpose of this chapter is to present and analyse the result of the available data collected on the effect of internal control on financial management. It represents the primary data collected through questionnaires. The data was sorted out accordingly, summarized, analysed and interpreted before the conclusion was drawn on the study. The chapter is presented in the following order:

- a) Demographic characteristics
- b) Empirical analysis
- c) Discussion of findings

4.1 Demographic characteristics

Table 4.1 Analysis of questionnaires distributed

	Response	Percentage
Questionnaires returned	96	96
Questionnaires not returned	4	4
Total	100	100

Source; Researcher's Field Survey, 2019

100 questionnaires were distributed out of which 96 were returned. The following are the demographic analysis of the 96 respondents

Table 4.2**Analysis of respondents profile**

	frequency	Percentage (%)
Gender		
Female	52	54.2
Male	44	45.8
Total	96	100.0
Age		
18-30	61	63.5
31-40	28	29.2
41-50	7	7.3
Total	96	100.0
Marital status		
Single	51	53.1
Married	44	45.8
Separated	1	1.1
Total	96	100.0
Educational qualification		
School Cert	4	4.2
Graduate	13	13.5

Postgraduate	79	82.3
Total	96	100.0
Working experience		
1-5 years	62	64.6
6-10 years	23	23.9
11-15 years	11	11.5
Total	96	100.0

Source: Researcher's Field Survey, 2019

Interpretation

In Table 4.1, out of the 96 respondents, 52 (54.2%) were female and 44(45.8%) were male. This shows that a large number of the members of staff in the selected companies were female.

In the age brackets of the respondents analysed, (63.5%) respondents were in the age bracket of 18-30, 28 (29.2%) were in the age bracket of 31-40 while the respondents in the age bracket of 41-50 are 7 (7.3%). This shows that large number of the workforce in the selected companies were between 18-30 years.

The marital statuses of the respondents are stated. Singles were 51 (53.1%), married are 44 (45.8%) while the separated is only 1 (1.1%). This implies that most of the respondents were single.

In the educational qualification, the school certificate holders are only 4 (4.2%), graduate are 13 (13.5%) while postgraduate holders are 79 (82.3%).

The years of experience of the respondents were also displayed in the table, those between 1-5 years are 62 (64.6%), 6-10 years are 23 (23.9) and those in 11-15 years are only 11 (11.5%). In essence, most of the respondents have working experience in their various organisations between 1-5 years

4.2 ANALYSIS OF RESPONDENTS RESPONSES

Table 4.3; Analysis of internal control on financial management

S/N	Statements	SA	A	U	D	SD	Mean
1	Weak internal control will lead to poor financial management of organisations.	51 (53.1%)	43 (44.8%)	1 (1.0%)	1 (1.0%)	0	4.5
2	An effective internal control system is sufficient enough to reveal the lapses and inadequacies in financial management.	36 (37.5%)	55 (57.3%)	3 (3.1%)	2 (2.1%)	0	4.3
3	Top management adherence and submission to the control procedures set in place in all departments of the organisation is able to prevent the occurrence of management fraud.	32 (33.3%)	62 (64.6%)	0	1 (1.0%)	1 (1.0%)	4.28

Source; Researcher's Field Survey, 2019

Interpretation

From table 4.3, 51 respondents representing 53.1% strongly agree that weak internal control will lead to poor financial management of organisations, 43 respondents representing 44.8% agree to the notion, one respondent representing 1% was undecided, one respondent representing 1.0% disagree, while none of the respondents strongly disagree. From the mean of 4.5 it can be concluded that many of the respondents agree that weak internal control will lead to poor financial management of organisations.

Also, in table 4.3, 36 respondents representing 37.5% strongly agree that an effective internal control system is sufficient enough to reveal the lapses and inadequacies in financial management. Another 55 respondents representing 57.3% agree to the notion, 3 respondents representing 3.1% were undecided, 2 respondents representing 2.1% disagree while none of the respondents strong disagree. From the mean of 4.3 it can be concluded that many of the respondents agree that an effective internal control system is sufficient enough to reveal the lapses and inadequacies in financial management.

Still on table 4.3, 32 respondents representing 33.3% strongly agree that top management adherence and submission to the control procedures set in place in all departments of the organisation is able to prevent the occurrence of management fraud. 62 respondents representing 64.6% agree to the notion, one respondent representing 1% disagree, while one respondent representing 1% strongly disagree. From the mean of 4.28, it can be concluded that many of the respondents agree that top management adherence and submission to control procedures set in place in all departments is able to prevent the occurrence of management fraud.

Table 4.4: Analysis of effect of inventory audit on financial management

S/N	Statements	SA	A	U	D	SD	Mean
4	Regular stocktaking is capable of ensuring a sound financial management.	45 (46.9%)	51 (53.1%)	0	0	0	4.47
5	Counting and inspection of materials received prior to entry into storeroom helps to ensure accountability of materials.	37 (38.5%)	57 (59.4%)	1 (1.0%)	1 (1.0%)	0	4.35
6	Matching receiving documents to purchase orders and invoices keeps proper records of stock.	28 (29.2%)	65 (67.7%)	3 (3.1%)	0	0	4.26

Source; Researcher's Field Survey, 2019

Interpretation

From table 4.4 above 45 respondents representing 46.9% strongly agree that regular stocktaking is capable of ensuring a sound financial management. 51 respondents representing 53.1% agree to the notion, none of the respondents were undecided, none disagree and none strongly disagree to the notion. From the mean of 4.47, it can be concluded that many of the respondents agree that regular stocktaking is capable of ensuring a sound financial management.

Also, in table 4.4, 37 respondents representing 38.5% strongly agree that Counting and inspection of materials received prior to entry into storeroom helps to ensure accountability of materials. 57 respondents representing 59.4% agree to the notion, one respondent representing 1.0% was undecided, one respondent representing 1.0% disagree while none strongly disagree to

the notion. From the mean of 4.35, it can be concluded that many of the respondents agree that counting and inspection of materials received prior to entry into storeroom helps to ensure accountability of materials.

Still on table 4.4, 28 respondents representing 29.2% strongly agree that matching receiving documents to purchase order and invoices keeps proper records of stock, 65 respondents representing 67.7% agree to the notion, 3 respondents representing 3.1% were undecided, none of the respondents disagree and none disagree. From the mean of 4.26 it can be concluded that many of the respondents agree that matching and receiving documents to purchase orders and invoices keeps proper records of stock.

Table 4.5; Analysis of effect of internal audit on financial management

S/N	Statements	SA	A	U	D	SD	Mean
7	A strong internal audit system reveals fraudulent activities in management of resources.	22 (22.9%)	71 (74%)	1 (1.0%)	2 (2.1%)	0	4.18
8	Financial performance requires effective and efficient internal audit.	51 (53.1%)	43 (44.8%)	2 (2.1%)	0	0	4.51
9	Internal audit system must be independent from the activities which it controls	24 (25%)	67 (69.8%)	4 (4.2%)	0	1 (1.0%)	4.18

Source; Researcher's Field Survey, 2019

Interpretation

From table 4.5, 22 respondents representing 22.9% strongly agree that a strong internal audit system reveals fraudulent activities in management of resources. 71 respondents representing 74% agree to the notion, one respondent representing 1.0% was undecided, 2 respondents representing 2.1% disagree while none of the respondents strongly disagree. From the mean of 4.18 it can be concluded that many of the respondents agree that a strong internal audit system reveals fraudulent activities in management of resources.

Also, in table 4.5, 51 respondents representing 53.1% strongly agree that financial performance requires effective and efficient internal audit, 43 respondents representing 44.8% agree to the notion, 2 respondents representing 2.1% were undecided, none of the respondents disagree and none strongly disagree. From the mean of 4.51, it can be concluded that many of the respondents agree that financial performance requires effective and efficient internal audit.

Still on table 4.5, 24 respondents representing 25% strongly agree that internal audit system must be independent from the activities it controls, 67 respondents representing 69.8% agree to the notion, 4 respondents representing 4.2% were undecided, and none of the respondents disagree while one respondent representing 1.0% strongly disagrees. From the mean of 4.18, it can be concluded that many of the respondents agree that internal audit system must be independent from the activities it controls.

Table 4.6; Analysis of effect of segregation of duties on financial management

S/N	Statements	SA	A	U	D	SD	Mean
10	Defined lines of authority and responsibility helps to ensure accountability of funds.	30 (32.3%)	62 (64.6%)	3 (3.1%)	1 (1.0%)	0	4.26
11	Assigning portions to individuals helps in ensuring effective utilization of resources	22 (22.9%)	68 (70.8%)	3 (3.1%)	3 (3.1%)	0	4.14
12	Having only one person to complete an entire task leads to lapses and poor management.	26 (27.1%)	63 (65.6%)	4 (4.2%)	3 (3.1%)	0	4.17

Source; Researcher's Field Survey, 2019

Interpretation

From table 4.6 above, 30 respondents representing 32.3% strongly agree that defined lines of authority and responsibility helps to ensure accountability of funds, 62 respondents representing 64.6% agree to the notion, 3 respondents representing 3.1% were undecided, one respondent representing 1.0% disagree while none of the respondents strongly disagree. From the mean of

4.26, it can be concluded that most of the respondents agree that defined lines of authority and responsibility helps to ensure accountability of funds.

Also on table 4.6, 22 respondents representing 22.9% strongly agree that assigning portions to individuals helps in ensuring effective utilization of resources, 68 respondents representing 70.8% agree to the notion, 3 respondents representing 3.1% were undecided, also, 3 respondents representing 3.1% disagree and none of the respondents strongly disagree. From the mean of 4.14, it can be concluded that most of the respondents agree that assigning portions to individuals helps in ensuring effective utilization of resource.

Still on table 4.6, 26 respondents representing 27.1% strongly agree that having only one person to complete an entire task leads to lapses and poor management, 63 respondents representing 65.6% agree to the notion, 4 respondents representing 4.2% were undecided, 3 respondents representing 3.1% disagree and none of the respondents strongly disagree. From the mean of 4.17, it can be concluded that most of the respondents agree that having only one person to complete an entire task leads to lapses and poor management.

4.3 TEST OF HYPOTHESES

Test of hypotheses 1

Research objective 1; To examine the effect of inventory audit on the financial management of manufacturing organisations

Research question 1; what is the effect of inventory audit on the financial management of manufacturing organisations?

H₀: There is no significant relationship between inventory audit and financial management of manufacturing organisation

Table 4.7 Test of hypotheses one

Variable	Model 1			
	Coefficient	Standard error	t-stat	Prob.
Constant	2.694	.505	5.331	.000
Inventory audit	.394	.118	3.347	.001
R ²	.106			
Adj. R ²	.097			
Standard Error of the estimate	.538			
F-statistic	11.201			
Prob.(F-stat)	.001			
Observation	95			

Dependent variable: financial management *significance at 5%

(Source: Researcher's Field Survey, 2019)

Interpretation

Model 1:=

$$FIM = \beta_0 + \beta_1 IVA + \beta_2 ITA + \beta_3 SOD + \varepsilon$$

The linear regression estimates in model one shows that inventory audit has a positive effect on financial management. This is indicated by the sign of the coefficient $\beta_1 = 0.394$. This result is consistent with our *a priori* expectations that all measures of internal control system will have a positive influence on financial management. The probability of t-statistic for inventory audit stood at 0.001. This implies that inventory audit has significant positive effect on financial management with p-value less than 5% level of significance.

Also from table 4.7, the size of the coefficient of the independent variable shows that a 1% increase in inventory audit will cause 0.394 increase in financial management.

Furthermore the adjusted R-squared show that 9.7% variation in financial management can be attributed to inventory audit, while the remaining 90.3% variation in financial management are caused by other factors not included in the model. Although the coefficient of determination shows that model 1 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than five percent, the level of significance adopted for this study.

Therefore, the null hypothesis 1 that there is no significant relationship between inventory audit and financial management is rejected. Hence inventory audit significantly affect financial management in manufacturing companies in Nigeria.

Test of hypotheses 2

Research Objective 2; to determine the effect of internal audit on the financial management of manufacturing organisations

Research question 2; what is the effect of internal audit on the financial management of manufacturing organisations?

H₀; There is no significant relationship between internal audit and financial management of manufacturing organisations

Table 4.8 Test of hypotheses two

Variable	Model 2			
	Coefficient	Standard error	t-stat	Prob.
Constant	2.798	.462	6.060	.000
Internal audit	.374	.109	3.441	.001
R ²	.112			
Adj. R ²	.102			
Standard Error of the estimate	.537			
F-statistic	11.839			
Prob.(F-stat)	.001			
Observation	95			

Dependent variable: financial management *significance at 5%

(Source: Researcher's Field Survey, 2019)

Interpretation

Model 2:

$$FIM = \beta_0 + \beta_1 IVA + \beta_2 ITA + \beta_3 SOD + \varepsilon$$

The linear regression estimates in model one shows that internal audit has a positive effect on financial management. This is indicated by the sign of the coefficient $\beta_2 = 0.374$. This result is consistent with our *apriori* expectations that all measures of internal control system will have a positive influence on financial management. The probability of t-statistic for internal audit stood at 0.001. This implies that internal audit has significant positive effect on financial management with p-value less than 5% level of significance.

Also from table 4.8, the size of the coefficient of the independent variable shows that a 1% increase in internal audit will cause 0.374 increase in financial management

Furthermore the adjusted R-squared show that 10.2% variation in financial management can be attributed to internal audit, while the remaining 89.8% variation in financial management are caused by other factors not included in the model. Although the coefficient of determination shows that model 2 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than five percent, the level of significance adopted for this study.

Therefore, the null hypothesis that there is no significant relationship between internal audit and financial management is rejected. Hence internal audit significantly affect financial management in manufacturing companies in Nigeria.

Test of hypotheses 3

Objective 3; to determine the relationship between segregation of duties and financial management of manufacturing organisations

Research question 3; what is the effect of segregation of duties and financial management of manufacturing organisations?

H₀: there is no significant relationship between segregation of duties and financial management of manufacturing organisations

Table 4.9 Test of hypotheses three

Variable	Model 3			
	Coefficient	Standard error	t-stat	Prob.
Constant	2.887	.407	7.096	.000
Segregation of duties	.359	.097	3.689	.000
R ²	.126			
Adj. R ²	.117			
Standard Error of the estimate	.532			
F-statistic	13.610			
Prob.(F-stat)	.000			
Observation	95			

Dependent variable: financial management *significance at 5%

(Source: Researcher's Field Survey, 2019)

Interpretation:

Model 3:=

$$\text{FIM} = \beta_0 + \beta_1 \text{IVA} + \beta_2 \text{ITA} + \beta_3 \text{SOD} + \varepsilon$$

The linear regression estimates in model one shows that segregation of duties has a positive effect on financial management. This is indicated by the sign of the coefficient $\beta_3 = 0.359$. This result is consistent with our *apriori* expectations that all measures of internal control system will have a positive influence on financial management. The probability of t-statistic for segregation of duties stood at 0.000. This implies that segregation of duties has significant positive effect on financial management with p-Val Also from table 4.9, the size of the coefficient of the independent variable shows that a 1% increase in segregation of duties will cause 0.359 increase in financial management.

Furthermore the adjusted R-squared show that 12.6% variation in financial management can be attributed to segregation of duties, while the remaining 87.4% variation in financial management are caused by other factors not included in the model.

Although the coefficient of determination shows that model 3 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than 5%, which is the level of significance adopted for this study.

Therefore, the null hypothesis 1 that there is no significant relationship between segregation of duties and financial management is rejected. Hence segregation of duties significantly affect financial management in manufacturing companies in Nigeria.

SUMMARY

$$FIM = \beta_0 + \beta_1 IVA_3 + \beta_2 ITA_3 + \beta_3 SOD_3 + \varepsilon$$

$$FIM = 1.530 + 0.187IVA + 0.212ITA + 0.278SOD$$

Interpretation:

The linear equation above shows that there is a positive relationship between inventory audit and financial management. The linear equation shows that there is a positive relationship between internal audit and financial management. It also discloses that there is a positive relationship between segregation of duties and financial management. The positive relationship between inventory audit and financial management shows that with every 1% increase in inventory audit, financial management will increase by 0.394. The positive relationship between internal audit and financial management according to the linear equation shows that with every 1% increase in internal audit, financial management will increase by 0.374. Also for every 1 unit increase in segregation of duties, financial management will increase by 0.359.

4.4 Discussion of Findings

The linear regression estimate of model 1 shows that there is a positive relationship between inventory audit and financial management. The probability of t-statistic shows that inventories audit, internal audit and segregation of duties have significant positive effect on financial management with p-values less 5% level of significance. Furthermore the adjusted R square showed that about 9.7% variation in financial management can be attributed to inventory audit and the remaining 90.3% variation in financial management are caused by other factors not included in the model. Although the coefficient of determination shows model 1 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than 5% the pre-set level of significance for this study. Hence inventory audit significantly affect financial management in the manufacturing sector in Nigeria .The linear regression estimate of model 2 shows that there is a positive relationship between internal audit and financial management. The probability of t-statistic shows that inventory audit, internal audit and segregation of duties have significant positive effect on financial management with p-values less 5% level of significance. Furthermore the adjusted R square showed that about 10.2% variation in financial management can be attributed to internal audit while the remaining 89.8% variation in financial management are caused by other factors not included in the model. Although the coefficient of determination shows model 2 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than 5% the pre-set level of significance for this study. Hence internal audit significantly affect financial management in the manufacturing sector in Nigeria.

The linear regression estimate of model 3 shows that there is a positive relationship between segregation of duties and financial management. The probability of t-statistic shows that inventory audit, internal audit and segregation of duties have significant positive effect on financial management with p-values less 5% level of significance. Furthermore the adjusted R square showed that about 12.6% variation in financial management can be attributed to segregation of duties, while the remaining 87.4% variation in financial management are caused by other factors not included in the model. Although the coefficient of determination shows model 3 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the regression result is statistically significant because this is less than 5% the pre-set level of significance for this study. Hence segregation of duties significantly affects financial management in the manufacturing sector in Nigeria.

Table 4.10 Results

S/N	HYPOTHESIS(NULL)	RESULT
4.	There is no significant relationship between inventory audit and financial management	Not accepted
5.	There is no significant relationship between internal audit and financial management	Not accepted
6.	There is no significant relationship between segregation of duties and financial management	Not accepted

(Source: Researcher's Field Survey, 2019)

These findings are in line with the views of Ironkwe & Promise (2015) whose findings revealed that effective internal controls enhances financial management of organisations and recommended that management should ensure that there are adequate organizational controls and each staff should know his/her duty and equally ensure effective segregation of duties so as to reduce interference in terms of funds. The findings are also in line with the views of Akosile & Akiselure (2016) whose result showed a significant relationship between internal control and prudent management of resources. Also, the findings are in line with the works of Ewa & Udoayang (2012) who asserted that proper and efficient internal control and internal audit system ensures sound financial management in organisations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presented the summary of key data findings, conclusions drawn from the findings highlights and recommendations that were made. The conclusions and recommendations drawn were in quest of addressing research objectives of examining the impact of internal control on financial management in manufacturing organisations.

5.1 Summary

This research provides a reassessment of the impact of internal control on financial management in manufacturing organisations. The first chapter was devoted to the introductory part of the study while the second chapter discussed extensively the literature review on the subject matter. Chapter three looked at the details of model specifications and research design of the study, which were analysed and discussed in chapter four. Data was analysed using descriptive statistics and inferential analysis while regression was used to test the hypotheses.

The study revealed that internal control has significant impact on financial management in organisations and that none of the internal control component can improve a sound financial management in isolation.

The study was structured into five chapters. Chapter one looked into the background of the study identified the problem of the study, objectives of the study were defined, research questions and hypothesis to guide the investigation were formulated. The chapter also highlighted the significance of the study and scope of the study. Also relevant terms to the study were defined

based on their contextual use in the study. In summary the chapter serves as introduction to the study. Chapter two deals with three basic components of the study, these are the conceptual review which emphasizes the concept of internal control system, inventory control, internal audit, segregation of duties, and financial management. The theoretical review emphasizes on the stakeholders theory, agency theory and stewardship theory. Empirical review looked into studies on internal control in organisations, banking systems, on tertiary institutions, and studies on manufacturing companies.

The objectives were to examine the relationship between inventory audit and financial management of manufacturing companies in Nigeria Chapter three presents the methodology for the study. The method adopted for the study was the survey research method. Essentially, the chapter discusses the design and population of the study.

An appropriate sample size was determined and selected using **stratified sampling method**. Type and source of data were also discussed. Methods of data collection, validity and reliability test of research instrument, method of data analysis and *apriori* expectation were described. The functional relationship between the dependent and independent variable of this research work was described in the model specification.

The chapter four covers the presentation, analyses and interpretation of data collected. The data were analyzed into two parts under section one and two, namely; descriptive analysis and empirical analysis using regression analysis.

Chapter five gives summary of the study as well as their findings. Conclusions were drawn and recommendations made

Presented below is a summary of the findings from this study:

5.2 Summary of Findings

The objectives were to examine the relationship between inventory audit and financial management of manufacturing companies in Nigeria; to determine the impact internal audit has on financial management in manufacturing companies in Nigeria; and to examine the effect of segregation of duties on financial management in manufacturing companies in Nigeria.

The research design that was employed in this study is survey design. Primary data was collected using structured questionnaires. Collected raw data was cleaned and edited for completeness and consistency. Data was analyzed by use of the regression analysis. Statistical Package for Social Sciences (SPSS, v. 21) was used to aid in quantitative data analysis in this study. The results were presented in tables. The output for this study was presented using descriptive statistics like the mean score.

This study investigated the effect of internal control system on financial management in manufacturing companies in Nigeria. Through the extensive review in the study, it was found that there is a positive relationship between inventory audit and financial management as opposed to the first null hypothesis.

Manufacturing companies play a number of roles in supporting the systems by conducting regular inventory audit. Thus, inventory audit significantly affect financial management in the manufacturing sector in Nigeria.

It was also revealed that there is a positive relationship between internal audit and financial management as opposed the second null hypothesis. The organizations aid internal control system by carry out internal audit periodically and training staff, especially in the audit

department to ensure effectiveness and better result of audit exercise. Hence internal audit significantly affect financial management in the manufacturing sector in Nigeria.

The study found out that there is a positive relationship between segregation of duties and financial management. Proper segregation of duties measures such as division of labour, defined lines of responsibility are put in place to build an effective internal control system. Hence segregation of duties significantly affects financial management in the manufacturing sector in Nigeria.

5.2.1 Implications of Findings

The findings have several implications on diverse groups of people:

To manufacturing companies: The research will benefit manufacturing companies by providing assurance that appropriate processes are functioning effectively to monitor the risks of fraud and error which the company is exposed to and that the system of internal control is effective in reducing those risks to an acceptable level.

5.3 Conclusion

Based on Table 4.9, segregation of duties was found to exert the strongest influence on financial management in manufacturing companies in Nigeria. Followed closely is internal audit and inventory audit respectively.

Inventory audit was also found to have significant moderating effect between internal control system and financial management. The model was found to have a weak predictive power of 9.7% but the F-stat probability of 0.001 shows that the model is statistically significant. It shows that this model can be used to predict up to 9.7% of changes in financial management while the

remaining 90.3% variation in financial management are accounted for by other factors not included in this model.

Also, from Table 4.8, the study revealed that internal audit accounted for 10.2% of the variance. The study therefore concludes that the internal audit exercise established by organizations to ensure reports is presented truly and fairly will bring about a sound financial management. The table shows that model 2 can be used to predict the variation of internal audit to the level of 10.2% while the remaining 89.8% variation in financial management are due to other factors not included in the model

Furthermore, from Table 4.9, the regression analysis test of hypothesis 3 showed that segregation of duties significantly affect financial management in manufacturing companies in Nigeria. Although the coefficient of determination shows that model 3 has a weak explanatory power, the probability of F-statistic of 0.000 shows that the model can be used to predict segregation of duties variation at 12.6% while the remaining 87.4% could be accounted for by factors not included in the model.

It is the researcher's belief that the adoption of internal control systems in organisations will yield positive results in the financial management system, and enhance the achievement of set goals and objectives. Consequently, upon this belief, top management need to be knowledgeable and establish internal control systems in their activities. For organisations to succeed financially there is need for adequate control measures to be put in place. However, there is need for effective orientation and enlightenment of members of staff in organisations on the need to adopt internal control system. Therefore in conclusion, internal controls can have positive effects on the financial management of manufacturing organisations.

5.4 Recommendations

From the foregoing discussion, as it relates to internal control and financial management of organisations, the following recommendations were made based on the findings of the study.

- a) Management should ensure that adequate organizational controls are established and each staff knows his duties, so as to ensure effective segregation of duties
- b) The internal control system should be evaluated periodically to identify and strengthen its weaknesses so as to reduce the likelihood of fraud by the staff.
- c) Attainment of organisational goals and objectives can be made easy if members of staff of the organisations are regularly trained. Management should therefore organize adequate training for their staff especially the internal audit staff as this will help create an understanding regarding the roles of auditing.
- d) Management should ensure that the head of the internal audit department should be a professional accountant registered with any professional accounting body in Nigeria to ensure ethical righteousness.
- e) Management should ensure that stocktaking is conducted periodically, usually once a month for proper accountability of raw materials, finished goods and other assets of the organisation.
- f) Materials, items, or assets purchases should be counted and inspected before taken into the storeroom to ensure accountability of an organisation's assets and stock.
- g) Also, management should boost the control consciousness of its workers, and give adequate attention to the issues of internal controls in order to maximize the business potentials and minimize the risk of fraud, error and loss

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APPENDIX

MOUNTAIN TOP UNIVERSITY

COLLEGE OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES

DEPARTMENT OF ACCOUNTING

QUESTIONNAIRE

Dear respondent,

I am a final year student of the above named institution. Presently I am carrying out a research study titled “**The impacts of internal control system on corporate financial management**”; in partial fulfilment of the requirement for the award of the first degree by the university.

In this regard your honest opinions are considered helpful in completing this questionnaire. You are assured that the opinions you provide will be treated as confidential.

SECTION A

Personal Data

Kindly tick () in the appropriate box as provided

1. **Gender:** Male () Female ()

2. **Marital status:** Single () Married () others ()

3. **Highest educational qualification:** NCE/OND/HND () BSC () MSC ()
 others.....

4. **Age:** 18-30years () 31-40years () 41-50years ()

5. **How long have you been on your present job?**
 1- 5 years () 6-10years () 11-15years ()

SECTION B

Kindly tick any of the options that best expresses your opinion on any of the issues raised in the questionnaire

Key: strongly agree (SA) Agree (A) Undecided (U) Disagree (D) Strongly disagree (SD)

QUESTION 1: what are the impacts of internal control on financial management?

S/N	Statements	SA	A	U	D	SD
1	Weak internal control will lead to poor financial management of organisations.					
2	An effective internal control system is sufficient enough to reveal the lapses and inadequacies in financial management.					
3	Top management adherence and submission to the control procedures set in place in all departments of the organisation is able to prevent the occurrence of management fraud.					

QUESTION 2: What is the effect of inventory audit on financial management?

S/N	Statements	SA	A	U	D	SD
4	Regular stocktaking is capable of ensuring a sound financial management.					
5	Counting and inspection of materials received prior to entry into storeroom helps to ensure accountability of materials.					
6	Matching receiving documents to purchase orders and invoices keeps proper records of stock.					

QUESTION 3: What is the effect of internal audit on financial management?

S/N	Statements	SA	A	U	D	SD
7	A strong internal audit system reveals fraudulent activities in management of resources.					
8	Sound financial performance requires effective and efficient internal audit.					
9	Internal audit system must be independent from the activities which it controls					

QUESTION 4: What is the relationship between segregation of duties and financial management?

S/N	Statements	SA	A	U	D	SD
10	Defined lines of authority and responsibility helps to ensure accountability of funds.					
11	Assigning portions to individuals helps in ensuring effective utilization of resources .					
12	Having only one person to complete an entire task leads to lapses and poor management.					

THANKS A LOT FOR YOUR CO-OPERATION!!!.

