



Effect of internal control systems on organizational performance: A study of telecommunication sector in some states of North-Eastern, Nigeria

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Abstract

The study focused on the effect of admin internal control on the performance in telecommunications industry in North-Eastern, Nigeria. The study employed a descriptive survey research design. Instrument adopted for the study is a structured questionnaire based on simple random sampling method. Furthermore, interview was also conducted to serve as a compliment for the questionnaire. Reliability of the research instrument was tested using the Smith Den method which revealed that the instrument is reliable. The results obtained revealed that the data is free from autocorrelation. Data analysis was done using descriptive analysis technique. Descriptive statistical analyses were used to give insight on the respondent's profile. The research questions for the study were analysed using multiple regression model. The study shows that the null hypotheses were rejected while the alternative hypotheses were accepted at 0.05 level of significance (organization's internal control environment ($p=0.00<0.05?=0.976$) and risk assessment ($p=0.00<0.05, ?=0.354$); The study concluded that organization's internal control environment and risk assessment, has a positive influence on organizational performance. The study recommended the followings: management of firms in the telecommunication industries should further study the control environment on possible aspects they might have paid some attention to which might have impacted performance; management should develop additional control activities to sustain and boost the achievement of internal control.

Keywords: Internal control systems, organizational performance, telecommunication sector

Introduction

1. Background to the Study

Internal control procedures in organizations make an important component that management is expected to observe in order to safeguard the assets of an organization, ensure accuracy and reliability of the accounting data so as promote efficiency in the operation of an organization. Despite the existence of fraud detection techniques such as ratio analysis, regressions analysis, financial ratios, decision trees, neural networks and transformation of variables, fraud is still difficult to detect since the executives involved have learnt to manipulate results. With the improvement in technology, financial institutions have expanded their operations beyond their domestic borders, which expose them to higher risks, frauds and other irregularities. It is therefore imperative that institutions maintain strong internal controls. Internal control and risk management are fundamental elements of governance of an organization. The two elements are-perceived as the foundation to the new strategic business management approach.

Different studies have indicated that internal control variables that have an impact on the performance of an organization including the control activities, risk assessment and control environment. Financial performance can be measured by liquidity, efficiency and profit while Market volatilities can lead to diminished demand, erosion of prices and downturns of foreign exchange rates. Given that organizations deal with public funds, there is need for strong internal control measures to safeguard the funds. Different internal control systems come with different effectiveness levels. Studies carried out by professionals in Asia and United Arab Emirates found out that companies that had strong internal control systems were well developed, better

in a competitive market, greatly controlled by government laws, extra conservative, more competent, had high liquidity and profitability and had better management controls (Rajib, 2020). There are majorly four internal control theories that have been advanced namely: the systems, agency, institutional and stakeholder on-financial performance can be measured by non-monetary variables such as customer satisfaction, defect rates, brand loyalty, first pass yields and employee satisfaction. It can be said that the basic concepts of an organization's risk assessment processes are relevant to both large and small organizations.

Agency theory involves the entrusting of one's obligations to another person to perform services on their behalf. The delegation helps in promoting efficiency and productivity through division of labor. The institutional theory perceives institutions as social structures which have gained higher degree of resilience. According to the institutional theory the structures are made of elements (normative, regulative and cultural-cognitive) that promote legitimacy (Njeri, 2017; Short & Palmer, 2003; García-Morales *et al.*, 2012)^[21]. These elements work in association with given resources and activities to enhance stability and the-interactive-nature-of-humanity-and-their-environment.

2. Statement of Problem

Efficient internal controls create an organization's confidence in its ability to perform or undertake a particular task and prevent errors and losses through monitoring and enhancing organizational and financial reporting processes, as well as ensuring compliance with pertinent laws and regulations. Proper systems have to be put in place in order to discourage errors, fraud and identify mistakes quickly, and, if that fails, management can take corrective action to

minimize losses. Owners or managers are responsible for establishing an effective control environment in their organizations, as this is part of their responsibility over the use of organization resources. Because internal control services may have many component purposes, there are increasing calls for better internal control systems. In order to be able to perform, organizations must critically look at customers and all stake holders in business and know how best they are satisfying their needs.

Literature Review

1. Concept-of-Internal-Control

Internal control can be defined as a set of mechanism designed to motivate an individual or a group towards achievement of a desired objectives (Kirsch, 2002). Internal control should be able to achieve the objective of bringing about cooperation among people with divergent objectives in the organization. Cahill (2006) ^[10] defines internal control as a system of internal administrative efficiency which often leads to design of a system that will enhance financial check and balance which will support corrective actions intended by the management of the organization and will ensure the primary goal of the organization is achieved. Transparency International (2006) reported that internal controls are controls developed by organization to generate transparency and avoid corruption. Transparency International (2006) further stated that corruption usually arise as a result of abuse of public office for private gains. Examples includes; Bribery: kickbacks and embezzlement of public funds. Similarly, internal control has been defined as all policies and procedure 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 asset, prevention and detection of fraud and timely preparation of reliable account records (Jacob & Philip, 2016). The Committee of Sponsoring Organizations (COSO, 2013) ^[13] defines internal control as a process, affected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: 1. Effectiveness and efficiency of operations. 2. Reliability of financial reporting. 3. Compliance with applicable laws and regulations. Mawanda (2008), defined internal control as measures and processes instituted by management of organizations generally to provide realistic assurance on how the organization's objectives are achieved with particular regards to operational efficiencies, effectiveness and the level of compliance with applicable laws, rules and regulations. They are measures that provide credible financial reporting (Gray, 2008) ^[22]. Ndungu (2013) added that understanding the concept of internal controls is very central for developing a framework for its impact in the organization. Ntongo (2012) agrees to the assertion that sound internal control facilitates the achievement of objectives.

2. Components-of-Internal-Control

Internal Controls are to be an integral part of any organization's financial and business policies and procedures. Internal controls consist of all the measures taken by the organization for the purpose of;

(1) protecting its resources against waste, fraud, and inefficiency; (2) ensuring accuracy and reliability in accounting and operating data; (3) securing compliance with the policies of the organization; and (4) evaluating the level of performance in all organizational units of the organization. Internal controls are simply good business practices.

The Committee of Sponsoring Organizations (COSO) internal control framework consists of five interrelated components or attributes derived from the way management runs a business. According to COSO, these components provide an effective framework for describing and analyzing the internal control system implemented in an organization as required by financial regulations (Securities Exchange Act of 1934 cited in Committee of Sponsoring Organizations (COSO, 2013) ^[13]. Determining whether a particular internal control system is effective is a judgment resulting from an assessment of whether the five components - Organization's Internal Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring - are present and functioning. Effective controls provide reasonable assurance regarding the accomplishment of established objectives (COSO, 2013).

3. Organization's internal control environment: The factors includes;

- Integrity and ethical values;
- The commitment to competence;
- Leadership philosophy and operating style;
- The way management assigns authority and responsibility and organizes and develops its people.

Risk assessment

The process of identifying and analyzing risk is an ongoing process and is a critical component of an effective internal control system (COSO, 2013). Attention must be focused on risks at all levels and necessary actions must be taken to manage. Risks can pertain to internal and external factors. After risks have been identified they must be evaluated. Every entity faces a variety of risks from external and internal sources that must be assessed.

According to Frazer (2012) ^[19] a precondition to risk assessment is establishment of objectives and was thus risk assessment is the identification and analysis of relevant risks to the achievement of assigned objectives. Albert & Byaruhanga (2014) ^[1] argue that risk assessment is a prerequisite for determining how the risks should be managed. Managing change requires a constant assessment of risk and the impact on internal controls. Economic, industry and regulatory environments change and entities' activities evolve. Mechanisms are needed to identify and react to changing conditions.

Research Methodology

The case study design focused on developing an in depth understanding by describing and demonstrating phenomenon. The case study design was appropriate and considerate for this study because it allowed the use of both qualitative and quantitative data.

1. Study Population

The study population was 100 members of both senior and junior staff of different telecommunication industries. They were selected both in terms of their rankings.

Data Collection Instruments

The study employed two methods of data collection instruments namely;

Questionnaire and Verbal Interview guide.

A self-administered questionnaire (SAQ) was administered to each member of the target population. The use of questionnaire enabled collection of data from a large number of respondents and also enabled respondents to give a sensitive information without fear as their personal identity was not needed on the questionnaire. Questionnaires offer greater assurance and anonymity, this enabling the respondents to give sensitive information without fear (Amin, 2005).

Interview guide

This is a qualitative research technique that involved

conducting intensive individual interviews with a small number of respondents to explore their perspectives on a particular idea or program or situation (Boyce, 2006).

Data analysis

This deal with how the data collected was processed and analysed using statistical analysis.

Qualitative data

The qualitative data collected was coded and grouped according to the study objectives and emerging themes. Analysis was carried through thematic analysis ensured that clusters of text with similar meaning are presented together (Devetak, Glazar and Vogrinc, 2010) This enabled making of comparison between quantitative and qualitative data.

Results

Table 1: shows organizational performance

Organizational Performance	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Total
Staff requirements are provided in a timely manner	24	46	25	05	00	100
Duties of the organization are efficiently executed	21	50	20	09	00	100

Source: Primary data 2025

The above items were scaled using five points likert scale Strongly agree, Agree, Neutral, Disagree, Strongly Disagree

Table 2: Shows extent to which control environment and performance in the telecommunication sector

Variables	Frequency	Percentage
Very great extent	38	38
Great extent	42	42
Moderate extent	20	20
Total	100	100

Source: Primary data 2025

The study designed to establish the extent to which control environment affect organizational performance in the telecommunication sector. From the findings, 42% indicated great extent, and 38% also indicated very great extent while 20% shows extent level. This implies that control environment affects organizational performance in the telecommunication industries.

Table 3: Shows Extent to which Monitoring Affect Organizational Performance

Variables	Frequency	Percentage
Very great extent	37	37
Great extent	53	53
Moderate extent	10	10
Total	100	100

Source: Primary data 2025

The study sought to establish the extent at which monitoring can affect organizational performance in the telecommunication sector. From the findings, 53% indicated to a great extent, and 37% indicated a very great extent while 10% of the respondents shows moderate extent. This

implies that effective monitoring affect organizational performance in the telecommunication sector.

Conclusion

Control activities relates to organizational performance. This was due to the fact that the use of segregated duties, proper book keeping, internal auditors and authorization for every activity and attracting staff of integrity influenced organizational performance.

Recommendations

1. Telecommunication industries should establish a control environment that can enhanced organizational performance.
2. Telecommunication industries should implement a monitoring system that influences organizational performance.

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