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THE IMPACT OF INTERNAL CONTROLS ON FINANCIAL MANAGEMENT: A CASE OF PRODUCTION COMPANIES IN NIGERIA

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Abstract

This study examined the impact of internal controls on the financial management of selected Production companies in Rivers State in Nigeria. The sample for the study consists of 20 selected Production companies in Rivers State. Survey method including the use of questionnaire was adopted, whilst correlation method of analysis was adopted. Two hundred and two (202) correctly responded copies of questionnaire out of 222 administered were obtained for the analysis, multiple regression and Pearson's Correlation Coefficient (r) statistical tool were used in testing the hypothesis using Statistical package for social sciences software (SPSS). The findings reveal that effective internal controls enhances financial management of organizations whilst in conclusion, it was recommended that, Management should ensure that there are adequate organizational 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. The internal control system should be remolded and strengthened to position the staff in carrying out their duties efficiently and effectively and at the same time evaluated periodically to strengthen its weaknesses in the organization so as to reduce the likelihood of perpetrating fraud and loss of organizations funds by the staff amongst others.

Keywords: Financial Management, Internal Controls, Nigeria, Production Companies

INTRODUCTION

Every organization both profit or non-profit organization has its objectives and goals in mind to achieve. For the non-profit making organization, their goal is to satisfy the social need of the citizens and in the effort to achieve these purposes, supervision more often than not play a vital role. The size and scope of these organizations have sometimes made it hard for the executors to exercise personal and first hand supervision of operation. It is in this light that internal control or internal audit system established by management is initiated. For an organization to carry out its business there must be some factors put in place for the smooth running of the organization like materials, machines, money, people etc. These need to be well coordinated in order for the success of the organization to be achieved. These factors are used by a group of persons known as management. Neither can management exist without an organization both is inseparable.

The system of internal control provides assurance to management of the dependability of the accounting data used in the decision making of the organization. It has been discovered that due to lack of internal control several banks have been discovered to have defrauded its customers. Mostly foreign investors, having discovered this, banks now take extra precaution before clearing a cheque because of rampant incidence of fraud and forgeries which have placed bank loss on average of N1m each working day of the year in Nigeria (CBN, 2010). Management use internal control as a tool to check its staff due to the fact that managers are not able to monitor the activities of the organization. It therefore adopts the internal control in such a way that the system checks itself and any irregularity within the system is been detected and corrected. To ensure that the system checks itself, management could use devices such as segregations, supervision of work and acknowledgement of performance. The effective arrangement and implementation of this control system would ensure proper management.

Statement of the Problem

There is a general consensus that any organization without an Internal Control system in place is generally exposed to several threats that are capable of crumbling the organization in less or no time. Prominent amongst such threats are: Problem of incorrect financial statement and /loss of the company's' assets; stealing and miss-management of organizational vital documents which may be done by an employee to take undue advantage. There is also the issue of incorrect and unreliable financial records which may lead to loss of organizational integrity; non implementation of accounting policies in consistent with the applicable legislation appropriate in presentation of financial statement as well as non-adherence of annual budgets and implementation of planning policies. All these anomalies are what this work tries to examine.

Objectives of the Study

The overall purpose of this research work is to evaluate and determine the impact of internal control measures in an organizational financial management. A well-defined organizational structure helps management to run the business in an orderly manner. This enhances operational efficiency, which are the important features of internal control. Other specific purposes of this study include the following:

1. To determine the impact of internal controls in ensuring proper use of organizations funds and assets.
2. To ascertain whether perpetration of fraud and losses of Revenue in an organization are as a result of weakness in Internal Control system.
3. To examine the extent that internal control system helps in minimizing misrepresentations of facts and proper preparation and presentation of financial statements by the employees concerned in organisation.
4. To determine the relationship between internal control measures and proper keeping of accounting records.
5. To ascertain the extent to which internal controls help organizations in staying on budgets.

Research Questions

The following research questions were raised to form the research hypothesis and they are:

1. To what extent does the internal control measures impacts on appropriation of organizational assets and funds?
2. To what extent does perpetration of fraud and losses of Revenue in an organization are as a result of weakness in the Internal Control system?
3. To what extent does internal control enhance a true reflection of organization activities as presented in the financial statement?
4. To what extent does a relationship exists between internal controls and proper keeping of accounting records?
5. To what extent does internal controls helps employees to keep to financial budgets?

Statement of Hypothesis

This study is undertaken on the basis of the following hypothesis stated in the null form of which were tested and results analyzed:

Ho_1: There is no significant relationship between internal control measure and proper use of organizations funds and assets.

Ho_2: There is no significant relationship between weak internal control system and fraud perpetration and losses of revenue in an organization

Ho_3: There is no significant relationship between internal controls and accurate financial statements preparation and presentation.

Ho_4: There is no significant relationship between internal control activities and proper keeping of records.

Ho_5: There is no significant relationship between internal audit system and keeping to organizational financial budgets

Significance of the Study

There is no controversy that this research works have been conducted on Internal Controls system, however much emphasis has been placed on the impact of a good Internal Control system on financial management of organizations. This research work will go a long way in helping an organization discover the impact of weakness in internal control and suggest measures in correcting them. It will also reveal the problems caused by bad Internal control system and be useful to students, scholars, lecturers and other third parties as it shall open new area of further research work and at same time advance challenges to up-coming researchers.

Scope of the Study

The impact of a good internal control aids management effectiveness in its organization. This research specifically focused attention on the activities of organizations in Nigeria and due to the logical point that not every organization can be studied; this research is therefore limited to selected Production companies in Rivers State. The focus of this research is to show the impact of a good Internal Controls system in the performance of organization financial management.

Definition of Terms

The following terms have been used in the course of this research work and as such need to be explained. They were as stated below:

Audit

In this study Audit is seen, as an official inspection of the organization's accounts, typically by an independent body invited by the organization's management.

Bearing in mind that, "Audits can't be expected to detect every fraud", hence the need for internal audit (www.investopedia.org).

Internal Audit

Seen here as the examination, monitoring and analysis of activities related to the companies' operations, including business structure, employee behavior and information systems whilst reviewing company activities in order to identify potential threats to the organization's health and profitability, and to make suggestions for mitigating the risk associated with those threats in order to minimize costs and ensure proper financial management.

Sound Financial Management

According to financial growth solutions UK (2014), Sound financial management is defined as the careful tracking and prudent management of a company's financial resources and cash-flow, without sound financial management, information can be wrong or absent, decision-making is flawed, and minor issues can become serious problems that put the business itself at risk . In this study however, sound financial Management is seen as the adequate utilization of organizational financial resources to achieve organizational objectives which are measured in terms of Budget adherence and reduction or outright elimination of financial loss in the organization.

Weak Internal Control Measures

In this study, it is seen as the measures the organization puts in place in order to safeguard its assets (both financial and other assets) but has failed to meet up with its intended purpose of safe guarding the assets. In order words, they are measures that have failed to ensure an orderly and efficient operation of the company activities in such a way that assets are safe guarded, ensure the competence and accuracy of financial records, the prevention and detection of errors and fraud whilst preparing the financial statements.

LITERATURE REVIEW

The section takes a sacrificial look on the nature and circumstance of internal control, the review of related literature in a research study is a search for the discovery of existing information on a given research problem. It sets the current research into perspective to show “the state of the art” a literature review must be done in a context of the research problem. In this study, the conceptual issues as well as related literature that highlight proper Internal control system will be reviewed as well as internal control system to enable and enhance our understanding of the research work so that the intended aims and objectives of the research can be met.

Conceptual and Theoretical Framework

According to Adams (1994), Agency theory is extensively employed in the accounting literature to explain and predict the appointment and performance of external auditors. Argues that agency theory also provides a useful theoretical framework for the study of the internal auditing function. Agency Theory has it that Auditors acts as agents to their principals of which they have an obligation to act as to protect the interest of their principals Adams further opines that that agency theory not only helps to explain and predict the existence of internal audit but that it also helps to explain the role and responsibilities assigned to internal auditors by the organization, and that agency theory predicts how the internal audit function is likely to be affected by organizational change. This study pitches its tents on this theory.

Internal Control Issues

The United Kingdom Auditing practices committee (1979) defined internal control as "the whole system of control, financial and otherwise established by management in order to carry on the business of the enterprise in an orderly and effective manner to ensure adherence to managerial policies and directives, safeguard the assets and ensure as far as possible the completeness and accuracy of the records the prevention and detection of errors the fraud ,and the timely preparation of financial information". According to Statement 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."

Also according to Robertson and Davis (1988) "Internal Audit system is a set of client procedures both computerized and manual imposed on the accounting system for the purpose of preventing, detecting and correcting errors and irregularities that might enter the system and thereby affect the firm's financial statement.

The SAS further explains that internal control may be categorized as either accounting or administrative controls. Accounting control is concerned with the plan of the organization and all the co-coordinated methods and procedures which are implemented with a view of safeguarding assets and enhancing reliability of financial records.

An administrative control comprises of the plan of the organization and all co-ordinates methods and procedures that are concerned with operational efficiency and adherence to management policies and directives. This is also known as operational controls. As can be seen above, when the internal controls are weak, operational efficiency can be undermined regardless of the nature of the organization. Again, if there are no controls or audit system in place, organization financial management tends to end in anarchy- it becomes a free for all both on the side of management as well as other employees.

Role and Purposes of Internal Control

According to Walter and William (1982), the role and purpose of internal control system is meritable because internal control consists of the measures, record procedures and plan of an organization that deals mainly with safeguarding asset and ensuring financial records are accurate and reliable. They further explained that the need for internal control can be seen in its roles and purposes which are financial internal control and administrative internal control

Financial Internal Control

The need for internal control system under this is:

a. To ensure the assets of the company is protected.
b. Protecting against improper disbursement of the assets for the company.
c. Assuring and securing the accuracy and reliability of all accounting, financial and other operating information of the company.

Administrative Internal Control

a. To ensure that the operations the organization are carried out effectively and efficiently.
b. To ensure the objective and aim of the organization are attained
c. To provide assurance that access to asset is permitted only in accordance with management authorization
d. To ensure transactions are properly recorded in the financial statement
e. To ensure financial statements are prepared in accordance with accounting principles.

Types of Internal Control

The guideline of internal control put forward eight (8) types of Internal Audit system that should be obtainable in an organization and they are as follows:

Organizational Control

An organization should have a plan of its activities which should define and allocate responsibilities that is every function should be monitored by a specific person who may be called "responsible officer." Adequate lines of reporting for all aspect the organization operations, including controls should be clearly stated and the delegation of authority and responsibility should be clearly specified

Segregation of Duties

One of the prime means of control is the separation of duties. This reduces the risk of internal manipulation, accidental error and increases the element of checking. Functions which should be separated in an organization financial management include: initiation (officer or person who decides to give out the loan), Execution (the person who keeps the money to be loan out) and recording (the person who records the whole process in the book). Furthermore, system development and daily operations have to be considered in molding the Internal Audit system to be full proof against fraud.

Physical Control

This concerns the physical custody of assets and involves procedures and security measures designed to limit access to authorized personnel only. These include both direct and indirect access via documentations. These controls assume importance in the case of valuable, portable, exchangeable or desirable assets." Physical control can also be achieved by electronic means in a computerized environment for example through the use of electronic I. D cards, password etc to restrict access to particular file.

Arithmetical and Accounting Control

These are the controls within the recording function which checks that the transactions to be recorded and processed have been authorized and that they are correctly and accurately processed. Such controls include checking the arithmetical accuracy of the records, maintenance and checking of totals, reconciliation, control accounts and trial balances and accounting for document. If these are adequately put in place by organizations, they can check the excesses of employees.

Personnel Control

There should be procedure to ensure that personnel have capabilities commensurate with their responsibility. Inevitably, the proper functioning of any system depends on the competence and integrity of those operating it. The qualifications, selection and training as well as the personal characteristics of the personnel involved are important features to be considered in setting up any control system especially in financial management.

Supervision Control

Any system of internal control should include the supervision by responsible officials of day-to – day transactions and the recording there of. All activities performed in the financial management by all the level of staff should be clearly laid down and communicated to the person supervising

Management

These are the controls exercised by management outside the day-to- day running of the system they include the overall supervisory controls exercised by management, the review of management accounts and comparison thereof with budget internal audit function and other special review procedures. It is also the duty of the management to review the internal control from time to time in order to accommodate changes in the financial management operations.

Authorization and Approval

All transactions should require authorization by an appropriate responsible person. This is very important in the financial system of an organization where large amount of money is handled so therefore it is appropriate for these money which are used for are used for various transactions to be authorized by a trusted and responsible person.

Essential Features of Internal Control in Financial Management in Organisations

According to Walter and William (1982), the detailed nature of the controls operative within any organization will depend upon the following:

a. The nature and size of the business conducted.
b. The number of administrative staff employed
c. The materiality of transaction concerned
d. The importance placed upon internal by the organizations own management.
e. The management style of the entity particularly the twist placed on the integrity and honesty of the key personnel and the latter's ability to supervise and control their own subordinate staff.

Despite the many variation in internal control system, which manifest in different situations, all internal control system will possess an unavoidable principle of "separation of function". These functions among others include:

Authorization

This is the approval of contractual obligation

Custody

The handling of assets involved in transaction.

Recording

The creation of documentary evidence of the transaction and its entry in the accounting recording. In commercial organizations or banks, the nature of the business has been stated earlier on and it is peculiar to all banks, regardless of the size or location. The size varies from organization and the number of staff depends on the size of the organization. In smaller organizations or banks, an officer could perform the work meant for two or three people, if the work load is adequate for one staff.

Banks transactions have materials which are usually very important and confidential; therefore the internal control of the banks will have to be such that naturally safeguards all its documents. Furthermore, the main act of banking i.e. a customer patronizing a bank is an automatic gesture of trust and so therefore, the integrity and honesty of the key personnel must be sound and well emphasized by the internal control operating in the bank.

Internal Control in Financial Institution and Statutory Guideline as Tool against Fraud and Distress

Looking at financial institution for example a bank it is always under the control of some bodies like CBN, SEC etc. these bodies monitor and influence the activities of all banks directly or indirectly. It has been established that fraud is a very deadly disease to any commercial banks, because if allowed to grow and eat deep into the banking system, it inevitably leads to distress. Evidence from recent banks regarding fraud and forgeries in commercial and merchant banks reveals that the phenomenon has been on the upward trend, i.e. the incidents of fraud and forgeries have been increasing, despite the control measures put in place by individual banks. The subject of fraud has increasingly gained the attention of the monetary and supervisory authorities, in view of the fact that fraud results in huge financial losses to banks and their customers loss of confidence in banks which may ultimately bring about bank failure. It is therefore important to stress the need for all banks to comply with the statutory requirements of rendering returns for the effectiveness of all policy measures, which the monetary and supervisory authorities might design to curb this menace. The statutory requirement for financial institution is to employ external auditors to check their books and affairs. Regulatory authorities exercise their powers to deal with members of the institution and management found to have grossly violated the regulatory and statutory code of conduct or to have been engaged in financial malpractice or have condoned such offences of other staff.

Bearers of Internal Control Responsibility

The role of management in any organization involves the planning and control of the operations of the organization to ensure that they are operating in accordance with plans (Walter and Will 1982). The totality of the procedure is to ensure that the Internal Audit system is effective on its operators. According to Oyejide and Soyode (1998) management has the responsibility under the company and allied matters Act (CAMA) to keep adequate accounting records. Management should therefore introduce appropriate controls to prevent or reduce the incidence of irregularities, and intentional errors, including fraud. The risk of fraud can be reduced by ensuring that the key functions which each transaction cycle are always performed by separate individuals. Segregation of duties should exist among:

1. Those with power to authorize a transaction and to commit the bank to execute it.
2. Those charged with the dust of recording such transactions in banks in banks book.
3. Those who have the custody of assisting and can determine their release.

Key Success Factors of a Financial Institution

An example of a financial institution is a bank. IBFC Augusto Training limited (2004) mentioned the following to be the key success factors of commercial banks.

a. Strong capital base
b. Strong internal process
c. Ability to use technology for competitive advantage.
d. Good and disciplined management and staff
e. Shareholders of good standing capacity and willingness to support

Functions of a Commercial Bank: Banks are noted for their full services, which they render to corporate and individual. These services are encapsulated in their functions which include the following:

a. Acceptance of Deposit
b. Granting of loans
c. Issuing bank drafts and travelers cheque
d. Making payments on behalf of their customers.
e. Buying and selling of securities on behalf of their customers.

Elements of a Good Internal Audit System

Internal Audit: Leslie R. Howard (1973) writing on internal audit said, it is a review of operation and records sometimes continuous which is been looked into by specially assigned staff. Leslie went further to say that where internal audit exist, internal controls is greatly facilitated and in order to achieve the planned objectives, management must have to set reasonable procedure for the internal audit department to apply. He went further to state that if the internal auditor would achieve the aim of management that is profit maximization, independence is also a necessity. In the same vein, Sir Author E. Cutforth (1975) defined internal audit as a review of operation and records sometimes continuous, undertaken within a business by specially assigned staff. A situation where the external auditor, there could be unnecessary duplication of work which stands to tamper the financial management of the organization. He went further to say that if management set up a strong internal audit department with its own autonomy, the scarce fund of an organization would be adequately and effectively managed. Internal auditors have responsibilities to carry out some functions some of which are:

- Providing management with information about the adequacy and effectiveness of the organization system of internal control.
- Review and improvement of the system of internal check
- The examination and review of the organization policies and activities to ensure compliance with statutory legislative requirement.
- Internal auditors should be able to undertake at all times special investigation at the management request.

Internal Check: It has also been deemed necessary to explain the principles of internal checks which also forms part of the system of internal control should embrace. The institute of chartered accountant of England and Wales defined internal check as the allocation of authority and work in such manner as to afford checks on the routine transaction of day to day work by more of the work of an individual being proved independently by another. According to Oremade (1979), internal check covers the detection of fraud or errors and interior quality of work. It involves a number of principles among which are:

(a) Work is divided so that no single person has sole control over a complete cycle of work. Thus, for example a cashier should not post the ledger instead these functions should be carried out by an independent person responsible to the accountant.

(b) The work flows from one person to another and in the process each stage is subjected to an independent check. This is done with a minimum amount of duplication.

(c) When checks are not automatically out as part of the system, special checks should be carried out by senior officials.

(d) Proper lines of authority should be established for dealing with such transactions.

Relationships Between Internal Auditing and Internal Control

There has been a misconception about the use of the word internal Audit and internal control and a clarification has been deemed necessary. Also, Oremade (1979) defined internal audit as “An independent review of operations and records, sometimes continuously undertaken within a business by a specially assigned staff” .While he defined internal control as “A system which comprises the plan of organization and all of the co-ordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies”. Furthermore, he explained that an efficient internal control embraces internal audit. Also, internal audit is carried out on the basis of the Internal Audit system in place.

Management and Internal Control System

The Internal Control system should be evaluated periodically to expose any lapses present, to know how strong or weak the system is. Management is in the position to override controls, which it has established, for its own interest. The role of management in internal control is explained as follows; It is the management of an organization that put in place the Internal Control system for smooth running and continuity of the enterprise. However, management has a way of affecting the Internal Control system and vice versa. When an Internal Audit system is set up by the management, it will be arranged in such a way that any misconduct or lapses in the system will be noticed. The effect of management on internal control will be obvious from the way in which they handle misbehaviors or misconducts among workers. If management deals with the misconduct with levity, the whole organization will relax, i.e people will begin to work at will and at their own pace, knowing that nothing will be done to them. It should be noted that with this kind of management, fraudulent act would thrive very well. Also in a case whereby the management shows favoritism to some workers and turn blind eyes to their misconduct, fraud thrives. A good management ought to ensure effectiveness of the Internal Audit system by frowning at any type of mal practice or misconduct. Finally, the competence and integrity of the personnel operating the controls must be ensuring by management through proper selection and training to assure the organization beyond reasonable doubt against fraudulent acts.

Defect and Shortcomings of Internal Control

Internal control is a set of control institutionalized by the management of an organization to accomplish a number of objectives and goals. Internal control as a system means the combination of inter-related and independent controls, necessitating a high degree of coordination, working together towards the achievement of known goals and aspirations. When there is a defect on the side of the management in carrying out proper Internal Audit system, the result might lead to distress in the organization. Some factors responsible for distress in Internal Control system are;

1. Dishonesty and fraudulent act of workers. Fraud is referred to as an intentional misrepresentation of financial information by one or more individuals among the management or employees. These include.

a) Manipulation and falsification of records or documents

b) Mis-appropriation of assets.

c) Omission of defects in transaction from records or document. d) Misapplication of accounting policies.

It should be noted that in an organization, two types of fraud are recognized namely: management fraud and employee fraud.

2. An unstable environment or monitoring body could also lead to defect in Internal Control system. It should be noted that the types of fraud perpetuated are:

a) Presentation of forged cheques and dividend warrants.

b) Granting of unauthorized credits.

c) Posting of fictitious credits

d) Fraudulent transfers and withdrawals

e) Outright theft of money

Possible Solutions to Defects in Internal Control System

The defects in internal control system can be corrected and replaced by a healthy system through the following measures (Ares and Loebbeck 1997), which is applicable to organization:

Personnel Controls

i. Proper recommitment procedure
ii. Proper disengagement procedure
iii. Posting and placement
iv. Job rotation
v. Training programmes

Administrative Control

i. Segregation of duties
ii. Dual custody
iii. Security duties e.g test key, commerce etc.

Accounting Controls

The details that accounting controls should contain includes amongst others:

i. Date validation
ii. Prompt posting of transaction
iii. Balancing
iv. Reconciliation

Financial Control

These can be in the form of cash limits, signing powers, and specialized stationer.

Process Control

Input/output validation as well as Program control

Inventory Controls

i. Logs and listing
ii. Physical checks and counts
iii. Binlards, stock receipt notes

Limitation of Internal Control

Internal controls are essential features of any organization that is non-effective. However no system of internal control can by itself guarantee efficient administration and the completeness and accuracy of the records nor can it be proof against fraudulent act especially in connection with those holding the position of authority. According to Oyejide and Soyade (1998) the inherent limitations of internal control include:

i. Management over doing controls whenever the control does not suit their selfish ambitions.
ii. Fraud committed by someone who has carefully studied the system of a particular organization
iii. Abuse of responsibility i.e. taking advantage of the position held to do or carry out illegal acts.
iv. Cleverness of some people who specialize in getting computer codes of an organization which are designed to prevent public access, no matter how secure they might be.
v. Employees of an organization making potential human errors caused by sheds of excess work load, alcohol, carelessness, distractions etc.

All these are factors that can limit the effectiveness of Internal Control system in the financial management of an organization.

Measures of Sound Financial Management by Organizations

There are several measures of financial management by organisation both private and public. According to Fairfax County publication (2008), the following are typical of how financial management is looked at: Planning Policy adherence, Annual Budgets, cash balances stability, debt ratios, cash management, internal controls, inventory management as well as creditors' management. Furthermore, financial resources must be optimally planned and allocated between required outputs. (National Treasury Publication, 2003).

In addition, the optimal investment in total assets required to support specified departmental outputs must be quantified and economically funded. The use of financial resources to achieve specified outputs must be monitored and controlled against the strategic and operational plans of the department by means of quantitative and qualitative data.

Critical Areas for Financial Management Performance

To achieve the aim of sound financial management as described above, in most organizations, it usually requires the involvement by the chief financial officer in the planning, design and control processes of the department. They in line with adequate control measures put in place ensure that sound financial management is achieved. The table below however gives a summary of the critical areas that financial management are measured in organizations:

Table 1: Summary of Financial Management Measures and key tasks involved

S/N	Critical areas for performance	Typical core tasks
1	Management arrangements	The efficient, effective, economical and transparent use of resources; delegation of powers to other officials; proper risk management; design and implementation of internal controls, including internal audit, proper systems, processes and procedures; segregation of duties and financial management training
2	Planning and budgeting	Provision of timely, accurate and adequate financial and other operational information for strategic decision making purposes; preparation of strategic plans, including advice on new strategies for achieving Organizations' objectives; costing and pricing of the department's products and services; programme performance measurement.
3	Revenue and expenditure management	Examine the department's operations to identify sources or potential sources of revenue; regular revaluation of the effectiveness of sources of revenue; timeous collection of revenue; ensure that sound systems and procedures for expenditure management and control are in place; deliver programmes with levels of efficiency, effectiveness and economy

		that seek to emulate the forces of market competition; effective management of transfer payments and conditional grants in terms of the annual Division of Revenue Act; implementation of processes to track expenditure and commitments against the vote and the identification, recovery and reporting of unauthorised, irregular and fruitless and wasteful expenditure.
4	Asset and liability management	Proper planning for the acquisition of assets, including the need to consider alternative strategies for the achievement of organisation objectives; design and implement measures to protect and maintain assets, including the establishment of a comprehensive asset register; preparation of monthly age analysis of debtors and creditors reports.
5	Accounting and reporting requirements	Design, implement and maintain accounting systems to ensure complete, valid, accurate and timeous financial/non-financial information; maintenance of appropriate and consistent financial/non-financial reports that satisfy the needs of the users of financial/non -financial information; guidance on regular performance reporting to management.

RESEARCH DESIGN AND METHODOLOGY

In this section, the following are discussed: Research design, area of the study, population of the study, sample size and sampling technique, data collection instrument, validity and reliability of the instrument and method of data analysis.

Research Design

For the purpose of carrying out a good analysis and reaching a reasonable conclusion, data are been collected from various sources either through the primary source or secondary source or a mixture of both. The research design refers to the way the various component of the study are organized in a coherent and logical way, thereby, ensuring an effective addressing of the research problem. In this study, the descriptive research design, with use of survey is adopted (Osuala, 2005). In addition, the case study method is also adopted which involves the study of selected Production companies in Rivers State.

Method of Data Collection

Data used for this research work were collected mainly from both primary and secondary sources.

Primary Source

The primary data used for this work were gotten through questionnaire and oral interview which was administered to the respondents.

Secondary Source

The secondary data were gotten from textbooks, journals, newspapers, magazines and bulletin.

Population of the Study

This research was only limited to the employees of 25 selected Production companies in Rivers State with average management staff of 20 therefore, the population of this study consists of 500 staff which is made up of Accountants, Directors, External Auditors, Internal auditors and other Managers. However, an optimum population sample is determined for which the study is based.

Sample Size and Sampling Technique

Sample is a small or selected group used to represent the whole. The probability sampling method is used for the study. The sample size that was used to represent the whole population was determined using the Taro Yamane method of sampling size determination, as it would not be easy to use or study the entire population.

The "Taro Yamane" Formula is as stated below

$$n = \frac{N}{1 + N(e)2}$$

Where

n = Sample size

N = Finite population

1 = Constant

e = Level of significance taken to be 0.05

$$n = \frac{500}{1+500(0.05)2}$$

$$n = \frac{500}{1+500(0.0025)}$$

= 222.

Therefore, an optimum sample of 222 employees was used for the study.

Research Instrument

The instruments used for the purpose of the study as earlier mentioned are oral interview and questionnaire administration.

Oral interview has to do with asking of question so as to gather as many information as possible. The questionnaire issued contains certain questions which are in accordance with the research work and the questions are framed in a way that it would not be misunderstood by the respondent. The questionnaires were subjected to four points Likert scale rating ranging from 0, the lowest to 4, the highest points. The ranges are (Undecided, Strongly disagree, Disagree, Agree and Strongly Agree).

Validation and Reliability of the Instrument

The questionnaires issued to the respondents for this research work was designed in a way that it arouses interest in the mind of the respondent. The Questionnaire was issued out to some academics, and statisticians in the university who went through them and made necessary suggestions, hence the validity was substantiated based on expert opinions. In the cause of the oral interview, certain checks and balances were also adopted to secure perfect validation of the information given.

Method of Data Analysis

In this study, questionnaires issued were returned and analyzed based on simple percentage. A parametric statistical tool regression analysis is used to test the hypotheses in accordance with the research work.

It was adopted for this research because it shows the relationship between internal audit system and its impact on the financial management of an organization. Using SPSS, the data was tested and analysed.

Furthermore, Ding (2006), asserts that regression models are considered to be veritable tools for describing the functional form of relationship between variables, whilst Igwenagu, (2011) also agreed that regression helps in playing key role in the implementation of multivariate tools like principal component analysis. Hence, in this study, regression analysis is used to test for the relationships amongst the variables.

Justification for the Research Method used

Quasi experimental design was used in the sense questionnaires were designed and were issued to 222 employees of the selected 25 Production companies so as to get their opinions on the pre-formatted questions. The correlational method is as well adopted, hence using regression analysis. Correlational method measures the relationship between two variables. Hence it helped to measure the relationship between internal control measures of the organization and financial management. Unlike in experimentation, the relationship is observed in a more natural environment. The justification for Regression is for showing the relationship between an independent and dependent variables (Osuala, 2005).

PRESENTATION AND ANALYSIS OF DATA

This section is dedicated to the presentation and analysis of the data obtained by the researcher, for the purpose of this study. First, a demographic presentation of data is done after which an analysis of the information in a tabular form, before the statistical testing of the hypotheses was carried out. The outcome of the tests guided the research in drawing worthwhile conclusions

Response Rate of Questionnaire

Table 2: Questionnaire Response Rate

Questionnaire	Frequency	Percentage (%)
Number Administered	222	100
Number Retrieved	210	95
Number used	**202**	**91%**

A total of two hundred and twenty two copies of the research questionnaire were distributed by the researcher in line with the objectives of sample of the study. There was a 95% retrieval rate, however, only ninety – one percent (202) copies were accurately completed. Furthermore, these 202 copies constituted the data for analysis. Ten (10) of the retrieved copies of the research questionnaire were not accurately completed and thus were not used in the analysis.

Statistical Testing of Hypotheses

This section deals with the testing of the various hypotheses using multiple regression analysis as well as Pearson's Product Moment co-relationship coefficient. The Null hypotheses were tested and Using SPSS version 12.0, the test analysis are summarized below in table 3 and 4 respectively:

Table 3: Regression Analysis Table

Model	R	R^2	Adjusted R^2	Standard Error of Estimate	R^2 change	F- Value	DF	Sign- F Change	Durbin Watson
Internal control measure and proper use of organizations funds and assets.	.93451	.87330	.87267	.34998	.87330	1378.560	1	.0000	.29309
weak internal control system and fraud perpetration and losses of revenue in an organization	.91377	.83498	.83415	.32302	.83498	1011.945	1	.0000	.26729
Internal controls and accurate financial statements preparation and presentation	.92579	.85709	.85638	.42698	.85709	1199.488	1	.0000	.30561
Internal control activities and proper keeping of records.	.91177	.83133	.83049	.38574	.83133	985.748	1	.0000	.29451
Internal audit system and keeping to organizational financial budgets	.91529	.83776	.83695	.37108	.83776	1032.723	1	.0000	.3139

Table 4: Pearson's coefficient correlation summary table

Hypotheses:	1	2	3	4	5
Statistics	Internal control measure and proper use of organizations funds and assets.	weak internal control system and fraud perpetration and losses of revenue in an organization	Internal controls and accurate financial statements preparation and presentation	Internal control activities and proper keeping of records.	Internal audit system and keeping to organizational financial budgets
Pearson's coefficient	**.93451**	**.91377**	**.92579**	**.91177**	**.91529**

Hypothesis One

Ho$_1$: There is no significant relationship between internal control measure and proper use of organizations funds and assets.

Decision Rule: Accept Null hypothesis (H0$_1$) one if calculated F Value is greater than Tabulated value

Comment

The regression table above shows a significant F change **of .0000,** calculated value of F **1378.560** while tabulated value is **0.93451** which is less than the calculated value; therefore the null hypothesis one is rejected and accept the alternate hypothesis which states that there is a significant relationship between internal control measures and proper use of organization funds and assets. In addition, there is a very high strength of relationship that exists between the internal control measures and proper use of organisational funds and assets, as this is depicted by the correlationship coefficient of **0.9345** as can be observed in the statistics table.

Furthermore, for R squared (coefficient of determination) of **0.87330** of Internal control measures shows that **87.33%** of the total variation of financial management in terms of proper use of organization funds and assets was due to the effect of Internal control measures in the organizations, whilst **0.87267** on adjusted bases, the proper use of organization funds and assets were **87.27%** relative to the internal control measures.

Hypothesis Two

Ho$_2$: There is no significant relationship between weak internal control system and fraud perpetration and losses of revenue in an organization

Decision Rule: Accept Null hypothesis ($H0_2$) two if calculated F Value is greater than Tabulated value

Comment

The regression table above shows a significant F change **of .0000,** calculated value of F **1011.945 while** tabulated value is **0.91377** which is less than the calculated value; therefore the null hypothesis two is rejected and accept the alternate hypothesis which states that there is significant relationship between weak internal control system and fraud perpetration and losses of revenue in an organization. In addition, there is also a high strength of relationship that exists between weak internal control system and fraud perpetration and losses of revenue in an organization, as this is depicted by the Pearson's coefficient of **0.91377** as can be observed in the statistics table.

Similarly, for R squared (coefficient of determination) of **0.83498** of weak Internal control system shows that **83.50%** of the total variation of financial management in terms of fraud perpetration and losses of revenue reduction in an organization was due to the effect of Internal controls in the organizations, whilst **0.83415** on adjusted bases, the perpetration of fraud and losses of revenue in the organization were **83.42%** relative to weak internal audit systems.

Hypothesis Three

Ho_3: There is no significant relationship between internal controls and accurate financial statements preparation and presentation.

Decision Rule: Accept Null hypothesis ($H0_3$) three if calculated F Value is greater than Tabulated value

Comment

Similarly, the regression table above shows a significant F Change **of .0000,** calculated value of F **1199.488** while tabulated value is **0.92579** which is less than the calculated value; therefore the null hypothesis three is rejected and accept the alternate hypothesis which states that there is a significant relationship between internal controls measures and accurate financial statements preparation and presentation. In addition, there is also a high strength of relationship that exists between internal controls and accurate financial statements preparation and presentation, as is also seen in the Pearson's coefficient of 0.92579 as can be observed in the statistics table. Also, for R squared (coefficient of determination) of **0.85709** of Internal controls activities shows that **85.71%** of the total variation of financial management in terms of accurate financial statements preparation and presentation was due to the effect of Internal controls in the organizations, whilst **0.85638** on adjusted bases, accurate financial statement preparation and presentation by the organization was **85.64%** relative to internal controls.

Hypothesis Four

Ho$_4$: There is no significant relationship between internal control activities and proper keeping of records.

Decision Rule: Accept Null hypothesis ($H0_4$) four if calculated F Value is greater than Tabulated value

Comment

In the same vein, the regression table above shows a significant F Change of **.0000,** calculated value of F **985.748** while tabulated value is **0.91177** which is less than the calculated value; therefore the null hypothesis four is rejected and accept the alternate hypothesis which states that there is a significant relationship between internal Control activities and proper keeping of records. In addition, there is also a high strength of relationship that exists between internal control activities and proper keeping of records. This is also seen in the Pearson's coefficient of **0.91177** as can be observed in the statistics table. For R squared (coefficient of determination) of **0.83133** of Internal Control Activities shows that **83.00%** of the total variation of financial management in terms of proper keeping of records was due to the effect of Internal Control activities, whilst **0.83049** on adjusted bases, proper record keeping by the organization was **83.10%** relative to internal control activities .

Hypothesis Five

Ho$_5$: There is no significant relationship between internal audit system and keeping to organizational financial budgets

Decision Rule: Accept Null hypothesis ($H0_5$) five if calculated F Value is greater than Tabulated value.

Comment

Similarly, the regression table above shows a significant F change **of 0.0000,** calculated value of F **1032.723** while tabulated value is **0.91529** which is less than the calculated value; therefore the null hypothesis five is rejected and accepts the alternate hypothesis which states that there is a significant relationship between internal audit system and keeping to organizational financial budgets.

In addition, there is also a high strength of relationship that exists between internal audit system and keeping to organizational financial budgets. This is also seen in the Pearson's coefficient of **0.91529** as can be observed in the statistics table.

In the same vein, for R squared (coefficient of determination) of **0.83776** of Internal Audit Systems shows that **83.78%** of the total variation of financial management in terms of keeping to organization Budget was due to the effect of Internal audit System, whilst **0.83695** on adjusted bases, keeping to organization's budget was **83.70%** relative to internal audit Systems .

DISCUSSION OF FINDINGS

The research hypothesis one states that there is no significant relationship between internal control measure and proper use of organizations funds and assets. As evident in the statistical testing of hypothesis one, a significant relationship was revealed to exist between internal control measures and proper use of organizational funds and asset, this is evident in the correlation value of 0.9345 (94%) and the calculated value (1378.6). The null hypothesis one was therefore rejected and the alternative hypothesis accepted. Thus, there is a significant relationship between internal control measures proper use of organizations funds and assets. In the same vein, the research hypothesis two states that there is no significant relationship between weak internal control system and fraud perpetration and losses of revenue in an organization. Similarly, as evident in the statistical testing of hypothesis two, a significant relationship was revealed to exist between weak internal control system and fraud perpetration and losses of revenue in an organization, this is evident in the correlation value of 0.91377 (91%) as well as the calculated F value (1011.945). The null hypothesis two is therefore rejected and the alternative hypothesis accepted. Thus, there is a significant relationship between weak internal control system and fraud perpetration and losses of revenue in an organization. The research hypothesis Three states that there is no significant relationship between internal controls and accurate financial statements preparation and presentation. Similarly, as evident in the statistical testing of hypothesis three, a significant relationship was revealed to exist between internal controls and accurate financial statements preparation and presentation, this is evident in the correlation value of 0.926 (93%) and the Calculated value (1199.5). The null hypothesis three is therefore rejected and the alternative hypothesis accepted. Thus, there is a significant relationship between internal controls and accurate financial statements preparation and presentation.

The research hypothesis Four states that there is no significant relationship between internal Control activities and proper keeping of records.

Similarly, as evident in the statistical testing of hypothesis four, a significant relationship was revealed to exist between internal control activities and proper keeping of records, this is evident in the correlation value of 0.912 (91%) and calculated value of (985.8). The null hypothesis four is therefore rejected and the alternative hypothesis accepted. Thus, there is a significant relationship between internal Audit activities and proper keeping of records. And on research hypothesis five that states that there is no significant relationship between internal audit system and keeping to organizational financial budgets, as evident in the statistical testing, a significant relationship was revealed to exist between internal audit system and keeping to organizational financial budgets. This is evident in the correlation value of 0.915 (92%) and calculated value (1032.7) result obtained. The null hypothesis five is therefore rejected and the alternate hypothesis accepted. Thus, there is a significant relationship between internal audit system and keeping to organizational financial budgets

Finally, it is seen here that all the four null hypotheses are rejected whilst the alternate hypotheses are accepted as there is a significant relationship that exists amongst them. However, the strength of relationship is highest on hypothesis one with an (r) figure of **0.09345**, followed by hypothesis three (.092579); hypothesis five (0.91529) then to hypothesis two (0.91377) and hypothesis four (0.91177) respectively. The Dublin Watson for all is less than 2, signifying a positive serial relationship that exists amongst the relationships.

CONCLUSIONS

Based on the discussions above, the researcher thus concludes as follows

i. Effective internal control will have a significant effect on proper use of organization funds and assets.
ii. Weak internal control system will have a significant effect on fraud perpetration and loss of revenue in an organization.
iii. Effective internal controls will have a significant effect on financial statement preparation and presentation by organizations.
iv. Internal control activities will have a significant effect on proper keeping of records in organizations.
v. effective internal audit systems will have significant effect on keeping to organizational f financial budgets.

The financial management of any organization can be measured by the standard or the effectiveness of the internal control system and as well as the policies implemented by the management. A well-managed business entity will not only attract interest of outsiders such as investors and others, but will also retain the zeal of the existing owners and users of the financial information. Therefore in conclusion, it will be said that the financial management of any organization cannot do without internal control as true and fair presentation of financial statement may never be possible if the board and senior management are not committed to providing a well planned internal control system. This is in line with the works of Ewa and Udoayang (2012); Okoli (2012) and Muazu (2012). All these works assert that proper and efficient internal control and internal audit system ensures sound financial management in organsiations.

RECOMMENDATIONS

The role, responsibilities and procedures to be adopted by the management, internal audit department as well as the account department to the overall management of an organization should be focused on ensuring the safety of the assets and soundness of their operations. Based on the findings of the study, the following recommendations are suggested:

1). Management should ensure that there are adequate organizational 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.

2) The internal control system should be remolded and strengthened to position the staff in carrying out their duties efficiently and effectively and at the same time evaluated periodically to strengthen its weaknesses in the organization so as to reduce the likelihood of committing fraud by the staff. Organisations should upgrade their internal control designs as this will be deterrence to staff who may want to commit fraud. In addition, they should also pay serious attention to the life style of their staff members as this could be a red flag to identifying frauds.

3) There should be adequate training of workers in the accounts section especially the internal audit staff. This will help in creating the much needed understanding as to the roles of auditing and how the internal auditing system works as well lead to understanding of reporting requirements.

4) The internal auditors at all times should be adequately independent of members of various departments within the organisation so that they can carry out their duties effectively. In addition, there should be regular evaluation of control in order to determine their effectiveness in operation and identify weaknesses, so that corrective action can be taken.

5) There should be a clear organisational structure and clear explanation of organizational targets and budgets so as to ensure that the internal auditors as well as management do not neglect it. Also there should be clear information dissemination within the various

departments in all the organisation on the control measures taken, so that each department would comply with the respective control systems especially regarding limits and budgets.

6) Finally, the management of the organization should be reviewed periodically so as to cope with modern trends in organizational fraud detection, prevention as well other modern systems of control such as the use of ICT etc.

CONTRIBUTION TO KNOWLEDGE

1) Contrary to popular belief that absence of or weak internal controls leads to majorly fraud control and prevention in organisations – Ewa and Udoayang, 2012; Okoli, 2012, the study revealed that as far as Production companies are concerned, the first thing that internal controls prevents is misuse of organizational funds and assets whilst fraud is the least thing that internal controls prevent.
2) Secondly, the study also revealed that when there are effective and efficient internal control measures, accurate financial statements preparation in line with regulatory requirement will be produced by Production companies Rivers State. In order words, internal controls will greatly enhance their financial statements preparation instead of keeping to organization budgets and targets.

LIMITATIONS OF THE STUDY

The major constraints in this study include the conservation nature of organization and their apathy towards providing information, especially with respect to their internal operation policies. Human errors and biasness are other limiting factor of this study. This is because some data were obtained through discussions and interviews therefore there is the possibility of human error of omitting some vital information. Respondent may also exaggerate important information in order to give their organization a positive credit for fear of what seems an invasion into the organization's privacy. There are other measures of performance in organisations, such as liability management, Expenditure as well as accounting reporting management, however, this study did not look at the performance holistically, it rather focused on some measures such as revenue, budgets and assets as such result cannot be generalized for all performance measurements.

SUGGESTION FOR FURTHER STUDIES

1) Similar studies can be conducted for different geo graphical areas of the Nation and result compared to that of this research.

2) Similar studies can as well be done for different industries whilst result compared to see the difference as against this study.
3) Other measures of financial management such as asset and liability management can as well be studied to see how internal audit system can affect proper management of these.

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