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Impact of Internal Control System and Financial Performance of Small and Medium Scale Enterprises in Kebbi State, Nigeria

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Abstract

The success of every organisation depends on her financial capacity, which plays a fundamental role in production. In recent time, poor financial capacity among industries in the Nigerian productive sector has resulted into poor internal Control policies. This study investigated the impact of internal control and financial performance on small and medium scale enterprises in Kebbi State, Nigeria. A descriptive survey design research was adopted. The estimated workers' population of all respondents selected as of 2025 were 2,200 which consist of CEO's, Managers, and Internal control units of the various SMEs in Kebbi State, Nigeria. A total of 338 respondents were sampled for the study using simple random sampling technique. A self-designed questionnaire was administered. The Pearson Product Moment Correlation Coefficient Analysis was employed to test the five hypotheses with a two-tailed test of significance at $P<0.01$ level. The results revealed that there is a significant relationship between individual internal control components and financial performance of small and medium enterprises in Kebbi state Nigeria. There also exists combined relationship between the internal control components (control environment, risk assessment, control activities, monitoring, information, and communication) and financial performance of small and medium enterprises in Kebbi state NNigeria. The study recommends regular and timely financial audits to help SMEs detect any gaps in their financial systems and financial performance. The management of the SME should conduct an annual evaluation of the financial reporting process and implement an internal audit system that permits monitoring of operational efficiency. The study also suggests that a frequent risk assessment be conducted so that SME management may determine whether or not their goals will be reached. In addition to implementing proper controls in the custody and disposal of assets, the management of a small to medium-scale enterprise (SME) should consider; control activities and information, and communication in order to improve financial performance.

Keywords: Financial performance, Internal Control, SMEs, SMEDAN.

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1. INTRODUCTION

Small and Medium Enterprises (SMEs) are recognised all over the world as backbone of modern economies because they make major contributions to global economic growth and sustainable development through employment generation, poverty alleviation, wealth creation and food security. Recognising the critical responsibilities that SMEs play has resulted in increasing emphasis and education on how to create and sustain a thriving SMEs sector. However, Shamsuddoha and Ali (2006) argued that any endeavour aimed at improving any economy that does not place a special priority on proper government assistance for the development of small and medium-sized businesses is unlikely to achieve positive results in the long run.

This is because government support programmes generate essential contextual conditions that enable SMEs to contribute to development through the production of products and services and the creation of jobs (Jahanshahi, Nawaser, Khaksar & Kamalian, 2011). It is believed that SMEs in emerging economies, notably Nigeria, have a high rate of failure and underperformance due to insufficient internal control. As a result, government consciousness must be raised to coincide with the reality hindering the full economic potential of this sector.

Internal control is a wide concept that encompasses the full set of procedures, methods, and controls implemented by a company to maximise the likelihood of meeting its business objectives (Husaini & Mohammed, 2018). Internal control may also be defined as a set of rules and procedures that are incorporated to establish control over a company's actions in order to ensure that the business meets the objectives set by management and the board of directors (Mohammed, 2017). However, it is theorised that an effective internal control system will improve the achievement of organisational objectives; it will maintain the firm's profitability, growth, and continuity (Oladimeji, 2016). Internal control is an organisational system planned to prevent fraud and error, safeguard assets and monitoring the efficient implementation of a policy.

Small-scale industry orientation is inherent in Nigeria. Evidence abounds in our different localities of our great grandparents' respective trading businesses, yam barns, iron smelting, farming, cottage industries, and the like. So, the secret to their self-reliance strategy's success does not lay in any political theory, but rather in the people's attitude toward entrepreneurship and whether the correct incentive is adequate to make risk worthy initiatives and decisions worth taking.

The relevant government policies in Nigeria awarded and prioritized the country's small-scale enterprises. This has been done in recognition of the fact that they are the source of the vitality of the national economy, and as a result, their problems have been viewed as those of the nation, due to their number, diversity, penetration in all sectors of production, and marketing contribution to employment and the prosperity of the areas in which they operate. Small scale industries, in particular, account for a higher proportion of all registered companies in Nigeria, and they have been around for a long time. The majority of small-scale industries evolved from cottage industries to small businesses, and from small businesses to medium and large-scale businesses.

Problem Statement

Despite the high number of businesses operating as SMEs, there are reports of business failure due to lack of effective internal control systems (Siwangaza, Smit, Bruwer, & Ukpere, 2014). Small and medium-sized enterprises (SMEs) failed because some managers believed that building internal control systems would increase costs without yielding concrete results. A detailed examination reveals that SMEs managers lack understanding and knowledge of the value of internal control, and they often execute a common strategy despite variances in trades and business environments. A substantial proportion of SME executives are also hesitant to implement internal control systems due to a lack of human and financial resources (Bett, & Memba, 2017).

However, the advantages of an internal control system include operational effectiveness and efficiency, financial reporting reliability, and compliance with applicable rules and regulations. The small and medium scale business enterprises form the informal sector which has been recognised not only to play a major role in Nigeria's economy but also provide the much-needed employment opportunities. Studies have shown that the sector has the necessary ability of alleviating poverty through the creation of employment opportunities and generation of income (Oduyoye, Adebola, & Binuyo 2013; Moses, Akinbode, & Onochie, 2015; Aladejebi, 2017). In recognition of the steady increase in unemployment, the Nigerian government has appreciated the role the small and medium scale enterprises are set to play.

Therefore, the study seeks to assess the impact of internal control policies among SMEs in Kebbi State and investigate the employees' attitudes towards maintaining internal control policies and investigate the kind of internal control strategies employed by SMEs leaders in order to boost SMEs and achieve their desired objectives.

Objectives of the Study

The purpose of this study is to investigate the effect of internal controls on financial performance of SMEs in Kebbi State Nigeria. The specific objectives are to:

1. Examine whether control environment enhance financial performance of SMEs in Kebbi State Nigeria.
2. Determine whether risk assessment enhanced financial performance of SMEs in Kebbi State Nigeria.
3. Identify whether control activities enhanced financial performance of SMEs in Kebbi State Nigeria.
4. Examine whether information and communication enhanced financial performance of SMEs in Kebbi State Nigeria.
5. Assess whether monitoring put in place enhanced financial performance of SMEs in Kebbi State Nigeria.

Literature Review

Small and Medium Enterprises in Nigeria

The concept of small and medium-size enterprise (SME) is relative and dynamic, hence there is no universal definition for small scale enterprises. The Centre for Industrial Research and Development in 1990 classified a small-scale enterprise as one with total assets in capital equipment, plant, and working capital of less than 200,000 naira and employing fewer than fifty full-time people. Although SMEs are small, but they are the most important enterprise in Nigeria because when all the individual effects are aggregated, they surpass the larger businesses put together (Sijuade, 2019).

Sole proprietorships or partnerships are a common feature of Nigerian SMEs. Even when a limited liability corporation is registered, the underlying ownership structure is that of a one-man, family, or partnership business. Other characteristics shared by Nigeria's SMEs include labor-intensive production processes, management concentration on key personnel, limited access to long-term funds, high cost of funds due to high interest rates and bank charges, high mortality rate, particularly in the first two years, over-reliance on imported raw materials and spare parts, and poor inter and intra-sectoral linkages. As a result, they rarely benefit from economies of scale, poor managerial skills due to their inability to pay for skilled labour, poor product quality output, lack of research and development, little or no training and development for their staff, poor documentations of policy, strategy, low entrepreneurial skills, inadequate educational or technical background, lack of adequate financial record keeping, poor capital structure, lack of access to international markets, lack of access to international markets, lack of access to international markets, lack of access to international markets, lack of access to international markets, lack

The Role of Small-Scale Industry in Nigeria Development

Small scale industries have a lot of important contributions to make to the economic development of the country (Bubou, Siyanbola, Ekperiware & Gumus, 2014). The following are a few examples:

1. The provision of employment amongst the youth so innovative area marketing for goods and services which are offered for sales. Many young people, retirees, and unemployed people are now gainfully employed, lowering the unemployment rate and the societal complication of armed robbery and white-collar crime.
2. It helps to bring about, new goods and services and supply the needs of large industries, who must rely on the small-scale operators for business success; It satisfies the convenience of consumers at any given time, with the availability of products.
3. They represent most of the industrial capacity in developing countries. Where it was postulated that presenting small scale business in Nigeria constitute over 80 percent of all registered companies, occupying positions in Agra based and allied industries, rubber based, leather shoe industries, chemical, electronics, general merchandising, restaurants, dress making, hair dress making, cane-chairs, leather products, pomade and toiletries, animal feeds and husbandry, printing, are mostly SMEs (Bett & Memba, 2017).
4. They promote the development of indigenous manpower as well as increasing local participation in the manufacturing sector.
5. Small scale acts as a check towards rural migration by the planned and systematic development of rural areas. The much talked about urban migration is reduced by the introduction of small-scale industries in rural areas, and the provision of facilities to support these SMEs.
6. The activities of small business firms have resulted in the mobilization of the resources of the environment and thereby improving on the standard of living of the population.
7. They contribute to the development of the labour market by absorbing an evergrowing supply of goods, services and labour. In doing this, they have sufficiently helped to curtail the rising unemployment in Nigeria.

Internal Control System

Internal controls are the mechanisms put in place by an organisation to ensure that the entity's objectives, goals, and missions are fulfilled. They are a set of policies and procedures adopted by an entity in ensuring that an organisation's transactions are processed in the appropriate manner to avoid waste, theft and misuse of organisation resources. The likelihood of achievement is affected by limitations inherent in all systems of internal control (Ban.oura, 2008).

Components of Internal Control System

Control Environment: All aspects that are successful in deciding, increasing, or lowering the effectiveness of rules, procedures, and methods particular to a process are referred to as the control environment (Ayozie & Jacob, 2013). Control environment sets the tone for the organisation, impact on the consciousness of the employees; it is the foundation for all the other components of internal control system. The control environment encompasses all employees' attitudes, awareness, integrity, and ethical ideals, as well as the activities of management and directors, management, and those responsible with governance, about the entity's internal control and its importance in the business.

Risk Assessment: Internal control includes risk assessment as one of its components. Risks endanger the achievement of goals. The risk assessment process of an entity is the process of recognising and responding to business hazards, as well as the outcomes of that process (Oduyoye, Adebola & Binuyo, 2013). Risk assessment is also defined as the identification of potential errors and the implementation of procedures, policies, and controls to detect and prevent those errors. Risk assessment can also refer to the identification and study of risks related to achieving goals (Moses, Akinbode & Onochie, 2015). External and internal risks can both impede an organisation's goals from being met at every level. Every company, whether private or governmental, large or little, faces external and internal risks that must be addressed. As a result, management should take the required precautions to avoid these risks.

Control Activities: Controlled activities are the procedures and regulations that ensure how management directions are carried out, so ensuring that essential steps are made to handle the risks involved in achieving the entity's objectives (Howe, Bradford, Conlin, 2013). Control activities are methods, both manual and automated, that help prevent or mitigate hazards that could hamper the organisation's objectives and mission. Management should implement control actions in order to effectively and efficiently achieve the organisation's objectives and mission.

As a result, important control activities for the audit include performance assessment, information processing, physical control, and segregation of responsibilities.

Information and Communication System: Another aspect of the internal control system is the ability to acquire information both horizontally and vertically and to ensure employee communication (Ayagre, 2015). These are only achievable if the management information system and its information subsystems are disciplined and responsively organised. All personnel at all levels of the organisation should be involved in effective communication. Information and communication are concerned with the quality and nature of information required for successful control, as well as the systems used to generate such information and the reports required to properly communicate it. Information systems generate reports of operational, financial, and compliance-related data that allow the business to be operated and controlled.

Monitoring: Monitoring's objective is to establish whether internal control is effective, well-executed, and well-designed. Internal control is adequate if all five internal control components (control environment, risk assessment, control actions, information and communication, and monitoring) are present and functioning as intended (Monday, Inneh & Ojo, 2014). The ability to recognise risks that may arise as a result of changes inside the company and among personnel, as well as the ability to offer continuity of internal control, must be monitored over time. Management should place a premium on monitoring internal control efforts and results. Monitoring the organisation's objectives should be done on a regular basis to analyse performance, convey deficiencies to management, report deficiencies to senior management and the board of directors, and monitor corrective actions.

Financial Performance

The concept of performance is similar to the concept of accomplishment, achieving a goal, and quality, with less emphasis on the economic components of efficiency and effectiveness. This means that performance is only gained by a smaller number of entities, those that produce the best results. Performance is subjective and interpretative, not least because it is related to cost lines, emphasising the ambiguous nature of the concept. Performance of an organisational system is a complex relationship involving seven performance criteria that must be followed: effectiveness, efficiency, and quality, and productivity, quality of work, innovation, and profitability.

Financial performance is the attainment of a company's financial performance over a specific time period, as assessed by capital adequacy, liquidity, solvency, efficiency, leverage, and profitability. The ability of a corporation to manage and control its own resources is referred to as financial performance. Cash flow, balance sheet, profit-loss, and capital change can serve as the foundation for business decision-making.

Financial performance can be measure in several ratios to measure the company's financial performance, among others; liquidity ratio, profitability ratio, solvency ratio, efficiency ratio, leverage ratio. For example from profitability ratio there is ROI (Return on Investment), ROE (Return on Equity), ROA (Return on Assets), EBIT (Earning Before Interest and Tax) profit. Liquidity Ratio consists of; fast ratio, current ratio, cash ratio, net working capital ratio to total assets, DER (Debt to EquityRatio). Fatimahudin, Jusni, and Mochklas (2018)

Theoretical Framework

This study adopted agency theory and contiguous theory which was propounded by Jensen and Meckling and defined as the agency relationship as a form of contract between a company's owners and its managers, where the owners (as principal) appoint an agent (the managers) to manage the company on their behalf. As a part of this arrangement, the owners must delegate decision-making authority to the management.

The theory is focused with resolving problems that can arise in agency relationships, that is, between principals such as shareholders and their agents, such as corporate executives. Agency theory addresses two problems: those that develop when the principals and agent's interests or aims conflict and the principal is unable to verify what the agent is doing, and those that arise when the principal and agent have different attitudes regarding risk. Because of their varying risk tolerances, the principal and agent may take opposing measures.

Agency theory can enable richer and more meaningful study in the field of internal auditing. According to agency theory, internal auditing, like other intervention mechanisms such as financial reporting and external audit, serves to sustain cost-effective contracting between owners and management.

Contiguous Theory

Contiguous theory is an approach to the study of organizational behavior in which explanations are given as to how contingent factors such as technology, culture and the external environment influence the design and function of organizations.

The assumption underlying contiguous theory is that no single type of organizational structure is equally applicable to all organizations. Rather, organizational effectiveness is dependent on a fit or match between the type of technology, environmental volatility, the size of the organization, the features of the organizational structure and its information system.

Contiguous theory is used to describe the relationships between the context and structure of internal control effectiveness and organizational performance, especially reliability of financial reporting. Empirical study suggests that internal auditors who are specialized and higher in internal audit ability will achieve internal control effectiveness analysis and that the firm will benefit from the organizational effectiveness via internal control mechanism efficiency. Some factors which impact management control systems; these are: external environment, technology, structure and size, strategy and national culture. It suggests that the demands imposed by technical tasks in the organization encourage the

Review of Empirical Studies

Oyedokun and Felejaye (2022) investigated the impact of each internal control component, such as control environment, risk assessment, and control activities, on the financial performance of some selected non-governmental organisations (NGOs) in Ibadan, Nigeria. The findings revealed that the control environment and risk assessment influence the financial performance of the assessed NGOs to some extent, whereas control actions had a substantial impact. According to the study's findings, each of the internal control components studied had an impact on financial success. Inadequacy or absence of any will have a detrimental impact on an NGO's financial performance and vice versa. This study recommended that NGOs' management establish and maintain a robust internal control system because the strength of the control system influences the organisation's financial success.

Yusufu (2021) studied financial management and the performance of 115 selected small and medium enterprises in Kogi State Nigeria. It was found that financing enhances the performance of small medium enterprises. The study also found that investment is significant to the performance of SME's, in Nigeria. The study concluded that the components of financial management is significant to the performance of small and medium enterprises.

The study recommended that SMEs should employ the services of portfolio managers that will help in investment decision making. Finally, there is need for SMEs to increase their financial performance through effective long-term plan.

Adegboyegun, Ben-Caleb, Ademola, Oladutire and Sodeinde (2020) evaluated the internal control systems and operational performance of Ondo State SMEs. The study indicated that internal control system components had no significant impact on the operational performance of SMEs in Ondo State, but the control environment and control activities have a beneficial impact on the likelihood of a company having a high operating performance. As a result, SMEs should maintain and leverage the positive impact of the control environment and control activities to improve their operating performance. However, issues concerning risk assessment, information and communication, as well as monitoring activities, should be addressed systematically based on the reality of each enterprise's operational structure.

Yusuf (2017) assessed the influence of entrepreneurship education, technology, and globalisation on performance of four hundred owners/managers of manufacturing SMEs in Nigeria. Cross sectional survey research design was adopted for the study. The findings revealed that acquiring entrepreneurial education skills, adopting and utilising technology devices and platforms, and globalisation increase the productivity and profitability of SMEs in Nigeria. According to the study, for manufacturing SMEs to operate competitively, profitably, and significantly contribute to Nigeria's economic recovery and growth, they must continuously acquire newer entrepreneurial skills, adopt and use innovative modern technologies, and have an internationalised profile.

Aladejebi (2017) assessed the strategies leaders of SMEs in Nigeria use for improving internal control practices. The 5 themes that emerged from the thematic analysis of the interview data were: segregation of duty; adherence to processes, policies, and procedures; staffing, training, and experience; information technology; and staff empowerment and management commitment. According to the findings of this study, leaders of SMEs in Nigeria employ comparable tactics to strengthen internal control practises. To improve internal control techniques, all participants adopted segregation of duties and adherence to protocols, policies, and procedures. SME executives must have adequate leadership skills in order to improve their company's internal control systems.

Oduyoye, Adebola, and Binuyo (2013) examined the services of small and medium enterprises development agency of Nigeria and the small business survival in Ogun State. The analysis revealed that SMEDAN's services did not significantly improve the survival of cooperative-financed small enterprises in Ogun State between 2005 and 2010. Among the study's suggestions is that the federal government of Nigeria boost the small and medium enterprise sector, which is at the heart of most countries' industrial sectors. This is expected to stimulate and engage the nation's young university graduates, resulting in lower unemployment.

Abubakar and Yahaya (2013) studied the role of small and medium-sized firms (SMEs) on poverty reduction in North-Western Nigeria. Primary data was acquired from a sample of 400 SMEs in Sokoto and Zamfara states using a questionnaire that inquired about their major characteristics and how they operated. Secondary information was also obtained from publications of the Nigerian Stock Exchange (NSE) and the National Bureau of Statistics (NBS) to examine the performance of the listed companies (large corporations), and intra and inter sectorial comparisons of the two sets of enterprises were made in terms of employment generation and indigenous technology utilisation. The study concludes that the capacity of any organisation to generate employment is critical in reducing the occurrence of poverty among economic agents. A primary suggestion of the report is that the government take a realistic approach to poverty alleviation by focusing on the poor's strengths and productive ability rather than their deficiencies.

C. U. Okerekeoti,(2022) The effect of internal controls on working capital (cash and inventories) on SMEs in Imo State, Nigeria was analysed. Descriptive survey design was adopted. A sample of 100 staff of SMEs in Owerri, Imo State was used, and data were sourced through questionnaires administered to the respondents. One-Way Manova was employed to test the hypotheses via SPSS. From the analysis of data sourced from the respondents, it was discovered that internal control system is very important in all areas of working capital management and it should not be taken for granted because of the positive effect it has. Internal control system has significant effect on cash, and inventories. Based on the results, it was recommended that managers of small and medium-sized enterprises should put up an adequate internal control system for handling cash in order to prevent theft, misappropriation, and other potential problems brought on by a lack of management This will hasten the expansion and growth of the companies.

Jiang, & M. Naeem (2022) A study aimed to determine whether Intellectual Capital (IC) efficiency impacts the financial performance of listed Pakistani and Indian companies between 2010 and 2020. Return on Assets (ROA) and Return on Equity (ROE) are used to calculate financial performance, and IC is calculated using the modified Value-Added Intellectual Coefficient (MVAIC) model. Regression analysis is performed using the STATA software developed by the South Texas Art Therapy Association. Human Capital (HC), Structural Capital (SC), and Capital Employed (CE) have a significant impact on Pakistani and Indian firms' financial performance. Resource-based theory (RBT) supports these findings. The findings should provide management with a prompt to improve financial performance and emphasize the importance of IC. A rare study has addressed the impact of IC on firm financial performance using the MVAIC model, rather than the VAIC model, in Pakistan and India.

Alawattegama k.k (2018) explores the impact of the adoption of enterprise risk management (ERM) practices on firm performance. A sample of forty five banking and finance companies listed on the Colombo Stock Exchange (CSE) was selected for this study and uses both primary and secondary data for the empirical analysis. The extent of adoption of ERM practices was assessed by using the ERM integrated framework of committee of sponsoring organization (COSO) of the Treadway Commission of USA. Return on equity (ROE) is used as a proxy to measure the firm performance and uses multivariate regression analysis to assess the impact of key ERM functions on firm performance. This study finds none of the eight key ERM functions suggested by the COSO's ERM integrated framework has a significant impact on firm performance. Event identifications, risk assessment, risk response and information & communication indicate a positive impact on firm performance. However, none of those impacts were significant. Surprisingly, empirical evidence reveals that objective setting; event identification, control activities and monitoring of ERM functions have a negative, but not significant, impact on the firm performance. These findings induce the corporate managers to pay a close attention to the cost-benefits considerations when designing and implementing ERM practices and not heavily relied upon and extensively invest on ERM as a vehicle for creating firm value.

Methodology

This study utilized descriptive survey research design as the method of inquiry. The design of survey research includes the gathering and analysis of data from the population under study. Primary data was sourced through administration of a well-structured questionnaire using simple random sampling technique to select SMEs in Kebbi State Nigeria. The population of this study consist of 2,200 CEOs, managers of SMEs and experts in internal control units in Kebbi State, Nigeria, in 2024. The sample size (338) was determined using Taro Yamane. The data collected by the researcher was quantified and analysed with SPSS version 23 and presented statistically using descriptive statistics and inferential statistics.

Data Analysis Presentation

Table 1: Demographic Data Analysis

Variables	Characteristics	Frequency	(%)
Gender	Male	222	71.2
	Female	90	28.8
Age of Respondent	20-30 Years	120	38.5
	31-40 Years	188	60.3
	41-50 Years.	3	0.96
	51-60 Years	1	0.3
Educational Qualification	B.Sc.	182	58.3
	M.Sc.	123	39.4
	Ph.D.	7	2.2
Employment Status	Full Time	227	72.8
	Part Time	85	27.2

Organisation Type	Retail	125	40.1
	Manufacturing	72	23.1
	Skill Services	58	18.6
	Catering	57	18.3
	Total	**312**	**100.0**

Source: Field Report, 2025

Analysis from Table 1 indicates that 71.2% of the respondents are male, while 28.8% are female. This shows that, majority of the respondents in this study are Male; Data revealed that 38.5% of the respondents age were within the age range of 20-30years, 60.3% were between 31 to 40 years, 0.96% were between the age range of 41 and 50, while 0.3% of the respondents were within the range 51 and 60 years. This shows that, respondents whose age fall within the range of 31 and 40 years are more in this study. According to the table, 58.3% of the respondents have bachelor's degree, 39.4% of the respondents have master's degree, while 2.2% respondents have PhD degree. This shows that, majority of the respondents in this study are educated: Also, information from the demographic data indicates that 72.8% of the respondents are full time workers, while 27.2% of the respondents are part-time workers. This shows that majority of the respondents have full-time employment. According to the findings of the study, majority of the respondents are into the retail business.

Table 2: Control Environment

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	The working environment in my organisation is conducive.	54 (17.3)	216 (69.2)	29 (9.3)	13 (4.2)	0 (0)	312 (100)
2	The transactions are executed in accordance with integrity and ethical values/codes.	63 (20.2)	225 (72.1)	14 (4.5)	10 (3.2)	0 (0)	312 (100)
3	The role and responsibilities are clearly stated for the employee.	61 (19.6)	210 (67.3)	28 (9.0)	13 (4.2)	0 (0)	312 (100)
4	The staff are regularly trained and equipped with resources to carry out their duties professionally.	60 (19.2)	203 (65.1)	24 (7.3)	19 (6.1)	6 (1.9)	312 (100)
5	The company has a code of ethical conduct that has been made available to all employees	56 (17.9)	223 (74.7)	16 (5.1)	7 (2.2)	0 (0)	312 (100)

Source: Field Survey, 2025

Data from table 2 shows that 17.3% (54) of the respondents strongly agreed that the working environment in their organisation is conducive, 69.2% (216) of the respondents agreed, 4.2% (13) of the respondents disagreed, while 9.3% (29) of the respondents were neutral and none strongly disagreed. Further, 20.2% (63) respondents strongly agreed that transactions are executed in accordance with integrity and ethical values/codes, 72.1% (225) respondents agreed, 3.2% (10) respondent disagreed, none of the respondent strongly disagreed, while 4.5% (14) respondents are neutral. Also, on the statement "the role and responsibilities are clearly stated for the employee", 19.6% (61) respondents strongly agreed, 67.3% (210) respondents agreed, 9.0% (28) respondents are neutral, 4.2% (13) respondents disagreed, while none of the respondents strongly disagreed.

Moreover, 19.2% (60) of the respondents strongly agreed that staff are regularly trained and equipped with resources to carry out their duties professionally, 65.1% (203) of respondents agreed, 7.3% (24) of the respondents are neutral, 6.1% (19) of the respondents disagreed and 1.9% (6) of the respondents strongly disagreed. Similarly, 17.9% (56) of the respondents strongly agreed that the company has a code of ethical conduct that has been made available to all employees, 74.7% (223) of the respondents agreed, 2.2% (7) respondents disagreed, while 5.1% (6) respondents are neutral to the statement and none of the respondents strongly disagreed.

Taking the sum of all the responses of the respondents and getting a percentage of each entry, it can be deduced that 18.8% of the respondent strongly agreed to all the statements on control environment, 69% of the respondents agreed, 7.11% of the respondents were neutral, 3.97% disagreed while 0.38% of the respondents strongly disagreed. This implies that majority of the respondents (87.8%) agreed to the statements on components of control environment as regards working environment, integrity and ethical values/codes, role and responsibilities, regular training and code of ethical conduct.

Table 3: Risk Management

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	The SMEs identify risks that may affect achievement of the objectives in a timely manner.	87 (27.9)	212 (67.9)	13 (4.2)	0 (0)	0 (0)	312 (100)
2	The SMEs has a criterion for ascertainment of the risks that are most critical to the organisation such as opportunity to commit frauds.	73 (23.4)	222 (71.2)	12 (3.8)	5 (1.6)	0 (0)	312 (100)
3	The role and responsibilities are clearly stated for the employee.	71 (22.8)	220 (70.5)	21 (6.7)	0 (0)	0 (0)	312 (100)
4	The staff are regularly trained and equipped with resources to carry out their duties professionally.	57 (18.3)	229 (73.4)	9 (2.9)	17 (5.4)	0 (0)	312 (100)
5	The company has a code of ethical conduct that has been made available to all employees	78 (25)	219 (70.2)	15 (4.8)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2025

Table 3 shows different statements as regards components of risk management. From the table, 27.9% (87) respondents strongly agreed that SMEs identify risks that may affect achievement of the objectives in a timely manner, 67.9% (212) respondents agreed, 4.2% (13) are neutral, while none of the respondents disagreed or strongly disagreed. Further, 23.4% (73) respondents strongly agreed that SMEs has a criterion for ascertainment of the risks that are most critical to the organisation such as opportunity to commit frauds, 71.2% (222) respondents agreed, 1.6% (5) respondents disagreed, none of the respondents strongly disagreed. However, 3,8% (12) respondents were neutral. Similarly, 22.8% (71) respondents strongly agreed that SMEs have in place mechanism of mitigating risks that may arise during doing business, 70.5% (225) respondents agreed, 6.7% (21) respondents were neutral. None of the respondents disagreed or strongly disagreed.

Additionally, on the statement "The appropriate actions are taken to improve effectiveness", 18.3% (57) of the respondents strongly agreed to the statements, 74.4% (229) agreed, 5.4% (17) respondents disagree, 2.9% (9) respondents were neutral, while none of the respondent strongly disagreed. Similarly, 25% (78) respondents strongly agreed that SMEs have a functioning internal audit unit to review its operations, 70.2% (219) respondents agreed, 4.8% (15) respondents were neutral, while none of the respondent disagreed or strongly disagreed.

Also taking the sum of all the responses of the respondents and getting a percentage of each entry, it can be deduced that 23.46% of the respondent strongly agreed to all the statements on components of risk management, 70.6% of the respondents agreed, 4.49% of the respondents were neutral, 1.4% disagreed while 0% of the respondents strongly disagreed. This implies that majority of the respondents (94.06%) agreed to the statements on components of risk management which shows that risk Assessment enhanced financial performance of SMEs.

Table 4: Control Activity

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	Controls are in place to check on incurring expenditure more than allocated funds.	49 (15.7)	221 (70.8)	32 (10.3)	10 (3.2)	0 (0)	312 (100)
2	There is segregation of duties in my organisations	71 (22.8)	198 (63.5)	32 (10.3)	11 (3.5)	0 (0)	312 (100)
3	The corrective actions are taken to address the weakness	70 (22.4)	216 (69.2)	18 (5.8)	8 (2.6)	0 (0)	312 (100)
4	All transactions are verified before making payments.	54 (17.3)	219 (70.2)	31 (9.9)	8 (2.6)	0 (0)	312 (100)
5	Advice to voluntary resign to staff involved in fraud.	78 (25)	219 (70.2)	15 (4.8)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2025

Data from table 4 shows that 15.7% (49) respondents strongly agrees that controls are in place to check on incurring expenditure more than allocated funds, 70.8 (221) respondents agreed, 10.3% (32) respondents are neutral, 3.2% (10) respondents disagreed while none of the respondents strongly disagreed. This implies majority of the respondents agreed that controls are in place to check on incurring expenditure more than allocated funds. Further, 22.8% (71) respondents strongly agreed to the statement "there is segregation of duties in my organisation", 63.5% (198) respondents agreed, 10.3% (32) respondents are neutral, 3.5% (11) respondents disagreed, while none of the respondents strongly disagreed. This implies that majority of the respondents agreed to the statement "there is segregation of duties in my organisation". Also, 22.4% (70) respondents strongly agreed that the corrective actions are taken to address the weakness, 69.2% (216) respondents agreed, 5.8% (18) respondent are neutral, 2.6% (8) respondents disagreed. None of the respondents strongly disagreed to the statement. This implies majority of the respondents agreed that the corrective actions are taken to address the weakness.

Similarly, 17.3% (54) respondents strongly agreed that all transactions are verified before making payments, 70.2% (212) respondents agreed, 2.6% (8) respondents disagreed, 9.9% (31) respondents are neutral and none of the respondents strongly disagreed. This implies majority of the respondents agreed that all transactions are verified before making payments. Additionally, 25% (78) respondents strongly agreed to the statement advice to voluntary resign to staff involved in fraud, 70.2% (219) respondents agreed, 4.8% (15) respondents are neutral they neither agreed or disagreed, while none of the respondents disagreed or strongly disagreed. This implies majority of the respondents agreed to the statement advice to voluntary resign to staff involved in fraud.

Table 5: Information and Communication

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	The organisation obtained or generate and uses relevant information to support the functioning of other components of internal control.	30 (9.6)	252 (80.8)	12 (3.8)	18 (5.8)	0 (0)	312 (100)
2	The organisation internally communicates information including objectives and responsibilities for internal control	51 (16.3)	251 (80.4)	10 (3.2)	0 (0)	0 (0)	312 (100)
3	The organisation communicates with external parties regarding matter affecting the functioning of other components of internal control.	46 (14.7)	258 (82.7)	8 (2.6)	0 (0)	0 (0)	312 (100)
4	Organisations obtain information both horizontally and vertically and ensure communication among employees.	97 (31.1)	203 (65.1)	12 (3.8)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2025

Data from table 5 shows that 9.6% (30) of the respondents agreed that the organisation obtained or generate and uses relevant information to support the functioning of other components of internal control, 80.8% (252) respondents agreed, 3.8% (12) of the respondents are neutral, 5.8% (18) respondents disagreed, while none of the respondents strongly disagreed. Further, 16.3% (51) respondents strongly agreed that the organisation internally communicates information including objectives and responsibilities for internal control, 80.4% (251) respondents agreed, 3.2% (10) respondents are neutral. None of the respondents disagreed or strongly disagreed. Similarly, 14.7% (46) respondents strongly agreed that the organisation communicates with external parties regarding matter affecting the functioning of other components of internal control, 82.7% (258) respondents agreed, 2.6% (8) respondents are neutral while none of the respondents disagreed or strongly disagreed. Additionally, 31.1% (97) respondents strongly agreed that organisations obtain information both horizontally and vertically and ensure communication among employees, 65.1% (203) respondents agreed, 3.8% (12) respondents are neutral. None of the respondents disagreed or strongly disagreed.

Taking the sum of all the responses of the respondents and getting a percentage of each entry, it can be deduced that 17.95% of the respondent strongly agreed to all the statements on information and communication, 77.2% of the respondents agreed, 3.37% of the respondents were neutral, 1.44% disagreed while none of the respondents strongly disagreed. This implies that majority of the respondents (95.2%) agreed to the statements on information and communication. The Table shows that majority of the respondents agreed to all the statements on control activity.

Table 6: Monitoring

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	Monitoring determines whether internal control is effective, properly executed and adequately designed.	48 (15.4)	234 (75)	21 (6.7)	9 (2.9)	0 (0)	312 (100)
2	Monitoring able to identify risks that may occur due to some changes within the organisation among employees	61 (19.6)	219 (70.2)	18 (5.8)	14 (4.5)	0 (0)	312 (100)
3	Management emphasises monitoring efforts on internal control and accomplishes.	47 (15.1)	247 (79.2)	13 (4.2)	5 (1.6)	0 (0)	312 (100)

Source: Field Survey, 2025

From the table 6 above shows statements on monitoring. 15.4% (48) strongly agreed that monitoring determine whether internal control is effective, properly executed and adequately designed, 75% (234) respondents agreed, 6.7% (21) respondents are neutral, 2.9% (9) respondents disagreed and none of the respondents strongly disagreed. This implies that majority of the respondents agreed that monitoring determine whether internal control is effective, properly executed and adequately designed. Similarly, 19.6% (61) respondents strongly agreed that monitoring can identify risks that may occur due to some changes within the organisation among employees, 70.2% (219) agreed to this statement, 5.8% (18) respondents are neutral (neither agree nor disagree), 4.5% (14) respondents disagreed, while none of the respondents strongly disagreed to the statement. This implies that majority of the respondents agreed that monitoring is able to identify risks that may occur due to some changes within the organisation among employees.

Additionally, on the statement on "Management emphasises monitoring efforts on internal control and accomplishes" 15.1% (47) respondents strongly agreed, 79.2% (247) respondents agreed, 1.6% (5) respondents disagreed, 4.2% (respondents) are neutral, while none of the respondents strongly disagreed. This implies that majority of the respondents agreed that management emphasises monitoring efforts on internal control and accomplishes.

Table 7: Financial Performance

S/N	Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Total (%)
1	My organiations profit has increased.	66 (21.2)	220 (70.5)	20 (6.4)	6 (1.9)	0 (0)	312 (100)
2	Shareholders return in my organisations has increased.	39 (12.5)	241 (77.2)	32 (10.3)	0 (0)	0 (0)	312 (100)
3	There is increased source of revenue in the organisation.	89 (28.5)	187 (59.9)	36 (11.5)	0 (0)	0 (0)	312 (100)
4	There has been a consistent patronage of customers to the organisations.	47 (15.1)	248 (79.5)	17 (5.4)	0 (0)	0 (0)	312 (100)
5	There is an increase in ROA in my organisation	104 (33.3)	174 (55.8)	34 (10.9)	0 (0)	0 (0)	312 (100)
6	There is an increase of ROI in my organisation	72 (23.1)	214 (68.6)	26 (8.3)	0 (0)	0 (0)	312 (100)

Source: Field Survey, 2025

Table 7 shows the different statements on financial performance. From the table, 21.2% (66) respondents strongly agreed that organisations profit has increased, 70.5% (220) agreed to the statement, 6.4% (20) of the respondents are neutral, 1.9% (6) respondents disagreed, while none of the respondents strongly disagreed. This implies that majority of the respondents agreed that their organisations profit has increased. Additionally, 12.5% (39) respondents opined that shareholders return in the organisations has increased as they indicated strongly agree, 77.2% (241) respondents agreed, 10.3% (32) respondents neither agreed nor disagreed. None of the respondents disagreed or strongly disagreed. This implies majority of the respondents agreed that shareholders return in the organisations has increased. Also, 28.5% (89) respondents strongly agreed that there is increased source of revenue in the organisation, 59.9% (187) agreed, 11.5% (36) respondents were neutral, none of the respondents disagreed or strongly disagreed. This implies majority of the respondents agreed that there is increased source of revenue in the organisation. Similarly, on the statement “there has been a consistent patronage of customers to the organisations”, 15.1% (47) respondents strongly agreed to the statement, 79.5% (248) respondents agreed, 5.4% (17) respondents were neutral. None of the respondents disagreed or strongly disagreed. This implies majority of the respondents agreed that there has been a consistent patronage of customers to the organisation. Also, 33.3% (104) respondents strongly agreed that there is an increase in ROA in their organisation, 55.8% (174) respondents agreed, 10.9% (34) respondents were neutral and none of the respondents disagreed or strongly disagreed. Further, 23.1% (72) respondents strongly agreed that there is an increase of ROI in their organisation, 68.6% (214) respondents agreed, 8.3% (26) respondents were neutral. None if the respondents disagreed or strongly disagreed. This implies majority of the respondents agreed that there is an increase of ROI in their organisation.

Table 8: Regression Analysis

		Control Environment	Risk Assessment	Control Activities	Info. Comm.	Monitoring
Financial Performance	Pearson Correlation	278**	.321**	267**	.333**	.288***
	Sig. (2-tailed)	.000	.000	.000	.000	.000
	N	312	312	312	312	312
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Field Survey, 2025

Finally, to investigate the combined relationship of all the independents variables (control environment, risk assessment, control activities, monitoring and information and communication) on dependent variable (financial performance), the multiple regression analysis was adopted. The Pearson Correlation was used with a two-tailed test of significance at P<0.01 level. From Table 8, using default 5%, the p-value or Sig. value is 0.00 which is less than the p-value. The sample correlation is 0.278 (control environment correlates with financial performance at 0.278) which is positive and shows that the relationship is moderate. The (**) means that Correlation is significant at the p<0.01 level (2-tailed). Hence, the null hypothesis is rejected and conclude that there is a significant relationship between control environment and financial performance of SMEs in Kebbi State Nigeria. This therefore answered the research first objective. This corroborates the findings that control environment have a positive impact on the probability of an SME recording a high operating performance in a work on Internal control systems and operating performance: Evidence from small and medium enterprises (SMEs) in Ondo state (Adegboyegun, et al., 2020).

Also, the second objective of the study sought to establish the impact of the level of risk evaluation on financial performance of SMEs in Kebbi State Nigeria. From Table 8, the p-value is 0.000 which is less than the p-value. Similarly, the sample correlation is 0.321 (risk evaluation correlates with financial results at 0.321) which is positive and shows that the relationship is moderate. The (**) means that Correlation is significant at the p<0.01 level (2-tailed). Hence, the null hypothesis is rejected and conclude that there is a significant relationship between risk evaluation and financial results of SMEs in Kebbi State, Nigeria which answered the second research objective. This however corroborates the findings that level of risk management component influences financial performance in a work on the effects of internal control on the financial performance of processing NGOs in Nigeria (Oyedokun & Felejaye, 2022).

Further, the third objective of the study sought to establish the impact of control activities on financial performance of SMEs in Kebbi State Nigeria. To investigate this relationship, Pearson Correlation was also used with a two-tailed test of significance at P<0.01 level. The p-value is 0.000 which is less than the p-value. Similarly, the sample correlation is 0.267 (shows that control activities correlate with financial performance at 0.267) which is positive and shows that the relationship is moderate. The Correlation is significant at the p<0.01 level (2-tailed). Hence, the null hypothesis is rejected and conclude that there is a significant relationship between control activities and financial performance of SMEs in Kebbi State, Nigeria which answered the third research objective. This supports the findings that control activity has a positive influence on financial performance in a study conducted by Aladejebi (2017) to access the influence of internal control systems on financial performance of assessed the strategies leaders of SMEs in Nigeria use for improving internal control practices.

Additionally, based on objective four, the study sought to investigate the relationship between information and communication and financial performance of SMEs in Kebbi State, Nigeria. Analysis from Table 8 using default 5%, the p-value is 0.000 which is less than the p-value. Also, the sample correlation is 0.333 (information and communication correlates with financial performance at 0.333) which is positive and shows that the relationship is moderate. Hence, the null hypothesis is rejected and conclude that there is a significant relationship between information and communication and financial performance of SMEs in Kebbi State, Nigeria which answered the research fifth objective. This finding also supports the study of Bett and Memba (2017) on the effects of internal control on the financial performance of processing firms in Kenya that information and communication enhance financial performance.

Lastly, objective five sought to find out the correlation between relationship between monitoring activities and financial performance of SMEs in Kebbi State, Nigeria. The Pearson Correlation with a two-tailed test of significance at P<0.01 level. The analysis at default 5%, the p-value is 0.000 which is less than the p-value. Similarly, the sample correlation is 0.288 (monitoring activities correlates with financial performance at 0.288) which is positive and also shows that the relationship is moderate. Hence, the null hypothesis is rejected and conclude that there is a significant relationship between monitoring activities and financial performance of SMEs in Kebbi State, Nigeria. This therefore answered the research fourth objective. This corroborates the findings that monitoring components proved to have a significant effect on sales in a study on COSO enterprise risks management: small-medium enterprises evidence (Yap & Yap, 2018).

Discussion of Findings

SMEs are establishments that contributes to the global economic growth of nations such as wealth creation, job opportunities, poverty alleviation, and many more. However, these SMEs encounter a lot of challenges like inability to pay for skilled labor, little or no training and development for their staff, poor documentations of policy, lack of adequate financial record keeping, and poor capital structure. To boost the operations of SMEs, majority are of the opinion that a conducive environment with well-structured ethical values/codes, role and responsibilities and properly trained employees will improve the financial performance of SMEs in Nigeria.

Objective two evaluated the effects of risk assessment on the financial performance of SMEs in Nigeria. The findings revealed that most SMEs have measures put in place to identify risks and frauds, and proper actions are carried out through the internal audit department to mitigate all frauds and risks for better performance.

Findings regarding the third objective shows that segregation of duty is a top priority among SMEs and controls are put in place to ensure that disbursement of funds are properly apportioned; likewise, majority have a positive attitude towards improving the weaknesses of their organisation, ensuring effective verification of transactions, and taking deliberate actions to lay off staff involved in fraud.

Information and communication are a key element in the component of internal control for effective operations of SMEs in Nigeria. The findings indicate that organisations communicate with external parties regarding the matters of other components of internal control and communicate internal information such as objectives and responsibilities for a positive performance. Organisations also generate horizontal and vertical information and uses relevant information to support the functioning of other components of internal control.

Further, from findings, monitoring determines whether internal controls are effective, properly executed and adequately designed; Monitoring also enables SMEs to identify risks that may occur due to some changes within the organisation among employees. More so, management harps on monitoring internal control and accomplishes.

Lastly, the regression analysis showing the relationship between control environment, risk assessment, control activities, information and communication, monitoring, and financial performance of SME's in Kebbi State Nigeria, indicates that there is a significant relationship between the combined internal controls and financial performance of SMEs in Nigeria

Conclusion and Recommendations

Previous theoretical and qualitative studies on internal control systems and financial performance are both supported and contradicted by the results of this study. Based on the findings of the study, it is possible to conclude that the components of internal control (control environment, risk assessment, control activities, monitoring, information, and communication) have a positive and significant impact on the financial performance of small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria. Companies, banks, and other regulatory organisations could use the findings to improve their performance, and the findings could serve as theory for further research in the North and across the country.

In line with the above findings, the study recommends the following:

1. SME's and other businesses or organisations of the importance of regular and timely financial audits to help them detect any gaps in their financial systems and financial performance.
2. In addition to implementing proper controls in the custody and disposal of assets, the management of a small to medium-scale enterprise (SME) should consider; control activities and information, and communication in order to improve financial performance.
3. Management of the SME conduct an annual evaluation of the financial reporting process and implement an internal audit system that permits monitoring of operational efficiency.
4. SME leaders should consider the findings of this study regarding the relationship between internal control systems and financial performance, which ultimately impacts organisational success.

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