

EFFECT OF INTERNAL CONTROL SYSTEMS ON FINANCIAL PERFORMANCE OF PUBLIC INSTITUTIONS OF HIGHER LEARNING PORT HARCOURT, RIVERS STATE

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ABSTRACT

Most public institutions in many parts of the world have poor financial performance compared to private institutions. The poor financial performance can be attributed to financial management practice. The sound financial management practices require the institutions of strong internal control systems. However, there are limited empirical research findings regarding the relationship between internal control system and financial performance. In public institutions, there have been a lot of weaknesses in their policies and procedures and also in their Internal Audit, the extent to which employee's in positions handling cash fail to take regular leave and lack of rotation of employees handling very sensitive areas in finance and administration department. The main objective of the study was to establish the effect of internal control systems on financial performance in public institutions of higher learning in Rivers State. The study specific objectives were; to determine the effect of control activities, risk assessment, control environment, information and communication and monitoring on financial performance of institutions of higher learning in Rivers State. The study was anchored on agency theory, stewardship theory, and positive accounting theory and attribution theory. The study used a descriptive research design. This study took a sample study approach with its target population being the different categories of staff in different departments of Public Institutions of Higher Learning in Rivers State, Nigeria. It took on a sample of 96 employees. Primary data was collected from sample population using open and closed ended questionnaires. Descriptive statistics was used in the data analysis and information presented in statistical forms. A multiple linear regression was also used to analyze the relationship between the dependent and independent variable. The study realized that the control environment, risk assessment, control activities and information and communication as indicators of internal control systems have a significant influence on the financial performance of the institutions of higher learning in Rivers State, Nigeria. The variables explained 99.1% of the changes in financial performance of the institutions. The study recommends that internal control systems among the institutions need to be improved and accountability of organizational resources beupheld.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial performance is the ability to operate efficiently, profitability, survive, grow and react to the environmental opportunities and threats Sebbowa (2009). For purposes of the study I adopted Ray and Kurt's definition of internal control systems. In as much as Internal control Systems are wide and numerous, for the sake of this study, Internal control systems will be limited to; the Control Environment, Internal Audit, and Control activities whereas financial performance will be looked at basically from the three perspectives of Liquidity, Accountability and Reporting (Donald and Delno 2009). Organizations have invested heavily in improving the quality of their internal control systems over the past decade arguing that a good internal control yields good business. Many organizations are required to report on the quality of internal control over financial reporting, compelling them to develop specific support for their certifications and assertions. The following five objectives help management in designing effective internal controls: maintaining reliable systems, ensuring timely preparation of reliable information, safeguarding assets, optimizing the use of resources, preventing and detecting error and fraud (Alvin et al, 1993).

The completeness and accuracy of accounting records, timely preparation of financial information, can only be achieved if the proper internal control system is in place. The institution's ability to maximize its profit depends in part on the design and effectiveness of the processes and safeguards it has put in place over accounting and financial reporting (Ndungu, 2013). While no practical

control system can absolutely assure financial reports will never contain material errors or misstatements, an effective system of internal control over financial reporting can substantially reduce the risk of such misstatements and inaccuracies in company's financial statements (Kaplan, 2008).

Institutions of higher learning are where people go to further their knowledge in a specific area, and/or to acquire a diploma, degree, master's degree and PhD. research, outreach and extension constitute the basis on which research goals are set and measures by which fulfilment of these goals are established (Onsongo, 2007).

It is usually accepted that internal control systems need to be adequately monitored in order to assess the quality and the effectiveness of the system's performance over time. Monitoring provides assurance that the findings of audits and other reviews are promptly determined. (Theofanis et al, 2011), also notes monitoring of operations ensures effective functioning of internal controls system (Amudo & Inanga, 2009). Hence, monitoring determines whether or not policies and procedures designed and implemented by management are being carried out effectively by employees.

1.2 Statement of the problem

According to Kirsty (2008) efficient internal controls creates an organization's confidence in its ability to perform or undertake a particular task and prevents errors and losses through monitoring and enhancing organizational and financial reporting processes as well as ensuring compliance with pertinent laws and regulations. Muio (2012) studied the impact of internal control on the financial performance of private hospitals in Port Harcourt and established a significant relationship between internal control system and financial performance.

In Rivers State, a number of important trends have recently emerged within the manufacturing sector. It is worth noting that manufacturing sector is a major contributor to the economic development of the country. According to the Economic Survey 2015, Rivers State National Bureau of Statistics established that manufacturing sector contribution to Gross. Effectiveness of internal control on financial performance is very important in every organization, because the task of IC is to prevent and detect fraud in the organization. Internal controls help in achieving efficiency and effectiveness of operations.

. This study therefore sought to answer the question “what is the effect of internal control system on financial performance of public institutions of higher learning in Port Harcourt, Rivers State?

1.3 Aim and Objectives of the Research

The main objective of the study was to establish the effect of Internal Control Systems on Financial Performance of Institutions of higher learning in Port Harcourt, Rivers State.

The specific objectives included;

- (i) To determine the effect of control activities on financial performance of institutions of higher learning in Port Harcourt, Rivers State.
- (ii) To establish the effect of risk assessment on financial performance of institutions of higher learning in Port Harcourt, , Rivers State.
- (iii) To evaluate the effect of control environment on financial performance of institutions of higher learning in Port Harcourt, , Rivers State.

- (iv) To establish the effect of information and communication on financial performance of institutions of higher learning in Port Harcourt, Rivers State.
- (v) To establish the effect of monitoring on financial performance of institutions of higher learning in Port Harcourt, Rivers State.

1.4 Research Questions

This study sought to answer the following research questions in view of the specific objectives

- (i) What is the effect of control activities on financial performance of institutions of higher learning in Port Harcourt, Rivers State?
- (ii) What is the effect of risk assessment on financial performance of institutions of higher learning in Port Harcourt, Rivers State?
- (iii) What is the effect of control environment on financial performance of institutions of higher learning in Port Harcourt, Rivers State?
- (iv) What is the effect of information and communication on financial performance of institutions of higher learning in Port Harcourt, Rivers State?
- (v) What is the effect of monitoring on financial performance of institutions of higher learning in Port Harcourt, Rivers State?

1.5 Scope of the Study

The conceptual scope of this study lies on the effect of internal control systems on the financial performance of Institutions of higher learning in Rivers State. The specific context of interest was institutions of higher learning in Port Harcourt, . The management staffs of the institutions in the department of finance were involved since they have knowledge and would provide information on finance reports in relation to internal control system of institutions of higher learning in Rivers State. It is believed that this would provide adequate information for the study and therefore give reliable results and findings. The study covered a period of five years, thus from the year 2011 to the year 2015.

1.6 Significance of Study

This research study is intended to establish whether there exists a relationship between internal control system and financial performance of Institutions of higher learning in Rivers State. Thus, the findings of this study will be useful in identifying gaps within the systems of internal control in higher Institutions of learning in Rivers State. It is also the researcher's belief that invaluable benefits to management and those charged with governance and training institutions will emerge on how to streamline the systems of internal controls thus ensuring improved financial performance and ultimately ensure attainment of the institutional objectives.

1.7 Limitation of the Study

The respondents approached were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or their enterprises. Some even turned down the request to fill questionnaires. The study had an introduction letter from the University and assured them that the information they gave was to be treated confidentially and it was to be used purely for academic purposes.

The researcher also encountered problems in eliciting information from the respondents as the information required was subject to areas of feelings, emotions, attitudes and perceptions, which could not be accurately quantified and/or verified objectively. The researcher encouraged the respondents to participate without holding back the information they had since the research instruments would not bear their names.

1.8 Operational Definition of terms

Communication This is the transmission or exchange of information between two

or more persons. The message emanates from the source to the receiver and back to the source as feedback.

Decisionmaking Relates to the act of making up your mind about a position or

opinion or judgment reached after consideration.

Financial Performance Is a subjective measure of how well a firm can use assets from its

primary mode of business and generate revenues.

Internal control is refers to the measures instituted by an organization so as to

ensure attainment of the entity's objectives, goals and missions

Internal Control Systems Is a process for assuring achievement of an organization's

objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

Management This is the process of planning, controlling, directing, coordinating

and evaluating ideas, activities and programmes in order to achieve the aims and objectives of an organization.

Monitoring This is a process that assesses the efficiency and effectiveness of

internal controls over time.

Planning This is the process of setting [goals](#), developing [strategies](#), and outlining tasks and [schedules](#) to accomplish the goals.

Productivity This is the output-input ratio within a time period with due

consideration for quality.

PublicInstitution This is name that is applied to a school, college,courthouse,

library, hospital and other place that is run for the public to use.