

# The Relationship between Organizational Control Environments on the Financial Performance of Tertiary Institutions in Nigeria

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## Abstract

The study is an investigation into the relationship between organizational control environment and financial performance in Tertiary Institutions in Nigeria, using Cross River State College of Education, Akamkpa as a case study. Data was collected using questionnaires and interview guide as well as review of available documents and records. The method of analysis employed was survey design while the stratified sampling procedure was adopted in administering the questionnaires. The data were analyzed using simple percentages, tables, correlation coefficient and z-scores. The study revealed that management of the College is committed to the control system. They actively participate in monitoring and supervision of the activities of the Institution. Also, the study found that there is a fair accounting management system in the college. In the area of control environment the study shows that council and management takes appropriate measures in correcting misfeasance in the system. There is close monitoring and implementation of controls without disclosure of ethical issues to staff. The study result further shows that there is no significant relationship between organizational control environment and financial performance of Cross River State College of Education. The investigation recommend that management should disclose ethical issues to staff and these should be upheld strictly in all strategic decision. Also recommended is the need for management to carry out a special internal control training for staff to ensure acquaintance with major controls in the system.

**Keywords:** Internal audit, internal control system, financial performance, financial and non financial procedure.

## 1 Introduction

Control environment is the foundation for other components of internal control that set the tone of the organization by influencing the control consciousness of people. Control environment factors include; integrity and ethical values of personnel responsible for creating, administering and monitoring the controls, commitment and competence of persons performing assigned duties (Whittington & Pany, 2001). These are elements of an organization (including its resources, system, processes, culture, structure and tasks) that taken together, support people in the achievement of the organization's objectives.

When an organization suddenly collapses, the often resounding question is "what went wrong"? A breakdown in the internal controls environment is the usual cause. Organizational control environment therefore, guides an organization towards achieving its objectives. These objectives includes; operational efficiency and effectiveness, reliability of financial reporting and compliance with relevant laws and regulation (COSO 1992). Absence of these variables often creates problems in organizations and eventually leads to poor financial performance.

The College has since inception had management of the highest qualifications, caliber and dedication. Management meets regularly (weekly) to review the affairs of the College and to direct the strategic path of the College and to ensure continued goal congruence. Systems have evolved overtime and all the departments / units have undergone positive transformation. Internal controls have been put in place to ensure safe custody of all College assets, to avoid misuse or misappropriation of College assets and to detect and safeguard against fraud. The College employs world class professionals to fill all key departments / units. This is ensured by the

transparent and open system of selection and recruitment exhibited by the College Governing Council. All departments are adequately staffed with qualified competent staff. Continuous staff training and professional development courses have always been given greatest priority with great budget allocation for these trainings.

In this study, organizational control environment was considered to mean all measures to be taken by the management of the College for the purpose of protecting her resources against waste, fraud and inefficiency, ensuring compliance with the policies of the organization and evaluating the level of performance in all department of the Institution.

## **1.1 Research Hypothesis**

Ho: There is no significant relationship between organizational control environment and financial performance of tertiary institutions in Nigeria

## **1.2 Organization of the study**

The rest of the paper is organized in four sections. The theoretical framework as well as review of relevant literature regarding internal audit function is contained in section 2. Section 3 identifies the research methodology and model specification. Section 4 represents data presentation, analysis and discussion of finding while conclusion and recommendations are stated in section 5.

## **2. Theoretical Framework and Literature Review**

### **2.1 Theoretical Framework**

The stakeholders' theory is the theoretical framework that also guided this study. The stakeholders' theory is a theory of organizational management and business ethics that addressed morals and values in managing an organization. Stakeholders' management is the process by which an organization identifies its key stakeholders and wins their support, (Freeman 1984).

He went further to identify the models and the groups which are stakeholders of a corporation. He described and recommended methods by which management can give due regards to the interests of those groups. Put simply, stakeholder theory attempts to address the "principles of who or what really counts". Stakeholders therefore mean those who gain or loss as a result of organization activities. Stakeholders' management is critical to the success of every project in every organization.

By engaging the right people in the right way in any project or putting square pegs in square hole; can make a big difference to the success of an entity. The stakeholders' theory relates to this study in that by engaging the right staff in the right positions in Cross River State College of Education, Akamkpa, the institution can make a big difference in its internal controls and that might help to enhance the financial performance of the College.

### **2.2 Characteristics and Limitations of Control Environment**

According to Subomi (2010) the following are the characteristics which will serve as a proof of the fact that good internal control system are in existence in an organization;

- There must be clearly defined organizational structure
- There must be adequate internal checks
- Work done must be acknowledge by the doer
- The organization must be physically secured
- There must be clearly defined system for authorizing transaction within specified spending limits.

- Personnel should have the capability and qualification necessary to carry out their responsibilities properly.
- There must be an Internal Audit Department in that organization.

However, he argued that any Internal Control System can only provide directors with reasonable assurance that their objectives are reached, but they cannot provide an absolute assurance because they are not perfect. He accounted for the inherent limitations as follows;

- Cost – prudence concept makes the principle of commensuration to be applicable in cost benefit relationship.
- Collusion – Human interaction is capable of giving birth to consensus. It may explore to the detriment of the organization.
- Management – Another possibility that can water-down control is “Management override or by-pass”
- Error or fraud – Within the situation of any established control is the possibility that the control may not have the capacity of spotting some error and fraud
- Non – routine transaction
- Dependency – When the activities of an organization is majorly in the hands of an individual.

### 2.3 Literature Review

Whittington and Pany (2001) noted that, the control environment sets the tone of the organization by influencing the control consciousness of people. They further assert that control environment is viewed as the foundation for all the other components of internal control. Control environment factors includes; integrity and ethical values of personnel responsible for creating, administering and monitoring the controls, commitment and competence of persons performing assigned duties, board of directors or audit committees (especially the extent of their independence from management, experience and stature), management philosophy and operating style (in terms of their aggressiveness or conservativeness which may determine the level of risk they may take on), and organizational structure (which may be a well organized structure that provides for proper planning, directing and controlling operations or a disorganized structure that may only serve to confuse the key player by creating unclear roles), Mawanda (2008). Control environment has several factors, but for the purpose of this study, the review will focus on management philosophy and operating style, the integrity and ethical values of personnel that create and administer controls, and audit committees and board of directors. For purposes of this research, board of directors will be represented by the College Governing Council and the various committees of Council.

- Whittington and Pany also believe that these factors set a basis upon which the other internal control components can be built. They provide a framework within which other components operate.
- However, these assertions have not always held true, since management in organizations has always overridden these controls, the lack of mentoring has always led to collapse of controls.
- According to Mawanda (2008), Board of Directors (Governing Council) ought to supervise the management of an entity (institution), but it has always turned out that Governing Council merely implement recommendations of the management committee of an institution.
- Recent case studies on internal auditing in Belgium illustrate the importance of the control environment when studying internal auditing practices.

- Saren & De Belde (2006) assumed that when an organization pursues integrity and clear ethical values reflected in a formal code of conduct/ethics, the internal audit function will take a greater importance.
- Internal control systems not only contribute to managerial effectiveness but are also important duties of corporate board of directors. Accounting literature likewise emphasizes the importance of an organization's integrity and ethical values in maintaining an effective control.
- A focus on integrity and ethical values was the principal contribution of internal control – integrated framework published by COSO on fraudulent financial reporting. To trigger independence and integrity of Auditors and Accountants, the Accountancy profession globally has a document called the code of Ethics issued by the International Federation of Accountants (IFAC). In the case of Nigeria, there is a code of conducts issued by the Institute of Chartered Accountants of Nigeria (ICAN). This code contains some ethical standards which members are expected to comply (Kalu 2011).

### 3. Research Methodology

Based on the nature of the study, the cross sectional survey design approach was used due to its economy and ability to understand a population from a part. The researcher designed, developed and administered close ended questionnaires to top management staff, academic and non – academic staff of Cross River State College of Education, Akamkpa. This was used for the purpose of obtaining data to test the hypothesis.

However, greater emphasis was laid on capturing members in Bursary and Internal audit departments. The stratified sampling procedure was adopted in administering the questionnaires to guide the study. The sampling technique used for the study is the judgment (purposive) sampling. Data was collected using both primary and secondary data collection technique. Primary data was gathered basically through structured questionnaires and interviews with “key informant members”. Secondary data was gathered through College publications, text books, journal, etc.

The data collected were synthesized and analyzed to give meaning to the specific objective of the study. The data were tabulated and presented using such statistical tools like percentages, tables and correlation coefficient. The entire hypotheses formulated were tested using the z-score. Correlation was used as a way of assessing the relationship between internal audit function and financial performance. Narrative analysis was used to explain the qualitative results of the survey.

## 4 Data Presentation, Analysis and Discussion of Findings

### 4.1 Data Presentation

The data collected for the study are presented using tables:

**Table 4.1 Distribution of Population according to Group of Staff**

Group of Staff	Size	Proportion (%)
Dean	5	1.51
Heads of Department	23	6.95
Bursary / Accounts Staff	16	4.83
Internal Audit Staff	6	1.81
Other Academic Staff	110	33.23
Other Non-Academic Staff	171	51.67
<b>Total</b>	<b>331</b>	<b>100%</b>

**Source:** Field survey, 2014.

The Taro Yamanie formula below was used to determine the actual sample units used in the study.

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

Where: n= Sample size

N= Total population

l= Constant

e= acceptable margin of error.

Given that: N= 331, e= 10%, n=?

$$n = \frac{331}{1+331(0.1)^2}$$

$$n = \frac{331}{1+3.31}$$

$$n = \frac{331}{4.31} = 76.80$$

n=approx. 77

Therefore, sample size = 77

**Table 4.2: Questionnaire Distributed and Received**

S/No	Group of Staff	QD	QR	PQR(%)	QNR	PQNR(%)
1	Deans of School	5	4	80	1	20
2	Heads of Dept.	23	22	96	1	4
3	Bursary Staff	16	16	100	-	-
4	Internal Audit Staff	6	6	100	-	-
5	Other Academic Staff	10	10	100	-	-
6	Other Non-academic	17	17	100	-	-
	<b>TOTAL</b>	<b>77</b>	<b>75</b>		<b>2</b>	

Source: Field work

Where:

QD = Questionnaire distributed

QR = Questionnaire received

PQR = Percentage of questionnaire received

QNR = Questionnaire not received

PQNR = Percentage of questionnaire not received

**Table 4.3: Collation of Responses on Whether Constant reviews of Control Environment significantly affects Financial Performance**

Q.NO	QUESTIONS/STATEMENT	RESPONDENTS	%
1.	The College has an accounting and financial management system.		
	(a) Strongly agree	43	57
	(b) Agree	22	29
	(c) Strongly disagree	3	4
2.	(d) Disagree	7	10
	Management is committed to operations of the system.		
	(a) Strongly agree	20	27
	(b) Agree	46	61
3.	(c) Strongly disagree	5	7
	(d) Disagree	4	5
	Management closely monitors implementation of controls.		
	(a) Strongly agree	32	43
4.	(b) Agree	26	35
	(c) Strongly disagree	5	7
	(d) Disagree	12	15
	Appropriate measures are taken to correct misfeasance in the system.		
5.	(a) Strongly agree	27	36
	(b) Agree	31	41
	(c) Strongly disagree	10	13
	(d) Disagree	7	10
6.	Staff performance evaluation is carried out regularly.		
	(a) Strongly agree	59	79
	(b) Agree	10	13
	(c) Strongly disagree	-	-
7.	(d) Disagree	6	8
	Management discloses ethical issues to staff.		
	(a) Strongly agree	13	17
	(b) Agree	9	12
8.	(c) Strongly disagree	39	52
	(d) Disagree	14	19
	Ethical values are upheld in management decisions.		

9.	(a) Strongly agree	12	15	
	(b) Agree	21	29	
	(c) Strongly disagree	32	43	
	(d) Disagree	10	13	
	No incentive/reward for hard work in the College.			
	(a) Strongly agree	39	52	
	(b) Agree	19	25	
	(c) Strongly disagree	7	10	
	(d) Disagree	10	13	
	Staffs are acquainted with College policies and procedures.			
	(a) Strongly agree	23	31	
	(b) Agree	11	14	
	(c) Strongly disagree	18	24	
	(d) Disagree	23	31	
	You have received special internal control training since you were employed in College.			
	(a) Strongly agree			
(b) Agree				
(c) Strongly disagree				
(d) Disagree				

Source: Field Survey Data, 2014.

## 4.2 Analysis of Data

Table 4.1 shows that the total number of staff in the College is 331. Among this number, 5 are deans while 23 are heads of department. Also, 16 or 4.83% and 6 or 1.81% represents staff in the bursary and internal audit departments respectively. The academic staff comprised 33.23% of the entire staff while other non academic staffs are 171 representing 51.67%. However, the sample size for the study is 77.

Table 4.2 shows that the total number of questionnaire distributed to the selected staff is 77 with 75 of them representing 97 percent completed and returned. Only 2 or 3 percent of the questionnaire were not returned. Therefore, completed and returned questionnaire have been used for the analysis and evaluation of the reasons for the effect of internal controls system on Financial Performance of Tertiary Institution, with Cross River State College of Education, Akamkpa as case study.

Table 4.3 shows responses on the constant review of control environment. 43 respondents or 57 percent of the staff strongly agreed that the College has an accounting and financial management system. Also, 3 or 4% of the staff strongly disagreed to this. 7 or 10% of the respondents disagreed to this view. Again, 20 or 27% of the respondents strongly agreed that management is committed to operations of the system, 46 or 61% also agreed

this view whereas, 5 or 7% of the respondents strongly disagreed to this fact. Also 58 or 78% of the respondents agreed that management monitors and implement controls, while 17 respondents or 19 percent disagreed. On whether the staff have received internal control training, 17% answered in affirmative while 83% said they have not received such training.

### 4.3 Test of Hypothesis

Ho: There is no significant relationship between organizational control environment and financial performance of tertiary institutions in Nigeria

Decision Rule:

Reject Ho: if  $z > z_{\alpha}$  or if  $z < -z_{\alpha}$

Accept HO: if  $z < z_{\alpha}$  or if  $z > -z_{\alpha}$

Where;  $z$  = test statistic (value)

$Z_{\alpha}$  = critical (table) value.

Level of significance used is 5%

The critical value is  $z = 0.05 = 1.96$

The statistical test  $z = \frac{\bar{O} - O_0}{S \bar{O}}$

**Table 4.4:** Computation of z-test statistic

Let X represents strongly agree and agree and

Let Y represents strongly disagree and disagree

X	Y	X <sup>2</sup>	Y <sup>2</sup>	XY
65	10	4225	100	650
66	9	4356	81	594
58	17	3364	289	986
58	17	3364	289	986
69	6	4761	36	414
22	53	484	2809	1166
33	42	1089	1764	1386
58	17	3364	289	986
34	41	1156	1681	1394
62	13	3844	169	836
$\sum X = 525$	$\sum Y = 225$	$\sum X^2 = 30,007$	$\sum Y^2 = 7507$	$\sum XY = 9,368$

$\sum X \sum Y = 118,125$ ,  $(\sum X)^2 = 275,625$ ,  $(\sum Y)^2 = 50,625$

Substituting these values in the formula

$$r = \frac{N(\sum XY) - (\sum X)(\sum Y)}{\sqrt{N\sum X^2 - (\sum X)^2} \sqrt{N\sum Y^2 - (\sum Y)^2}}$$

$$r = \frac{10(9368) - 118,125}{\sqrt{(10 \times 30007 - (275,625)) \cdot (10 \times 7507 - (50,625))}}$$

$$r = \frac{93,680 - 118,125}{\sqrt{24,445 \times 24,445}}$$

$$r = \frac{-24,445}{24,445} \quad r = -1.0000$$

Comparing the critical value with the test statistics = -1.0000 -1.96



Decision: since the negative value of the z statistic is higher than the critical or table value and falls outside the acceptable region.

Therefore, the alternative hypothesis  $H_1$  is rejected. The null hypothesis  $H_0$  is then accepted that there is no significant relationship between organizational control environment and financial performance of tertiary institutions.

#### 4.4 Discussion of Findings

##### Effect of Organizational Control Environment on Financial Performance:-

Effective human resources policies and procedures enhance an organization's control environment. These policies should address hiring, orientation, training, evaluation, compensation, and disciplinary actions. In the event that an employee does not comply with an organization's policies and procedures or behavioral standards, an organization must take appropriate disciplinary action to maintain an effective control environment. The control environment is greatly influenced by the extent to which individuals; recognize that they will be held accountable, received special controls training, are acquainted with college policies and procedures, received incentives/ reward for hard work and the extent to which ethical issues are disclosed to staff.

Responses from respondents as contained in table 4.3 revealed that the above variables are not in place in Cross River State College of Education. Hence, the result of hypothesis which accepted the null hypothesis that there is no significant relationship between organizational control environment and financial performance of Cross River State College of Education, Akamkpa.

#### 5 Conclusion and Recommendations

Based on the findings of the study, it is concluded that staffs are not acquainted with College policies and procedure and that there is information sharing in the College. However, the study also concluded that Management of the Institution carries out regular review of financial transactions and that assets of the College have generally increased. On ethical justification, the study concluded that staffs are not grounded on business and professional ethics because management does not disclose ethical issues to them. However, council and management recognize ethical leadership in dealing with strategic policies.

Based on above conclusion, the study recommends regular training of staff on organization control environment. Also, staff should be provided with copies of work ethics, scheme of service and handbook on public service rules and regulations. Also recommended is the need for management to carry out a special internal control training for staff to ensure acquaintance with major controls in the system.

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