Enhancing the Performance of Electricity Distribution Companies in Nigeria via Internal Control System

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ABSTRACT

The study evaluates internal control system and performance of Electricity Distribution Companies in Nigeria. To achieve the objectives of the study, primary and secondary data were used. The secondary data include journals, textbooks and the publications of the Nigerian Electricity Regulatory Commission and the primary data was collected using a well structured and tested questionnaire from one-hundred and twenty (120) respondents in three (3) Electricity Distribution Companies in Nigeria. The respondents were selected through random sampling technique. The data collected was analysed using descriptive statistics and Chi-square with the aid of Statistical Package for Social Sciences (SPSS). The findings of the study suggest that weak internal control system can reduce the overall performance of Electricity Distribution Companies in Nigeria. The analysis also showed that effective internal control systems have significant impact on the companies' service delivery and that effective internal control systems have significant impact on the companies' revenue generation. The study concludes that lack of effective internal control system in Nigerian Electricity Distribution Companies is one of the major causes of poor service delivery to the members of the public and as a result of this; the revenue they obtain from the services cannot sustain them.

Key words: Internal Control System, Performance, Internal Audit, Corporate governance, Enterprise Risk Management.

1.0 INTRODUCTION

When companies suddenly collapse, the often-resounding question is, **"what actually went wrong?"** A breakdown in the internal control system is the usual cause. Internal control systems is a topical issue following global fraudulent financial reporting and accounting scandals in both developed and developing countries. A proactive preventive approach to the problem requires a critical evaluation of existing internal control structures in organizations (public or private) to determine their capacity to ensure that the organizations' activities are carried out in accordance with established goals, policies and procedures. (Angella and Eno 2009).

Managements of various organizations have long sought ways to better control of the organizations they manage. A system of internal control is put in place to keep the organizations on course towards good customers' service delivery, profitability, goals and achievement of their missions and to minimize losses and inefficiencies to the lowest along the way. An effective internal control system enables management to deal with rapidly changing economic and competitive environments, shifting customer demands and priorities and restructuring for future growth. Internal control promotes efficiency, reduces risks of asset loss, and helps ensure the reliability of financial statements and compliance with laws and regulations.

As earlier highlighted, internal control is focused on the achievement of an organization's mission. Therefore, it is essential that an organization have a clearly stated mission that is known and understood by everyone in the organization. It is also important to understand that, while good internal control will provide "reasonable assurance", goals and objectives are met; good internal control cannot guarantee organizational success. However, goals and objectives are much less likely to be met if internal control is poor (Thomas 2007).

Thus, internal control is defined as the whole system of control, financial or otherwise established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management policies, safeguard the assets and secure as far as possible the completeness and accuracy of the records (Adeniyi 2010). Internal control can also be seen as a process that guides an organization towards achieving its objectives. These objectives include operational efficiency and effectiveness, reliability of financial reporting, and compliance with relevant laws and regulations. Absence of these variables often results in organizational failure. The findings of the Tread Way Commission Report of 1987 in the United States (USA) confirmed that absence of or weak internal controls are the primary cause of many cases of fraudulent company financial reporting (Angella & Eno 2009).

The understanding of the impact that the concept of internal control has on any business is very essential for the development and the performance of an organization. One of the major factors believed to be restricting efficient performance of most Nigerian public sector enterprises is lack luster approach towards accountability. There is a great need to establish internal checks and auditing system as well as defining a control of financial and management procedure so as to carry on the operations of the enterprise in a way that guards against the possibility of not only fraudulent practices and financial recklessness but also enhances performance and public confidence in the enterprises.

The Nigerian Electricity Distribution Companies are separate and distinct entities from the Power Holding Company of Nigeria (PHCN). PHCN was actually unbundled into eighteen (18) distinct companies of which eleven (11) are electricity distribution companies which is the main bone of contention of this research while six (6) are generation companies and one (1) is a transmission company. Electricity distribution companies are responsible for transporting and distributing electric power from specific points in high or medium voltage lines to end consumers at appropriate voltage level for industrial, commercial and residential usage (Power watch 2012). Their operations especially their financial management and control system have been subject of intense debate. This has resulted in some unsatisfactory performance as evidenced by near darkness all the time. Thus, there is need to look at the internal control system in some electricity distribution companies in charge of the distribution of electricity to the end consumers and their operational performances in the area of efficiency. Hence, it is believed that this research work would go a long way in assisting the new management of the just privatized Nigerian Electricity Distribution Companies.

The existence of internal control weakness, unsatisfactory and deteriorating service delivery will have a great effect on the performance of the electricity distribution companies by not only weakening the companies' ability to effectively provide members of the public with electricity but would also encourage fraud, collusion, embezzlements, loss of revenue, lack of transparency and accountability for revenue collection and other assets. Unfortunately, no determined effort has been made to investigate the problem of weak internal control over the performance of Electricity distribution companies. Therefore, the main motivating factor underlying this study is the desire to break new grounds with the intent of shedding more light on this problem and seeking avenues for solving it. Thus, the purpose of this study is to examine and evaluate the internal control system and performance of the electricity distribution companies in Nigeria. Hence, this paper intends to answer the following research questions:

1) Does weak internal control system lower the performance of electricity distribution companies?
2) Does effective internal control system have a significant impact on their service delivery?
3) Does effective internal control system have a positive impact on their revenue generation?

This paper therefore, is divided into five sections. Section 1 is about the introduction. Section 2 deals with the literature review. Section 3 is Methodology. Section 4 concerns itself with the result of the findings and discussion. Section 5 discusses conclusion and recommendations.

2.0 LITERATURE REVIEW

2.1 INTRODUCTION

Internal control is not only essential to maintaining the accounting and financial records of an organization, it is essential to managing the entity. Everyone from the external auditors to management to the board of directors to the stakeholders of large public companies to government, have an interest in internal controls. In many parts of the world, regulators have emphasized the importance of internal control by requiring management to make annual public statements about the effectiveness of internal controls Rick et al 2009.

In large enterprise, the need for sound internal control is not just desirable, but very necessary. In a small business, direct intervention by the proprietors may prevent or detect errors. This 'direct intervention' may not be possible with the formalized procedures in a large organization. In a large enterprise, the prevention of errors and fraud is of paramount importance that is, of more importance. If internal controls are sound, it is more likely that the accounting records will be reliable and accurate. The audit strategy for a large public company may be based on the presumption (resulting from prior experience) that the systems of control are sound (Adeniyi 2010).

2.2 CONCEPTUAL FRAMEWORK OF THE STUDY

2.2.1 CONCEPT OF INTERNAL CONTROL

There are numerous definitions of internal control, most of them having been drafted by professional accountants' organizations. (Autorité Des Marché Financiers (AMF) working group 2007) defines internal control as the set of security measures which contribute to the control of a company. Its aim is to ensure, on the one hand, the security and safeguard of assets and the quality of information, on the other hand, the application of instructions given by Senior Management, and to encourage improvements in performance. It is evidenced through the organization, methods and procedures for each of the company's activities, so as to ensure the continuity of that company".

According to the Auditing Practices Committee Guideline, internal control system can be defined as the whole system of control, financial or otherwise, established by the management in order to carry on the business of the enterprise in an orderly and efficient manner, ensure adherence to management's policies, safeguard assets and secure as far as possible the completeness and accuracy of the records. The individual components of internal control system are known as controls or internal controls. It is for the management to determine the extent to which internal controls are to be applied within the organization (Adeniyi 2010). There are numerous factors to be considered such as:

- The nature, size and volume of transactions
- The geographical distribution of the enterprise
- The controls exercised personally by individual members of management
- The cost of setting up controls and the benefits obtained thereby
- Management's attitude to controls.

Internal control is defined as a process that is implemented by the entity's personnel and designed to provide reasonable assurance that the entity will achieve three categories of objective: effective and efficient operations, reliable financial reporting, and compliance with the applicable laws and regulations. This process is to be interwoven with the entity's business activities and implemented by those at all levels of the organization (Kent & Lana 2010).

Internal control is the integration of the activities, plans, attitudes, policies, and efforts of the people of an organization working together to provide reasonable assurance that the organization will achieve its objectives and mission (Thomas 2007).

This definition establishes that internal control:

- Affects every aspect of an organization: all of its people, processes and infrastructure
- Is a basic element that permeates an organization, not a feature that is added on
- Incorporates the qualities of good management;
- Is dependent upon people and will succeed or fail depending on the attention people give to it
- Is effective when all of the people and the surrounding environment work together
- Provides a level of comfort regarding the likelihood of achieving organizational objectives
- Helps an organization achieve its mission.

Internal control comprises the plan of an organization and all of the coordinate methods and measures adopted within it, to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies (Olaoye 2005)

It is the responsibility of every company to design an internal control system which is suitably adapted to their situation. In the case of a group, the parent company ensures that internal control systems exist within its subsidiaries. These systems should be adapted in line with their own individual characteristics and to the relationship that exists between the parent company and the subsidiaries. In situations where a parent company has a substantial holding interest, over which it has significant influence, that parent should take care to assess the possibility of acquainting itself with and examining the measures taken by its affiliate, in terms of internal control (Autorité Des Marché Financiers (AMF) working group 2007)

2.2.1.1 COMPONENTS OF INTERNAL CONTROL SYSTEM

The Committee of Sponsoring Organizations of the Tread way Commission (COSO 2011) identified five interrelated components of internal control system. These are derived from the way management runs a business, and are integrated with the management process. Although the components apply to all entities, small companies may implement them differently than large ones. Its controls may be less formal and less structured, yet a small company can still have effective internal control (Thomas and Charles 2009). The components are:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring

The five components of internal control are applicable to all entities, but how they are configured within an entity will depend on several factors among them (Vincent et al 1999) are as follows:

- The entity's size
- Its organization and ownership characteristics
- The nature of its business
- The diversity and complexity of its operations
- Its methods of transmitting, processing, maintaining and accessing information
- Applicable legal and regulatory requirements.

2.2.1.1.1 CONTROL ENVIRONMENT

Control environment is the attitude toward internal control and control consciousness established and maintained by the management and employees of an organization. It is a product of management's governance, that is, its philosophy, style and supportive attitude, as well as the competence, ethical values, integrity and morale of the people of the organization (Thomas 2007). In a more simple term, the control environment is concerned with the actions, policies, and procedures that reflect the overall attitude of the client's top management, directors, and owners of an entity about internal control and its importance. The control environment is further affected by the organization's structure and accountability relationships. The control environment factors are:

Governance: This is the influence on an organization exercised by the executive body or the chief executive which/who governs it. The executive body may be a board of directors, board of trustees, council, legislature or similar entity. The chief executive may be the president, chancellor, commissioner, chief judge or an individual elected or appointed as the highest ranking person in the organization. Their governance responsibilities are usually founded in a constitution, charter, laws, by-laws, regulations and other similar documents. The leadership, actions and tone established and practiced by the governing body/executive can have a profound impact on how the employees of the organization perform their responsibilities, which in turn affects the achievement of the organization's mission.

Ethical Values and Integrity: These are key elements contributing to a good control environment. Ethical values are the standards of behavior that form the framework for employee conduct. Ethical values guide employees when they make decisions. Management addresses the issue of ethical values when it encourages commitment to honesty and fairness, recognition of and adherence to laws and policies, respect for the organization, leadership by example, commitment to excellence, respect for authority, respect for employees' rights, and conformance with professional standards. While it is management's responsibility to establish and communicate the ethical values of the organization, it is everyone's responsibility to demonstrate integrity. Management encourages integrity by establishing and publishing a code of conduct, complying with the organization's ethical values and code of conduct, rewarding employee's commitment to the organization's ethical values, establishing methods for reporting ethical violations, and consistently enforcing disciplinary practices for all ethical violations.

Management Operating Style and Philosophy: This reflects management's basic beliefs regarding how the people and activities of an organization should be managed. There are many styles and philosophies. Although none are inherently right or wrong, some may be more effective than others in helping a particular organization accomplish its mission. Management should practice the most effective style and philosophy for the organization, making sure that they reflect the ethical values of the organization, and positively affect staff morale. Management should practice and clearly communicate and demonstrate these beliefs to staff and periodically evaluate whether the style and philosophy are effective and are practiced consistently. Management's philosophy and style can be demonstrated in such areas as: management's approach to recognizing and responding to risks (both internal and external); acceptance of regulatory control imposed by others.

Competence: This is a characteristic of people who have the skill, knowledge and ability to perform tasks. Management's responsibility for ensuring the competency of its employees should begin with establishing appropriate human resource policies and practices that reflect a commitment to establishing levels of knowledge and skill required for every position; verifying the qualifications of job candidates; hiring and promoting only those with the required knowledge and skills; and establishing training programs that help employees increase their knowledge and skills.

Organizational Structure: This is the framework in which the organization's plans are carried out. It should define the functional sub-units of an organization and the relationships among them. An organization chart can provide a clear picture of the authority and accountability relationships among functions. The chart should be provided to all employees to help them understand the organization as a whole, the relationships among its various components and where they fit into the organization. Management should review this chart periodically to ensure it accurately reflects the organization's structure.

Assignment of authority and responsibility: How authority and responsibility are assigned throughout the organization and the associated lines of reporting has an impact on controls. For example, a bank may require that two officers sign all cheques written for more than a certain amount. Computer users are only allowed to access certain parts of the accounting system. Responsibility and delegation of authority should be clearly assigned. How responsibility is distributed is usually written in formal company policy manuals. These manuals describe policies such as business practice, employee job responsibilities, duties and constraints (including written job descriptions). The auditor should consider whether management may have established a formal code of conduct but nevertheless acts in a manner that condones violations of that code or authorizes exceptions to it (Rick et al 2005).

Human resource policies and practices: The most important element of the control environment is personnel, which is why human resource policies and practices are essential. With trustworthy and competent employees, weakness in other controls can be compensated and reliable financial statements might still result. Honest and efficient people are able to perform at a high level even when there are few other controls to support them. A company should take care in hiring, orientation, training, evaluation, counseling, promotion, compensating, and remedial actions. Recruiting practices that include formal, in-depth employment interviews and evidence of integrity and ethical behavior results in hiring high quality employees (Rick et al 2005).

2.2.1.1.2RISK ASSESSMENT

Risk Assessment as it relates to the objective of reliable financial reporting, involves identification and analysis of the risk of material misstatement. Establishment of financial reporting objectives articulated by a set of financial statement assertions for significant accounts is a precondition to the risk assessment process. Risk assessment in small businesses can be relatively efficient, often because in-depth knowledge of the company's operations enables the owner and management to have first-hand information of where risks exist ((Thomas 2009).

Preparing to Assess Risk

Management should first ensure that it has identified all the operational and control objectives throughout the organization. Control objectives are generally derived from the four purposes of internal control (which would be discussed as we further into this study) and are stated in terms that reflect the responsibilities of the organization's sub-units.

After identifying all the operational and control objectives, managers should identify all the risks associated with each objective (i.e. the events that would threaten the accomplishment of each objective). These risks can be both internal (e.g. human error, fraud, system breakdowns) and external (e.g. changes in legislation, natural disasters). It is essential that managers within the organization identify the risks associated with their respective objectives (Thomas 2007).

Risk Assessment Process

Management should evaluate each identified risk in terms of its impact and likelihood of occurrence. **Impact** is the effect an unfavorable event would have on the organization if the event was to occur. This effect could be some type of harm or an opportunity that would be lost. If possible, this effect should be quantified. At the very least, this effect should be described in terms that are specific enough to indicate the significance of the risk. **Likelihood of occurrence** is the probability that an unfavorable event would occur if there were no control activities (as described in the following section) to prevent or reduce the risk. A likelihood of occurrence should be estimated for each identified risk (Thomas 2007).

Internal and external business risk

Risks to the organization may arise from external or internal factors. Externally, technological developments can affect the nature or timing of research and development, or lead to changes in procurement. Changing customer needs affect product development, pricing, warranties, and services. New legislation and regulation can force change in operating policies and strategies. Economic changes have an impact on decisions relating to financing, capital expenditures, and expansion. Risks arising from internal factors might include a disruption of information systems processing; the quality of personnel and training; changes in management responsibilities; misappropriation of opportunities due to the nature of the entity's activities or employee accessibility to assets, and an ineffective audit committee.

Conditions that may increase risk

Certain conditions may increase risk and deserve special consideration (Rick et al 2005).
These conditions are:

- Changed operating environment
- New personnel
- New or revamped information systems
- Rapid growth
- New technology
- New lines, Products and activities
- Corporate restructuring
- Foreign operations

2.2.1.1.3 CONTROL ACTIVITIES

Control activities are tools - both manual and automated - that help identify, prevent or reduce the risks that can impede accomplishment of the organization's objectives. Management should establish control activities that are effective and efficient. When designing and implementing control activities, management should try to get the maximum benefit at the lowest possible cost (Thomas 2007). Here are a few simple rules to follow:

- The cost of the control activity should not exceed the cost that would be incurred by the organization if the undesirable event occurred.
- Management should build control activities into business processes and systems as the processes and systems are being designed. Adding control activities after the development of a process or system is generally more costly.
- The allocation of resources among control activities should be based on the significance and likelihood of the risk they are preventing or reducing.

Many different control activities can be used to counter the risks that threaten an organization's success. Most control activities, however, can be grouped into two categories namely:

- Prevention control activities
- Detection control activities

Prevention activities are designed to deter the occurrence of an undesirable event. The development of these controls involves predicting potential problems before they occur and implementing ways to avoid them.

Detection activities are designed to identify undesirable events that do occur, and alert management about what has happened. This enables management to take corrective action promptly. Note: **Prevention controls** tend to be more expensive than **detection controls**. Costs and benefits should be assessed before control activities are implemented. Management should also remember that an excessive use of **prevention controls** can impede productivity.

Other control activities are:

- Corrective controls;
- Directive control and;
- Performance controls.

The above mentioned control activities would be explained in accordance with Andrew Chambers below:

Corrective controls: To correct undesirable outcome that has been realized. Examples are the design of contract terms to allow recovery of overpayment, or contingency planning for business continuity/recovery after events which the business could not avoid.

Directive controls: To ensure that particular outcome is achieved or undesirable event is avoided. Examples are requirement that protective clothing be won, or that staff be trained with required skills before working unsupervised.

Performance controls: To orientate and motivate the organization's people to focus on the achievement of targets that is appropriate for the achievement of objectives. Examples are dispatching all orders on the day of receipt of order, or allowing that less than 2% of production should fail quality checks.

Control procedures (sometimes called "control activities") are policies and procedures that help ensure management directives are carried out. They also help to ensure that necessary actions are taken to address risks to the achievement of the entity's objectives for operations, financial reporting, or compliance. Generally, control procedures fall into four broad categories namely: **Performance reviews; Information processing; Physical controls and; Segregation of duties**

The above will be briefly explained below according to (Rick et al 2005):

Performance reviews: These are independent checks on performance by a third party not directly involved in the activity. Sometimes called internal verification, these reviews include reviews of actual performance versus budgets; surprise checks of procedures; periodic comparisons of accounting records and physical assets; and a review of functional or activity performance. An example of surprise check would be to pull the time cards at the beginning of a shift and see that everyone who is 'punched in' is present. A routine comparison of accounting records and physical assets is a bank reconciliation performed by a person independent of the accounting records and handling of cash. A review of functional or activity performance would be a bank's consumer loan manager's review of reports by branch, region, and loan type or loan.

Information processing: Information processing control procedures are primarily of two types: **application controls** and **general controls.** Application control are controls that apply to applications that initiate, record, process, and report transaction (such as MS Office, SAP, QuickBooks), rather than the computer system in general. Examples of application controls are edit checks of input data, numerical sequence checks, and manual follow-up of exception reports. In manual systems, application controls may be referred to as adequate document and record controls. General controls are policies and procedures that relate to many applications and support the effective functioning of application controls by helping to ensure the continued proper operation of information systems. Some examples of general controls are controls over data center and network operations, controls over system software acquisition, controls over access to the computer software (password controls), change and maintenance controls, access security, and application system acquisition and development controls. A good example of a general control in accounting software is an error message if there is a problem in using the operating system (e.g. "please insert a CD-ROM in Drive D"). In manual systems, general controls are controls over proper authorization of transactions and activities.

Physical controls: These are procedures to ensure the physical security of assets. Assets and records that are not adequately protected can be stolen, damaged, or lost. In highly computerized companies damaged files could be costly or even impossible to replace. For these reasons only individuals who are properly authorized should be allowed access to the company's assets. Direct physical access to assets may be controlled through physical precautions, for example storerooms guard inventory against pilferage locks, fences and guards protect other assets such as equipment, and fireproofs safes and safety deposit vaults protect assets such as currency and securities.

Segregation of Duties: This seeks to prevent persons with access to readily realizable assets from being able to adjust the records and thereby control those assets. Duties are divided, or segregated, among different people to reduce the risks of error or inappropriate actions. For instance, responsibilities for authorizing transactions, recording them, and handling the related assets (called custody of assets) are divided. Segregation of duties entails three fundamental functions that must be separated and adequately supervised:

Authorization is the delegation of initiation of transactions and obligations on the company's behalf.

Custody is physical control over assets or records

Recording is the creation of documentary evidence of a transaction and its entry into the accounting records.

2.2.1.1.4INFORMATION AND COMMUNICATION

This component encompasses the identification and flow of information within an entity in a way that enables people to perform their roles and discharge their responsibilities. The accounting system is the part of the information system that is mostly directly relevant to financial reporting objectives. The accounting system consists of the procedures established, including electronic means to transit, process, maintain, and access information, as well as the documents produced as a result of those procedures. These procedures and documents help management operate the business effectively and enable it to prepare reliable financial statements. For example, the way in which a purchase transaction is initially recorded and posted to ledger accounts is part of the accounting system (Vincent et al 1999):

An organization uses an array of information. The information systems used by companies include the accounting systems; production system; budget information; personnel system; systems software; applications software for word processing; calculating, presentations, communications, and databases; and all the records and files generated by this software such as customer and vendor records. The information system also includes information about external events, activities and conditions necessary to make informed business decisions and comply with external reporting (Rick et al 2005).

2.2.1.1.5MONITORING

Internal control systems need to be monitored, which is a process that assesses the quality of the system's performance over time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two. Managers of many smaller businesses have high-level first-hand knowledge of company activities, and their close involvement in operations position them to identify variances from expectations and potential inaccuracies in reported financial information (Thomas A. Ratcliff 2009).

2.2.1.2 LIMITATIONS OF INTERNAL CONTROLS

Internal controls are essential features of any organization that is run efficiently. However, it is important to realize (especially for an auditor) that internal controls have inherent limitations (Millichamp 2002).
Some of the limitations inherent to internal controls are:

- Human Judgment: This can limit the effectiveness of internal controls. Management makes business decisions based on the information at hand and under time constraints. With hindsight, these decisions may produce less than desirable results.
- A requirement that the cost of an internal control is not disproportionate to the potential loss which may results from its absence.
- Internal controls tend to be directed at routine transactions. The one-off or unusual transaction tends not to be the subject of internal control.
- Potential human error caused by stress of work-load, alcohol, carelessness, distraction, mistakes of judgment, cussedness, and the misunderstanding of instructions.
- The possibility of circumvention of controls either alone or through collusion with parties outside or inside the entity.
- Abuse of responsibility
- Management override of controls: This means management overrules prescribed policies or procedures for illegitimate purposes with the intent of personal gain or to enhance the presentation of financial statements. Override practices include deliberate misrepresentations to regulators, lawyers, accountants, and vendors.
- Changes in environment making controls inadequate
- Human cleverness-however secure the computer code design to prevent access, there is always some hacker who gets in!
- Fraud: This is a broad legal concept, and involves intentional illegal acts that generally cause misstatement in the financial statements. Internal control systems implementation is part of management's fiduciary responsibilities to prevent fraud and abuse by insiders.

2.2.2 CONCEPT OF PERFORMANCE

Controversy can arise from the outset over how to define performance. Much of the literature implies that 'performance is an objective phenomenon, consisting of a set of attributes of a program and its measurable impacts on the society'. In reality, however, performance is a social construct. The interpretations and measures of performance arises as much, if not more, out of an interactive process among individuals and institutions, as they do out of theories of programs and data generation and analysis. As Rob Paton writes, 'performance is what those people centrally involved in and concerned about an organization (Paul 2004).
Performance can be defined as the results of activities of an organization or investment over a given period of time (Investors words, 2013).
Performance can also be referred to as the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost, and speed. In a contract, performance is deemed to be the fulfillment of an obligation, in a manner that releases the performer from all liabilities under the contract (Business Dictionary 2013).
According to (Lifehack 2007), performance is getting the job done. Producing the result that one aimed at.

2.2.3 RELATED CONCEPTS

According to Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS, 2003), not only is there a variety of Internal Control definitions, but there are also some issues that are particularly closely linked to Internal Control, these are:

- Corporate Governance;
- Internal Audit and;
- Enterprise Risk Management.

The boundaries are not always clearly established, however, these elements have their own identity.

2.2.3.1 CORPORATE GOVERNANCE

This can be defined as a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined. Good Corporate governance should provide proper incentives for the board and management to pursue objectives that are in the interests of the company and shareholders and should facilitate effective monitoring, thereby encouraging firms to use resources more efficiently.

Taking into account that the board and management are responsible for establishing and maintaining an appropriate system of Internal Controls, Internal Control will be affected by the way the undertaking is managed, and therefore by Corporate governance. There is a link between Internal Control and the way an entity is managed, whether in a positive or a negative way, thus Internal Control should be seen as a core part of corporate governance. In its case study analysis, the London Working Group found that poor management was a key underlying factor in the failure or near failure of many European insurance companies.

2.2.3.2 INTERNAL AUDIT

Internal audit functions add value to an organization's internal control system by bringing a systematic, disciplined approach to the evaluation of risk and by making recommendations to increase the effectiveness of risk management efforts; improve the internal control structure and promote good corporate governance (Thomas 2007).

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (Mark 2012).

The Internal Audit definition provides a clear idea of the links between it and Internal Control. It designates Internal Audit an essential assessment function as well as being central to increasing the effectiveness of the internal control processes. While internal control is about helping a firm to meet its objectives, internal audit is about ensuring that its risk management and internal control systems are working properly.

2.2.3.3 ENTERPRISE RISK MANAGEMENT

This can be defined as a process, affected by the entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite to provide reasonable assurance regarding the achievement of entity's objectives.

Risk management is about understanding the nature (i.e. causes, effects, likelihood) and significance of the risks faced by a firm. It is also about deciding on acceptable levels for these risks and designing cost-effective control and/or resilience strategies (i.e. strategies to help manage the impact of risk on the firm). The aim of the last stage is to ensure that the firm's risks are kept at an acceptable level.

Internal control is about understanding and controlling risk, as well as acting as a monitoring function. The primary purpose of internal control is to continuously evaluate whether a firm is meeting its objectives and to ensure that the board, managers and employees are all working to ensure the success of these strategies while keeping the level of risk at an acceptable level. In so doing a sound system of internal control should be able to reduce (but rarely eliminate) poor judgment in decision making; human error; the deliberate failure to follow control processes by employees and managers; and the impact of unexpected events.

Internal control and risk management are close complements. A firm should use its risk management systems to help assess potential opportunities and threats to its objectives. There are also many different risk management tools with the same purposes than Internal Control, such as loss prevention, loss reduction and risk financing tools that may be used to ensure that the firm continues to meet its objectives.

2.3 THEORETICAL FRAMEWORK OF THE STUDY

2.3.1. THE AGENCY THEORY

Agency Theory describes firms as necessary structures to maintain contracts, and through firms, it is possible to exercise control which minimizes opportunistic behaviour of agents. Accordingly, Barlie and Means (1932) posit that in order to harmonize the interests of the agent and the principal, a comprehensive contract is written to address the interest of both the agent and the principal. They further explain that the relationship is further strengthened by the principal employing an expert to monitor the agent. This position is also supported by Coarse (1937) who maintains that the contract provides for conflict resolution between the agent and principal, the principal determines the work and agent undertakes the work. He however, proposes that the principal suffers shirking which deprives him or her from benefiting from the work of the agent. Nevertheless, the theory recognizes the incomplete information about the relationship, interests or work performance of the agent described as adverse selection and moral hazard. Coarse (1937) explains that moral hazard and adverse selection affects the output of the agent in two ways; not doing exactly what the agent is appointed to do, and not possessing the requisite knowledge about what should be done. This therefore, affects the overall performance of the relationship as well as the benefits of the principal in form of cash residual. Other related reviews include; The Sarbanes-Oxley Act of 2002 (SOX) which requires companies to report on the effectiveness of their internal controls over financial reporting as part of an overall effort to reduce fraud and restore integrity to the financial reporting process. John J. Morris (2011) assert that software vendors that market Enterprise Resource Planning (ERP) systems have taken advantage of this new focus on internal controls by emphasizing that a key feature of ERP systems is the use of “built-in” controls that mirror a firm’s infrastructure. They emphasize these features in their marketing literature, asserting that these systems will help firms improve the effectiveness of their internal controls as required by SOX. Internal control is one of many mechanisms used in business to address the agency problem. Others include financial reporting, budgeting, audit committees, and external audits (Jensen and Payne 2003).

Studies have shown that internal control reduces agency costs (Abdel-khalik1993; Barefieldetal.1993), with some even arguing that firms have an economic incentive to report on internal control, even without the requirements of SOX (Deumes and Knechel 2008). Their argument assumes that providing this additional information to the principal (shareholder) about the behaviour of the agent (management) reduces information asymmetry and lowers investor risk and, therefore, the cost of equity capital. Other research has found that weaknesses in internal controls are associated with increased levels of earnings management (Chan*etal.*2008; Ashbaugh *et.al.* (2008). Earnings management is the agency problem that motivated SOX legislation in the first place, specifically earnings manipulation by Enron, WorldCom, etc. Internal control shave played a major role in moderating the agency problem incorporations for many years. Accordingly, Samson *et.al* (2006) documents several internal control procedures used by the Baltimore and Ohio Railroad as early as1831.

2.3.2 ORGANIZATIONAL THEORY

Organization theory explains the dynamics of business organizations, including the ways they exercise control for the attainment of set objectives. Modern organization theory, which has its roots in sociology, is grounded on concepts that were developed during the Industrial Revolution in the late 1800s and early 1900s. The origin of the theory was the idealized organizational structure research of German sociologist and engineer, Max Weber (1864-1920), who theorized that work should be guided by rules, policies, and procedures (Houghton, 2010). Weber based his model theory on legal and absolute authority, logic, and order. Among other important contributors to organization theory was Henri Fayol (1845-1925), who identified strategic planning and employee guidance through policies and procedures as key functions of management in creating and nourishing a successful organization (Pryor and Taneja, 2010). According to Laszlo and Dunsky (2010), organization theory provides an interdisciplinary focus on such issues as performance, success, and survival of business organizations, among others, noting that the ultimate goal of the theory is to maximize the achievement of corporate objectives through the active involvement of all levels of the organization. Therefore, research in this area mainly examines internal control in the context of organizational effectiveness and performance.

Organization theory has been used in some past research studies relating to internal control. In their study involving senior executives at 50 companies in the United States, Mautz*etal.* (1980) used this perspective and found that internal control was seen as an important responsibility of management. Similarly, Feng, Li, and McVay (2009) examined the relationship between internal control quality and the accuracy of management guidance, and found that internal control quality has an economically significant effect on internal management reports and decisions. Daft, Murphy, and Willmott (2011) stated that organization theory provided a mechanism by which resources are directed, monitored, and measured. Well managed, organization theory can leverage maximum productivity and revenue from the different capacities within the organization. Poorly managed, however, organization theory can result in the loss of proper systems of internal control.

2.4 EMPERICAL REVIEW

According to Angella, A. and Eno, L. I. (2009) in their research work “Evaluation of Internal Control Systems”, they concluded that monitoring of operations ensures effective functioning of internal controls and thus when there is effective internal control system it would have a positive impact on the performance of an organization.

Evaluating internal controls requires measurement of minor independent variables to identify and locate weakness in the major independent variables of the internal control systems.

However, Olaoye, C. O. (2009) who examined "Impact of internal control system in banking sector in Nigeria" concluded that the prevention and detection of frauds are basically the responsibility of the management, through the establishment of an effective and efficient internal control system.

Lastly, as concluded by (Faudziah, H. F. et al (2005) performance of audit work and audit reporting significantly influences the control activities aspect of the internal control system as control activities are policies and procedures that management established to meet its objectives for financial reporting.

3.0 METHODOLOGY

3.1RESEARCH DESIGN

A research design is a grand plan of approach to a topic (Sue 2008). It can also be referred to as the overall strategy that you choose to integrate the different components of the study in a coherent and logical way. It constitutes the blueprint for the collection, measurement, and analysis of data (USC libraries, 2013). The research design used in this study is the survey design. It is a research design that attempt to describe and explain conditions of the present by using many subjects and questionnaires to fully describe a phenomenon. Hence, the study covered members of staff of three (3) distribution companies in Nigeria.

3.2 POPULATION & SAMPLE SIZE OF THE STUDY

Population can be referred to as the full universe of people or things from which the sample is selected (Dr. Sue Greener, 2008). The population of the study includes all Electricity Distribution Companies in Nigeria.

However, adopting a non-probability (simple random) sampling technique, the study covered members of staff of three (3) distribution companies in Nigeria.

The study is however limited to just two (2) regions in Nigeria (that is, the Northern, and Western regions). For the Northern region, the research covered just one (1) Distribution Company which is Kano Electricity Distribution Company in Kano State (which covers Kano, Katsina and Jigawa business units). For the western region, the research covered two (2) distribution companies namely: Ikeja Electricity Distribution Company in Lagos state and Ibadan Electricity Distribution Company in Oyo state (which covers Ibadan, Ijebu – Ode and Abeokuta business units).

The sample size taken from the population is a total of one-hundred and twenty (120) members of staff of the three (3) distribution companies. That is, forty (40) samples from each distribution company.

3.3 SOURCES OF DATA

Data collected and used in this study were both primary and secondary. The secondary data are obtained from textbooks, journals and the Nigerian Electricity Regulatory Commission publications. The primary data was obtained from a well structured research questionnaire developed by the authors. The main instrument is an eighteen item likert questions which measures Internal Control System and Performance of Electricity Distribution Companies in Nigeria. Response for the statements was therefore keyed using five point scale of 5 - Strongly Agree; 4 - Agree; 3 - Undecided; 2 - Disagree; 1 - Strongly Disagree. The instrument was pilot tested to determine its validity and reliability.

3.4 DATA ANALYSIS

The data collected from the questionnaire were analysed using descriptive and Chi-square. Excel software helped to transform the variables into format suitable for analysis, after which the Statistical Package for Social Sciences (SPSS) was utilized for data analysis.

4.0 RESULTS OF FINDINGS & DISCUSSION

This section of the study provides the results from the analysis of data using the Statistical Package for Social Sciences (SPSS) and the discussion of findings based on the results obtained from the statistical analysis.

Hypothesis 1:

H_{0_1}: Weak internal control system cannot reduce the overall performance of electricity distribution companies in Nigeria.

Table 4.1: Test Statistics

	Weak internal control system cannot reduce the overall performance of electricity distribution companies in Nigeria
Chi-Square	115.620[a]
Df	26
Asymp. Sig.	.000

Source: SPSS computation (2013

INTERPRETATION:

The test statistics table above shows that the chi-square value obtained is 115.620 with 26 degree of freedom and a significance level of 0.001 which falls below the stipulated 0.05 level of significance i.e. $p<0.05$ which shows that the difference between the observed and expected value is significant. Also, the chi calc of 115.620 is greater than the chi tab of 38.9.This means that we reject $H_O$and accept H_A, meaning that “Weak internal control system can reduce the overall performance of Electricity Distribution Companies in Nigeria”.

Hence, if the overall performance of Electricity Distribution Companies in Nigeria is to be improved, strong internal control systems have to be put in place in each of the companies.

Hypothesis 2

H_{O_2}: Effective internal control system does not have significant impact on service delivery.

Table 4.3: Test Statistics

	Effective internal control system does not have significant impact on service delivery
Chi-Square	116.397[a]
Df	21
Asymp. Sig.	.000

Source: SPSS computation (2013)

INTERPRETATION:

The test statistics table above shows that the chi-square value obtained is 116.397 with 21 degree of freedom and a significance level of 0.001 which falls below the stipulated 0.05 level of significance i.e. $p<0.05$ which shows that the difference between the observed and expected value is significant. Also, the chi calc of 116.397 is greater than the chi tab of 32.7.This means that we reject H_O and accept H_A, meaning that “Effective internal control system have significant impact on service delivery”.

Hence, for the services provided by the Nigerian Electricity Distribution Companies to improve, effective internal control system must be in place.

Hypothesis 3

H_{O_3} : Effective internal control system does not have significant impact on revenue generation.

Table 4.5: Test Statistics

	Effective internal control system does not have significant impact on revenue generation
Chi-Square	30.403[a]
Df	13
Asymp. Sig.	.004

Source: SPSS computation (2013)

INTERPRETATION:
The test statistics table above shows that the chi-square value obtained is 30.403 with 13 degree of freedom and a significance level of 0.004 which falls below the stipulated 0.05 level of significance i.e. $p<0.05$ which shows that the difference between the observed and expected value is significant. Also, the chi calc of 30.403 is greater than the chi tab of 22.4.This means that we reject H_O and accept H_A, meaning that "Effective internal control system have significant impact on revenue generation".
Hence, it is advisable for the Electricity Distribution Companies in Nigeria to have effective internal control system in place so as to have controls over their revenue generation.

5.0 CONCLUSION AND RECOMMENDATIONS

The purpose of this study is to "evaluate internal control system and the performance of Electricity Distribution Companies in Nigeria". Internal control system whether weak or strong has significant impact on the overall performance of Electricity Distribution Companies in Nigeria as well as their service delivery and revenue generation. Thus, it is concluded that lack of effective internal control system in Nigeria Electricity Distribution Companies is one of the major cause of poor service delivery to the members of the public and as a result of this; the revenue they obtain from the services cannot sustain them. The management of every Electricity Distribution Company in Nigeria should create and establish a standard internal control system that is strong enough to enhance efficiency and effectiveness in the area of their service and to increase profitability. Thus, performance is the accomplishment of a given task measured against preset known standards of accuracy, completeness, cost and speed.

A system of internal control is put in place to keep the organizations on course towards good customers' service delivery, profitability, goals and achievement of their missions and to minimize losses and inefficiencies to the lowest along the way. The internal control provides reasonable assurance to the management and the board of directors that an organization is achieving its objectives. But this assurance does not mean that internal control cannot fail.

The internal control system is composed of five (5) interrelated components which are the control environment; risk assessment, control activities, information and communication and; monitoring. These components are derived from the way management runs a business and are integrated with the management process. The internal control components are needed to achieve the objectives of an organization. Thus, there is a close relationship between an entity; its objectives as well as the internal control components.

In a situation where there is weakness in an organization's internal control system which is usually detected after the audit exercise carried out by the external auditor, a management letter also known as letter of weakness is addressed by the auditor to the organization, signifying areas of weakness in the organization internal control system and recommendations to curb such weakness.

On the basis of the above conclusion, the study recommends the following:

1) The internal audit department or section of the company should render their duty in an efficient, effective, transparent and accountable manner.
2) Empowering and improving the independency of internal auditors and employing highly competent and qualified personnel in the company.
3) Honesty and truthfulness must be tools for effective internal auditing.
4) The company should adhere strictly to the principle of internal check.
5) There should be high level of discipline among employees.
6) Reward should be given to good performance while punishment should be given to laziness.

7) Seminars, workshop and courses can be organized in order to give personnel effective training for better understanding of their job and an employee's promotion to a particular position should be based on merit.
8) There should be strong supervision, serious and effective evaluation of activities.
9) There should be frequent internal audit check to avoid fraud and mismanagement.
10) Every transaction in the company should have strict authorization limit.

RECOMMENDATIONS FOR FURTHER STUDY

Having carried out a research work on internal control system and performance of Electricity Distribution Companies in Nigeria, the researcher suggests further study that can be carried out in Nigeria Electricity Service Industry (NESI). Further studies can also be carried out under Corporate Governance; Internal Audit and; Enterprise Risk Management in Nigeria.

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Table 1: Chi-square table for the first Hypothesis

	Observed N	Expected N	Residual
Strongly agreed	50	39.9	10.1
Strongly agreed	38	39.9	-1.9
Strongly agreed	44	39.9	4.1
Strongly agreed	25	39.9	-14.9
Strongly agreed	59	39.9	19.1
Strongly agreed	22	39.9	-17.9
Agreed	48	42.7	5.3
Agreed	39	42.7	-3.7
Agreed	40	42.7	-2.7
Agreed	30	42.7	-12.7
Agreed	39	42.7	-3.7
Agreed	58	42.7	15.3
Undecided	2	9.7	-7.7
Undecided	8	9.7	-1.7
Undecided	12	9.7	2.3
Undecided	18	9.7	8.3
Undecided	1	9.7	-8.7
Undecided	17	9.7	7.3
Disagreed	3	10.1	-7.1
Disagreed	17	10.1	6.9
Disagreed	7	10.1	-3.1
Disagreed	25	10.1	14.9
Disagreed	2	10.1	-8.1
Disagreed	6	10.1	-4.1
Strongly disagreed	1	1.3	-.3
Strongly disagreed	5	1.3	3.7
Strongly disagreed	2	1.3	.7
Total	618		

Source: SPSS computation (2013)

Table 2: Chi-square table for the second Hypothesis

	Observed N	Expected N	Residual
Strongly agreed	58	43.4	14.6
Strongly agreed	56	43.4	12.6
Strongly agreed	16	43.4	-27.4
Strongly agreed	41	43.4	-2.4
Strongly agreed	40	43.4	-3.4
Agreed	40	39.9	.1
Agreed	37	39.9	-2.9
Agreed	31	39.9	-8.9
Agreed	54	39.9	14.1
Agreed	32	39.9	-7.9
Undecided	5	9.9	-4.9
Undecided	7	9.9	-2.9
Undecided	18	9.9	8.1
Undecided	7	9.9	-2.9
Undecided	11	9.9	1.1
Disagreed	2	10.3	-8.3
Disagreed	30	10.3	19.7
Disagreed	1	10.3	-9.3
Disagreed	17	10.3	6.7
Strongly Disagreed	1	2.5	-1.5
Strongly Disagreed	8	2.5	5.5
Strongly Disagreed	3	2.5	.5
Total	515		

Source: SPSS computation (2013)

Table 3: Chi-square table for the third Hypothesis

	Observed N	Expected N	Residual
Strongly agreed	56	50.2	5.8
Strongly agreed	54	50.2	3.8
Strongly agreed	40	50.2	-10.2
Agreed	37	37.2	-.2
Agreed	42	37.2	4.8
Agreed	32	37.2	-5.2
Undecided	7	7.7	-.7
Undecided	5	7.7	-2.7
Undecided	11	7.7	3.3
Disagreed	2	7.0	-5.0
Disagreed	2	7.0	-5.0
Disagreed	17	7.0	10.0
strongly disagreed	1	1.3	-.3
strongly disagreed	3	1.3	1.7
Total	309		

Source: SPSS computation (2013)