# EFFECT OF INTERNAL CONTROL SYSTEM ON ORGANIZATIONAL PERFORMANCE OF DEPOSIT MONEY BANK IN NIGERIA

(A Case Study of Wema Bank Plc Sagamu, Ogun State)

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**Abstract:**
*This study investigated the functionality of each of the three internal control components, effectiveness of the control system and its relationship with organizational performance. Sample size for this research was 210 respondents comprising of employees from 6 Banks in Nigeria. In this study, internal control was measured by three components whereas organizational performance was measured through performance. The financial statements of the sample banks for a period of five years were used. Data were analyzed using the Statistical Package for Social Scientists (SPSS). The statistical methods of correlation and one-way ANOVA were used for the testing of the research hypotheses. The results showed that control environment as a proxy for internal control had a significant positive effect on the performance of deposit money banks in Nigeria. The results further showed that the risk management as a proxy for internal control had a significant positive effect on efficiency of deposit money banks in Nigeria. In addition, the results showed that the information and communication system as a proxy for internal control had a significant positive effect on efficiency of deposit money banks in Nigeria. Hence it was concluded that internal control effectiveness has a positive relationship with the financial performance of the Deposits Money Banks. The detailed evaluation and understanding of the internal control system effectiveness and its components provided valuable insights to managers and employees of how they could manage or improve their control systems in order to achieve greater operational as well as organizational performance.*

**Keywords:** *Financial; Bank; Deposit; Performance; Organizations*

## Introduction / Background Study

Banking institutions occupy a central position in the nations' financial system and are essential agents in the development process of the economy. By intermediating between the surplus and deficit spending units, banks increase the quantum of national savings and investments and hence national output. By granting credits, banks create money, thus influencing the level of money supply which is an essential item in the growth of national income as it determines the level of economic activities in the country. Banks are central to the payments system by facilitating economic transactions between various national and international economic units and by so doing encourage and promote trade, commerce and industry. For banks to be able to function effectively and contribute meaningfully to the development of a country, the industry must be stable, safe and sound. And for these conditions to be obtained there must be a sound accounting system, which is occasioned by an internal control system. In view of the economic growth in companies' size and complexities, proper management of modern business undertakings are not possible unless they have an effective system of internal control. The need for the internal control systems in organizations, especially banks, cannot be undermined, due to the fact that the banking sector, which has a crucial role to play in the economic development of a nation, is now being characterized by macro-economic instability, slow growth in real economic activities, corruption and the risk of fraud. Fraud, which is the major reason for setting up an internal control system, has become a great pain in the neck of many Nigerian bank managers. It has also become an unfortunate staple in Nigeria's international reputation. Fraud is really eating deep into the Nigerian banking system and that any bank with a weak internal control system, is dangerously exposed to bank fraud. In a nut-shell, the damage which this menace, called fraud has done to the banks is innumerable and needs urgent attention. Therefore, the attempt to put an end to this economic degradation, gave rise to the topic of this study the effect of internal control on organizational performance in the banking sector with Wema Nigeria PLC, Nigeria as a case study. However, this study is aimed at verifying the conception that an effective and efficient internal control system is the best control measure for preventing and detecting fraud, especially in the banking sector.

Internal control is the methods employed to help ensure the achievement of an objective. Internal controls are policies, procedures, practices and organizational structures implemented to provide reasonable assurance that an organization's business objectives will be achieved and undesired risk events will be prevented or detected and corrected, based on either compliance or management initiated concerns. Enforcement of internal controls should be designed to promote operational efficiency and effectiveness, provide reliable financial information, safeguard assets and records, encourage adherence to prescribed policies, and comply with regulatory agencies. A sound internal control will ensure that transactions are: valid, properly authorized, recorded, properly valued, properly classified, reconciled to subsidiary records and not carried through by a single employee (i.e. ensure separation of duties)



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(Adeyemo, 2012). There have been incessant cases and stories been told about high frequency of fraud, embezzlement, overcharging, manipulation, missing files and ledger cards and other banking malpractices in banks today, with the management and shareholders not knowing how to handle the adverse situation. This situation has culminated in the lack of confidence by the staff, shareholders and customer over the performance of the banks. More so, with the proliferation of banks and also the increase in rural banking, with commercial bank's branches, the volume of accounting records has drastically increased, thereby necessitating the appraisal of the adequacy and reliability of records, and overall efficiency of operations. This study will consider the null hypothesis on the effect of internal control system on organization performance. $H_0$: Internal Control does not have significant impact on organizational performance at Wema Bank Plc. $H_0$: There is no significant relationship between internal control and organizational performance. Internal controls are established to achieve objectives that are interlinked to the general objectives of the organization; public or private. Internal control provides a standard against which business and other entities--large or small, in the public or private sector, for profit or not--can assess their control systems and determine how to improve them.

## Methodology

The research design chosen for this study is survey method. The survey research method was most appropriate because the researcher has no control of the variables as well as the outcome. The study used descriptive survey research design method. This method allows the researcher to collect data through the use of questionnaire and methods of data collection. The population of study is the census of all items or a subject that possess the characteristics or that have the knowledge of the phenomenon that is being studied (Asiaka, 2013). It also means the aggregate people from which the sample is to be drawn. The population of the study consists of the staff and customers of Wema Bank Plc. The entire staffs of the bank were considered in order to have adequate and relevant information on the role of accounting in the control of public expenditure in Nigeria. The population stands at one hundred and twenty (120) as at the time of this research work. A sample is a part of the population deliberately taken to represent the population of study. A sample size in other words, refers to the number of people or elements in a survey or in a sampling at any point in time. Sampling techniques is the name or other identification of the specific process by which the entities of the sample have been selected. The sample size consists of one hundred (100) staff and customers. Variables are measurement using an instrument, device, or computer. The scale of the variable measured drastically affects the type of analytical techniques that can be used on the data, and what conclusions can be drawn from the data. Sample size for this research was 210 respondents comprising of employees from 6 Banks in Nigeria. In this study, internal control was measured by three components whereas organizational performance was measured through performance. The financial statements of the sample banks for a period of five years were used. Data were analyzed using the Statistical Package for Social Scientists (SPSS). The statistical methods of correlation and one-way ANOVA were used for the testing of the research hypotheses. The research variable was measured using interval scales based on a five point Likert Scale ranging from Strongly Agree (5), Agree (4), Not Sure (3), Disagree (2) to Strongly Disagree (1) and ordinal measurement used. A five point likert scale was used so as to increase response rate and response quality along with reducing respondents' frustration level. Two variables were identified in this research work, these are: (i) Independent variable – Fiscal Policy; (ii) Dependent variable – Development of Nigerian Economy. Data collected was analysed using percentage and frequency table. This method was adopted because it is simple to examine the respondents data collected.

## Results and Discussion

Data analysis involves the organization and classification of processed data (Table 1) into some comprehensive (Table 2) with the aim of extracting relevant information. A total of one hundred and twenty questionnaires (120) were distributed and one hundred (100) which were properly filled and returned were used for the analysis using Raosoft sample size program. The results showed that control environment as a proxy for internal control had a significant positive effect on the performance of deposit money banks in Nigeria. This could be deduced from the regression analysis of the co-efficient and the probability value (B=0.946, P< 0.05). It implied that a unit change in control environment as an important proxy for internal control would lead to a 0.946 change in performance of listed deposit money banks in Nigeria. The results further showed that the risk management as a proxy for internal control had a significant positive effect on efficiency of deposit money banks in Nigeria. This could be deduced from the regression analysis of the co-efficient and the probability value (B=0.441634, P< 0.05). In addition, the result showed that the information and communication system as a proxy for internal control had a significant positive effect on efficiency of deposit money banks in Nigeria. This could be deduced from the regression analysis of the co-efficient and the probability value (B=0.035, P< 0.05). Hence it was concluded that internal control effectiveness has a positive relationship with the financial performance of the Deposits Money Banks.

Table 1 Respondent's Bio Data

| Description | | Frequency | Percentage |
|---|---|---|---|
| Sex | Male | 45 | 45 |
| | Female | 55 | 55 |



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|---|---|---|---|
| Age | 20-30 years | 47 | 47 |
| | 31-40 years | 35 | 35 |
| | 41 -50 years | 10 | 10 |
| | 50years above | 8 | 8 |
| Marital Status | Single | 50 | 50 |
| | Married | 36 | 36 |
| | Divorce / separate | 9 | 9 |
| | Widow | 5 | 5 |
| Work Experience | 1 – 5 years | 32 | 32 |
| | 6 – 10 years | 35 | 35 |
| | 11 – 15 years | 20 | 20 |
| | 16 – 20 years | 9 | 9 |
| | 21 years and above | 4 | 4 |
| Educational Background | SSCE/GCE/NECO | 23 | 23 |
| | ND/ NCE | 46 | 46 |
| | HND/B.sc/B.ED | 26 | 26 |
| | MBA/MSC | 5 | 5 |
| Position at work | Junior Staff | 42 | 42 |
| | Senior Staff | 24 | 24 |
| | Management | 34 | 34 |

Table 2: Data Analysis

| Description | Ranking | No. of Respondent | Percentage |
|---|---|---|---|
| Internal controls help to promote strong daily operations that produce high-quality goods and services at the lowest cost possible | Strongly Agreed | 50 | 50 |
| | Agreed | 35 | 35 |
| | Undecided | 10 | 10 |
| | Disagreed | - | - |
| | Strongly Disagreed | 5 | 5 |
| Every business decision comes with a certain amount of risk; avoiding or mitigating this risk is achieved through strong internal controls | Strongly Agreed | 35 | 35 |
| | Agreed | 40 | 40 |
| | Undecided | 5 | 5 |
| | Disagreed | 17 | 17 |
| | Strongly Disagreed | 3 | 3 |
| Companies use policies to ensure a safe and profitable business environment. | Strongly Agreed | 35 | 35 |
| | Agreed | 40 | 40 |
| | Undecided | 5 | 5 |
| | Disagreed | 17 | 17 |
| | Strongly Disagreed | 3 | 3 |
| Bank informs employees of these internal controls to ensure that the company's reputation is not tarnished as a result of improperly educated employees | Strongly Agreed | 37 | 37 |
| | Agreed | 45 | 45 |
| | Undecided | 5 | 5 |
| | Disagreed | 10 | 10 |
| | Strongly Disagreed | 3 | 3 |
| Internal control has significance relationship with organization performance. | Strongly Agreed | 40 | 40 |
| | Agreed | 50 | 50 |
| | Undecided | 2 | 2 |
| | Disagreed | 8 | 8 |
| | Strongly Disagreed | - | - |
| Many organization link internal controls to | Strongly Agreed | 45 | 45 |



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| performance evaluations for mid-level managers and other employees. | Agreed | 30 | 30 |
| | Undecided | 7 | 7 |
| | Disagreed | 8 | 8 |
| | Strongly Disagreed | 5 | 5 |
| Internal control helps in defending and protecting assets of the business entity | Strongly Agreed | 60 | 60 |
| | Agreed | 35 | 35 |
| | Undecided | - | - |
| | Disagreed | - | - |
| Internal Controls help to understand and mitigate risks. | Strongly Agreed | 40 | 40 |
| | Agreed | 50 | 50 |
| | Undecided | 5 | 5 |
| | Disagreed | 5 | 5 |
| | Strongly Disagreed | - | - |
| Internal Controls help to address financial statement assertions. | Strongly Agreed | 35 | 35 |
| | Agreed | 45 | 45 |
| | Undecided | 5 | 5 |
| | Disagreed | 5 | 5 |
| | Strongly Disagreed | 10 | 10 |
| Internal Controls help to prevent and detect fraud | Strongly Agreed | 45 | 45 |
| | Agreed | 40 | 40 |
| | Undecided | - | - |
| | Disagreed | 5 | 5 |
| | Strongly Disagreed | 10 | 10 |
| Promotion and transfer is fairly done in the organization. | Strongly Agreed | 40 | 40 |
| | Agreed | 35 | 35 |
| | Undecided | 14 | 14 |
| | Disagreed | 6 | 6 |
| | Strongly Disagreed | 5 | 5 |
| There are chances of getting ahead on this job. | Strongly Agreed | 45 | 45 |
| | Agreed | 30 | 30 |
| | Undecided | 14 | 14 |
| | Disagreed | 6 | 6 |
| | Strongly Disagreed | 5 | 5 |

Source: Researcher's field survey (2021)

**Internal Control System**

The responses from the field (Tables 1 and 2) were analyzed to know the effect of the internal control system on organisational performance The hypotheses indicate that there is significant relationship between internal control and organizational performance (Table 2). Also in analyzing the weakness in the internal control system and fraud in Wema Bank Plc, findings indicated that the internal controls used in Wema Bank Plc were ineffective and unsatisfactory. There is need to consider whether the following control objectives are met; management conveys the message that integrity and ethical cannot be compromised, the organization structure provides a moral framework for planning, directing, and controlling operations; management ensures that appropriate responsibility and delegation of authority is assigned to deal with goals and objectives and the Board of Directors and audit committee are sufficiently independent from management to construct a challenge to management decision and take an active role in ensuring that an appropriate "tone at the top exists". The findings revealed a low level of organizational performance in Wema Bank Plc. Findings are in agreement with study by Brown (2017) who argues that performance measures in organizations must focus attention on what makes, identifies and communicates the drivers of success, support organizations learning and provide a basis for assessment and reward. Furthermore, Dixion (2017) adds that appropriate performance measures are those which enable organizations to direct their actions towards achieving their strategic objectives. This is because a firm's performance is central to the future wellbeing and prosperity of any enterprise. Internal control can be judged effectively if the entity's operations objectives are being achieved and published. Organizational performances are being prepared, reliable and applicable laws and regulations are being complied with.

**Conclusion**



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The findings show that there is a significant relationship between internal control system and organizational performance of Wema Bank Plc. A system of effective controls is a critical component of bank management and a foundation for the safe and sound operation of banking organizations. A system of strong internal controls can help to ensure that the goals and objectives of a banking organization are met, that the bank will achieve long-term profitability targets, and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the bank will comply with laws and regulations as well as policies, plans, internal rules and procedures, and decrease the risk of unexpected losses or damage to the bank's reputation.

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