

Effects of Internal Control Mechanism on Corporate Governance: Evidence from Alternative Security Market in Nigeria

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Abstract

The focus of this study was to examine the effects of internal control mechanisms on corporate governance; evidence from alternative security market in Nigeria. Survey research design was employed, primary data were obtained from a structured questionnaire administered. One Hundred and Twenty-Four (124) respondents who were members of staff including the owners in the Alternative Security Markets known as quoted Small and Medium Enterprises, from which only Ninety – Two questionnaires were found usable. Responses were sought to two research questions, in relation to which two hypotheses were formulated and tested at 5% level of significance. The data collected were presented and analyzed using pie-chart, standard deviation, Levene Test of homogeneity of variance and ordinary least square method of regression analysis. Findings from the analyses revealed that with strong evidence that internal control systems have significant effect on board responsibility of quoted SMEs in Nigeria ($t=1.412$, $p < 0.05$) and that internal control systems have a strong response to board transparency of quoted SMEs too. ($t=1.672$, $p < 0.05$). It was in the light of the foregoing findings that the study concluded that internal control systems have significant effect on corporate governance of quoted SMEs in Nigeria. ($F=141.532$, $p\text{-value}=0.000$). The study recommended that both quoted and unquoted small and medium enterprises should improve their internal control system, as doing this would further improve board responsibilities, and board transparencies.

Keywords: Internal control system, Board responsibility, Board transparency, Corporate governance, Alternative security market.

JEL Classification: G34, M42, M49, N87

1.1 Introduction

Internal controls are measures established by businesses to protect the integrity of financial and accounting information, satisfy operational and productivity targets, and transfer administrative arrangements throughout the organization. (Ahmed and Muhammed, 2018; Shokoohi et al., 2015; Channar et al. 2015; Ngari, 2017; Eniola and Akinselure, 2016; Asiligwa, 2017; Hamed, 2009 and Bett and Memba, 2017).

Internal controls come full circle in the financial reporting trustworthiness that is, the dealings are documented, also all the transactions detailed are genuine, appropriately well-regarded, detailed on an opportune premise, appropriately arranged, and effectively summed up and posted (Savannah State University, no year). Hypothetically, an organization with successful ICS is relied upon to accomplish its goal proficiently, adequately and consequently, corporate governance despite the fact that an organization with feeble arrangement of internal control systems should encounter what is affirmed as deprived corporate governance. (Olumbe, 2012).

Harry, Kennedy and Mwengei (2018) sighted that Internal control is broadly considered as a way, inclined by a constituent's directors, management and senior managers, which intended to give workable announcement in respects to the achievement of goals in the conveying sessions; feasibility and usefulness of responsibilities, untiring quality of economic enlightening and consistence with relevant arts, laws and directions (Donald and Delno 2009). More so, internal auditing takes a significant dimensions within the ambits of corporate governance variety in private and public enterprises (Cohen, Krishnamoorthy, & Wright, 2009). Effectual organizations have virtuous as well as valuable IC that possibly will checkmate issues in the organization with the intention of corrective activities might be engaged. Internal Control is an important hint of effective and efficient management. These checks and balances ensure that top management takes corrective measures promptly (Onochie, 2005) cited by (Atu, Raph, Atu, & Osaratin 2014). Though, regardless of the propagation of the ideals of corporate governance as a whole companies still stall. Those unfortunate experiences have emphasized the delicate nature of the roles of management executives in maintaining good corporate governance. Thus such internal control mechanisms remain the elixir for attaining good corporate governance. In other words, these mechanisms can be viewed as the drive that enhances the transformation of organizational capabilities to create competitive edge (Drogalas, Pantelidis, Vouroutzidou & Kesisi, 2011). To Larcker et al., (2007), the financial reporting process can be strengthened when decision-makers can make independent resolutions devoid of ownership sentiments while taking cognizance of the corporate governance principles and practices. This separation of ownership latitude from the management authority reflects two dimensions for the organization. First, internal mechanisms could be implemented by the company's executives. Second, external auditors can hold their sway while conducting their assignments. The supervisory process has also been influenced by corporate governance matters. According to Nganga, Jain and Artivor, (2003) report, the global competitiveness of listed companies preceding the report has been enhanced.

Internal control (IC) measures are primarily used for creating assurances within the operational dynamics of the firm. This is the more reason why the correlation amid corporate governance (CG) and ICs is important. The essence of CG objectives lies on the control measures adopted

within the organization. The administration quandary concerning the way to create an environment friendly and positive internal manage gadget in mild of organization concept i.e. numerous involved events and its readiness, establish a venture to the first-class of a lot of internal manage structures in an organization sited by (Olumbe, 2012). There is an over focal point on the economic dimensions of corporate performance, with some interest being given to systematic overall performance and very little interest being paid to social dimensions of business enterprise performance. Ndemo and Makali (2008) examined the relationship between the measurement of the board of directors and the overall performance (measured by using the tobin's Q) of the enterprise and they did no longer locate a poor relation between the dimension of the board and the overall performance of the organization.

In order to take into account the endogeneity of the number of internal control systems of corporate governance, Ndibe (2010) has now evaluated the structure of the simultaneous equation model and has not found that the measurement of the board of directors has an impact on the overall success of the company. He concluded that the constraints on the calculation of the board of directors cannot be fruitful; it is further noted that this is contradictory to the findings of Ndemo and Makali (2008), thus creating a void which needs similar study as set out in the preceding paragraph. In addition, Ndibes (2010) points out that the board of directors of listed companies usually attend five instances in a year for this purpose, concluding that listed groups took the challenge of board conferences severely and that corporate governance changed, but in his literature review the researcher no longer found any collaboration of the same.

Previous studies examined, amazingly, considering the relevance of the theory, there are only a few reports on the corporate governance of company organizations such the Cadbury reports (1992), the Greenbury Report (1995), the Hampel Report (1998) etc.

The confidence of shareholders in managers can be enhanced through a transparent management of the financial and non-financial resources of the organization brought to the fore by a system of reliable financial reporting anchored on internal audit process. The want for creating sturdy governance constructions has led many researchers to have a look at the novel framework of corporate governance and to discover its relationship to the internal audit process (Drogalas, Arampatzis & Anagnostopoulou 2016).

1.2 Statement of problem

Quoted Small and Medium Enterprises (SMEs) also known as Alternative Security Market companies as classified in Nigeria Stock Exchange (NSE) had been observed to have collapsed as a result of weak internal control mechanisms due to corporate governance practices, hence the main aim to this study was to investigate the effect of Internal Control Systems on Corporate Governance practices of quoted Small and Medium Enterprises in Nigeria. The significant relationship between corporate governance, internal control system and insolvency crisis have linked up to the information, so a long way unknown about it. This discovery thus aims to fill this void by searching for answers to the issue of what is the connection between internal control systems and corporate governance? This study used standard deviation, Levene Test of homogeneity of variance and ordinary least square method of regression analysis. There is a need to point out why the moderating factors such as; control environment fault, hazard consciousness

blind spot, unsuitable handling of things to do and invalid super environment appear to be keenly at hand. This study examined internal control parameters as they influence corporate governance elements of quoted SMEs in Nigeria, the beneficiaries of this work would include SME owners, directors, managements, government, internal control officers/managers. The significance of the work would be used to ascertain whether internal control mechanism or elements such as control environments, control assessments, control activities, and monitoring activities do as they have effects on two major concepts of corporate governance which are board of directors responsibilities and transparencies with reference to quoted SMEs in Nigeria.

1.3 Objectives of the study

The main objective of this research work was to investigate the effect of internal control system (ICS) and corporate governance (CG) of listed SMEs in Nigeria, and the specific objectives were:

- i. to ascertain whether internal control systems affect board of directors responsibilities of quoted SMEs in Nigeria.
- ii. to determine if internal control elements affect board of directors transparencies of quoted SMEs in Nigeria.

1.4 Research Questions

The research questions answered were as follows:

- i. Do internal control systems affect board of directors responsibilities of quoted SMEs in Nigeria?
- ii. Do internal control systems affect board of directors transparencies of quoted SMEs in Nigeria?

1.5 Research Hypotheses

The research hypotheses tested were as follows:

H₀₁: Internal control systems do not affect board of directors responsibilities of quoted SMEs in Nigeria.

H₀₂: Internal control systems do not affect board of directors transparencies of quoted SMEs in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

2.1.1 Internal Control System

In October 1992, the Internal-Control-Integrated System was transmitted by COSO, which in 1985 involved the collective initiative of five private sector establishments as the American Accounting Association-AAA, Financial Executives International-FEI, American Institution of Certified Public Accountants-AICPA, Institute of Internal Auditors-IIA The Association of Accountants and Financial Practitioners in B The study was found to be commonly used by both the private and public areas as an overall accepted guide. In the COSO paper, Internal-Control is largely defined, portions of Internal-Control are clarified, what to do and what should not be done is explained under control, responsibilities and duties are communicated in the context of internal control. In May 2013, the study was reinvigorated because of changes. In the COSO

report, five Internal-Control system sections are reported as Control Climate, Risk Management, Control Operations, Information and Communication and Monitoring. The paper printed in 2013 contained seventeen (17) principles endorsing these 5 elements.

1. Control Environment

The elemental foundation of Internal-Control is the manipulate environment. This phenomenon includes the apt control technique to make sure the control of the Internal-Control device and powerful regulations of the pinnacle executives to precipitate the control philosophy in the organization according to (Arad and Jamshedy-Navid, 2009)

2. Risk Assessment

Arad and Jamshedy-Navid, (2009) asserted that companies are confronted with some of uncertainties in the manner of achieving the targets. Such uncertainties consist of the opportunity which could preclude the employer to acquire its dreams. Risk evaluation; is the manner of comparing and dealing with those elements after figuring out inner and outside damaging elements that could save you them from achieving the dreams in the manner of accomplishing the targets of the enterprise. The foundation for this evaluation will result in the invention of stages of various objectives. As an outcome of this endeavor, the dangers related to those objectives are introduced to the fore.

3. Control Activities

Every regulations and strategies advanced through the control and the control purpose to cast off the dangers that they will face in accomplishing their targets are with inside the scope of manipulate activities. Control activities are moves achieved at specific stages of the operator and at every level of the commercial enterprise manner stated by (Arad and Jamshedy-Navid, 2009). Control activities are proactive approach for mitigating the effects of larger dangers for the reason that capacity risks they pose were doused. The ICT technology has even necessitated the usage of virtual technological measures in the manner of evaluation.

4. Information & Communication

Disseminating the first-class information is vital for accomplishing the commercial enterprise functions to the involved events thru commercial enterprise or outside reasserts is a prerequisite for the wholesome go with the drift of commercial enterprise processes. While managers want information in decision-making processes, information is wanted on the decrease-stage group of workers so as for the selections taken through control to be applied through group of workers. It is likewise a crucial problem to set up a wholesome and green communicate community from pinnacle to backside and from backside to pinnacle with the purpose of directing employees particularly in the corporations (Arad and Jamshedy-Navid, 2009).

5. Monitoring Activities

The Internal-Control system is the entire of the activities completed for the reason of remodeling the device in line with the converting situations outside and inside the commercial enterprise through figuring out whether or not the operator operates in a designed way with the purpose of

accomplishing its targets and if vital figuring out the faulty factors and taking the vital precautions. Comparison is made among the cutting-edge popularity of the commercial enterprise and its popularity must be with the tracking sports asserted by (Arad and Jamshedy-Navid, 2009).

2.1.2 Corporate Governance

Corporate governance (CG) entails a collection of relationships between a company's management, its board, its shareholders and completely different stakeholders. Corporate governance in addition offers the form via that the goals of the organization which are set, and also the strategies of achieving these goals and measurement of overall performance are determined" (OECD, 2015). On the groundwork of these descriptions CG may be an administration philosophy that affords the steadiness of the blessings of those disturbed concerning the management, the top-quality utilization of running assets, process an administration structure that is below the standards of equity, transparency, answerability and accountability, developing a base for accomplishing the dreams of the administration. These underlying principles are motor assisted by legislative regulations. The issue of CG portends immense consequences for the money sector of any economy. Retention of public self-confidence is extremely very important given the performance of the region within the mobilization of capital, allocation of credit, the fee device and also the implementation of economic policies.

2.1.3 Principle of Corporate Governance

Corporate governance principles; cowl the thought of duty equity / equality precept that emphasizes honest and equitable cure to all or any rights holders, interior and exterior stakeholders, the transparency principle, which stipulates that everyone knowledge associated to the items to try to and interest effects of the agency have to be compelled to be disclosed to the general public in well-timed and proper manner, an answerability precept that expresses the duty to form integral disclosures to industrial enterprise pastime firms of those who management the commercial enterprise and are within the decision-making perform and process things to try to have to be compelled to be achieved within the framework of every law-breaking policies and social duty concept.

2.1.4 Corporate Governance and Structure Performance

Within the multi-dimensional nature of correct governance, the relation between corporate governance and overall organizational success lies. Corporate governance means ensuring that unethical industrial enterprise activities, doable civil and crooked liabilities or systemic deficiencies are dealt with through legislation and protective patrons. Corporate governance may be a life-size aspect of raising the confidence of customers, amplifying resistance, and growing financial growth. Corporate governance is that the way in which finance providers pledge themselves to receive a come-on financing is also very necessary to check whether or not there is a connection with arrangement over structure. The form of corporate governance specifies the allocation of rights and responsibilities between the distribution of stakeholders of an entity (such as the board of directors, managers, owners, and entirely separate stakeholders) and lays down rules and procedures for the formation of company decisions. This provides the

mechanism in which the priorities are defined and also the potential to meet these objectives and the overall performance of enforcement is calculated (OECD, 2004).

Sound corporate-governance performs a key perform in rising integrity and effectiveness in leader as properly as economic markets and institutions. the corporate plan (Jensen &Meckling, 1976) suggested that a high-quality correlation exists between structure overall performance and governance, that is, sound corporate-governance got to translate into accelerated operating overall performance and a larger market value, as higher observance forces insiders to form investments in tasks that have nice NPV's and to limit perks and wastes; in order that greater of the benefits waft lower back to outside investors. A latest cross-European ascertain concerning shows that increased corporate-governance rankings results in higher performance, whether or not or not market or debts based.

Levine (2004) argues that banks successfully mobilize related component assets until relevant corporate governance is in place; this, in essence, decreases the capital valuation of businesses, enhances capital formation and promotes growth in fruitfulness. The value of expanded corporate governance goes beyond a broader sense of private success or structural pride. In comparison, scholars at the University of Michigan Business School and a very different tutorial study determined an extraordinary link between positive governance and deserving prospects for funding. In all, auditing internally plays an important role by implying that advertising is an organized, thoughtfully designed and innovative application of governance (Rick & Larry, 2011).

2.1.5 Small and Medium Enterprises

The concepts of small and medium-sized organizations are focused largely on regulations, departments, packages and institutions and the role of medium-sized agencies in the economic system (Etuk, Etuk&Baghebo, 2014). The sustainability of small and medium-sized agencies has long been recognized as key to the growth of every financial system in the world (Oba &Onuoha, 2013). Current reviews indicate that 80% of the global financial sector is dominated by small and medium-sized firms (Nnanna, 2001). In addition to various decisive issues such as all wages, profits, property or acquisition, the categorization of commercial business firms into big, medium or small scale has been tagged.

Medium-scale enterprises are private business organizations, according to the National Council of Industries (2009), whose regular payments for land excluded are # 200,000,000 or below. Small and medium-sized companies are a corporation with a staff of about 101-300 workers or a full price of over N50 million, but not more than N200 million currently, but with operating capital jointly, except that the land charge is included (Aremu and Adeyemi, 2011).

2.2 Theoretical Review

2.2.1 Stakeholder Theory

Stakeholders of a corporation comprehend management, employees, customers, suppliers, debt providers, authorities and the neighborhood (the environment). The notion at the rear of the stakeholder plan is that these crew of parents have an effect on the operations of the corporation and as such, have an impact on have to be compelled to be regarded within the alternative

creating procedure and the behavior of the operations of the agency (Tse, 2011). Freewoman & Reed (1983) recognized 2 units of stakeholders in a leader – these organizations who are imperative to the success and survival of the organization and also these agencies who have a sway on or are affected through the organization. Emerson, Alves & Raposo (2011) supported this read after they distinguished those stakeholders have to be compelled to be essential or secondary; predominant stakeholders are these that are contractually involved with the mercantilism similar to employees, customers, and suppliers while secondary stakeholders are these that don't have any formal contracts with the agency such as governments and the neighborhood community. Of course, internal control systems are put in place to protect or guide all these stakeholders.

2.2.2 Agency Theory

Holmstrom and Milgrom (1994) concluded that sellers would only rely on activities that have an excessive come back and have a relentless wage, but for some reward variable, instead of offering unstable incentive payments. While this will include a truthful appraisal, it will not eliminate or even mitigate the wrongdoing of the business. The positivist approach is used when retailers are operated by simple rules generated with the intention of increasing the benefit of shareholders. Therefore, throughout this Clarke theory, a broader individualistic reading is used (2004). Indeed, to find the relation between the arrangement of ownership and administration, business conception may be used. The corporate mannequin should, however, be used to match the specifications of the administration with the owners' place of separation. Thanks to the fact that the administration requires household members of a very unit organization, the leader worth will then be bottom as the overall performance of the company would not although there is no question that the overall performance of the company Eisenhardt would affect (1989). Ahmed and Muhammed (2018) asserted that, one of the commonest mechanism that are useful to addressing agency problem is internal control system. These also include external audits, budget and budgetary control, audit committees and financial reporting.

2.2.2 Contingency Theory

According to Ahmed and Muhammed (2018), contingency theory is used to explain the relationships between the context and structure of effective internal control and organizational performance, particularly the accuracy of financial reporting. An empirical study suggests that internal auditors with greater specialization and internal audit capacity will implement effective internal controls that enable the company to increase profits (Cadez and Guilding, 2008 and Woods, 2009).

2.3 Empirical Review

Ahmed and Muhammed (2018) studied the impact of internal control systems and its relationships With The financial performance in telecommunication companies study of Asiacell of Iraq, the study was accomplished by examining how the chosen company's return on assets was affected by the control environment, risk assessment, information and communication, control actions, and monitoring. The data for the study were gathered using both primary and secondary methods. Financial performance is the model's dependent variable, while the elements of internal controls are its independent variables. The results of the study revealed that there is a

substantial correlation between internal controls and financial performance after examining the audited financial statements and having employees of the chosen company answer questionnaires. The study's findings revealed a significant association between internal controls and financial performance. In the study, the dependent and independent variables suggested a relationship with the control environment, risk assessment. Monitoring had a negative association with financial performance, whereas information and communication and control activities had a good relationship with financial performance. The study also discovered that Asiacecell has invested in effective internal control systems, resulting in superior financial performance than equivalent enterprises with a weak internal control system. The report also suggests that the governing body, maybe with the help of the audit committee, guarantee that the internal control system is reviewed and evaluated on a regular basis by the respective management.

Canbay Çiğdem, Güneş, and Çukaci (2018). Investigated the effects of internal control system on corporate governance. The study used survey approach in which responses were sorted from audit committee members, internal auditors, assistant general managers, general managers, executive board members and chairmen of executive boards of 49 listed companies which were within the space of Istanbul Stock Exchange, Internal control system were premised against corporate governance index in which data were obtained from 38 quoted companies. Primary source of data were used with respect to questionnaires and interview method. The data were analysed using SPSS medium using correlation matrix table, the result showed that there is a positive relationship between internal control systems and corporate governance Turkey.

Corporate governance has been described as a crucial factor in maintaining sound monetary reporting and deterring capital misappropriations in an organization by Omolaye and Jacob (2017). The growth in corporate governance has been of tremendous support to the characteristics of the internal audit and has lifted it to a specialist status by showcasing the benefits of objective decisions and reporting objectivity. Accordingly, internal auditing acts as a monitoring mechanism, the corporate policeman and watchdog, the requisite company-governance obstacle. The purpose of this research was to examine the placement of internal auditing in improving appropriate corporate-governance exercise within the banking zones in Nigeria with center of interest on ordinary performances and to possibly furnish instruction on strengthening the interior audit function in corporate-governance. The goal was to explore the use of electronic mail questionnaires as soon as anticipated by a vital comparison of related literature and the introduction of a survey. They learn that there is a first-rate awesome courting between the IAF and the normal overall success of banks through operational productivity, organizational growth, profitability, solvency and commercial enterprise continuity. Also, given the distinctive banks within the economy, Nigeria's regulatory government generally needs to maintain full conformity with corporate governance rules and standards.

In the case of Greece, there was once a lack of research evaluating the connection between company governance and internal audit. The study tested the connection in agencies indexed inside the Athens Stock Exchange. In the studies, internal audit used to be tested in terms of audit quality and the consulting function of inner audit, for you to highlight the brand new

management-oriented and rate along with scope of indoors audit. Data used to be accumulated by using the usage of a survey questionnaire technique and turned into as soon as analyzed the use of regression analysis. The outcomes showed the corporate-governance was as soon as definitely associated with the consulting function of interior audit, to indoors audit awesome and to the audit committee. Research paintings carried out by way of (Drogalas, Arampatzis & Anagnostopoulou 2016).

Inaam (2015) established the location of internal control in enhancing corporate governance: a questionnaire was created and circulated to a selection of non-executives of 30 Jordanian insurance firms' boards of directors, economic administrators, heads of accounting divisions and internal auditors. The complete wide form of questionnaires distributed become as soon as a hundred and seventy questionnaires, of which 120 questionnaires had been return and had been valid for data evaluation, with a response price of about eighty one%. Based at the outcomes of the statistical analysis, the take a look at approximately indicated that the dedication to all elements of inner control contributes to strengthening the corporate governance pillars at with the aid of an immoderate percent. They learn about additionally printed that the dedication to every factor of inside manage make a contribution to strengthening the corporate-governance at an excessive percentage.

3.0 Research Methodology

For the purpose of this work, survey research design was adopted due to its pertinence in generating the desired and designed tool, number one records in an effort to ease and simplify statistical analysis. However, the population of the study was made up of all quoted small and medium scale enterprises (SMEs) known as alternative security markets (ASeM) at December 2021. There were 9 quoted SMEs in Nigeria, which were Juli Pharmacy, McNichols PLC, Capital Oil, Challaram PLC, Rak Unity Pet. Company PLC, Anino International PLC, The Initiates PLC, Smart Products Nigeria PLC, and Omoluabi Mortgage Bank Plc. The sampling technique for this research work was non-probability sampling with respect to convenient sampling, eight (8) listed SMEs were considered as samples. Data were gathered on the study variables of internal control system and corporate governance principles. The statements on the structured questionnaire were carefully worded and focused on the sets of question to elicit relevant information regarding the thrust of the study. The questionnaire has two sections: A and B. Section A of the questionnaire was premeditated for collection of demographic data of the respondents, while Section B, centered on the different dimensions questions of ICS on corporate governance principles. 6-point Likert-type scale of very high, high, moderately high, moderately low, low and very low were adopted. The target audience where the questionnaires were administered were with directors, senior managers, accountants, finance heads and internal control managers, the reason for these audience are that they are the major or active participants in corporate governance. The relevant data collected were statistically analyzed using techniques such as frequency tables, means (σ) as well as standard deviation (π) were employed to describe the properties of the data, analysis of variance and ordinary least square were used to inferentially analyze the data collected.

The model specified below was specified particularly to test hypothesis which focused on determining the extent to which internal-control (parameters) influence the corporate governance of SMEs in Nigeria:

$$ICE_i = \alpha_1 + \alpha_2 BRP + \alpha_3 BTP + \beta_i \dots \dots \dots (1)$$

Where:

(ICE represents Internal Control Elements; BRP stands for Board Responsibilities, while BTP denotes Board Transparencies.)

In this research, the Cronbach’s Alpha form of reliability is used, the statistic from which is used to determine the internal consistency of the scale used, as well as the research items in the questionnaire which increases as the inter-correlations among the questions included in the analysis increase. The study obtained a coefficient of 0.887 indicating that the reliability of the research instrument used for purpose of data gathering.

4.0 Data Presentation and Analysis

4.1 Bio Data Presentation

Of the One hundred and Twenty-Four (124) questionnaires that were administered, Ninety-Four (94) were returned and Nine-Two (92) were considered to have been satisfactorily completed, resulting in a response rate of 74.19%. The study considered this to be representative enough for the data analyses. The summary is provided in table 4.1:

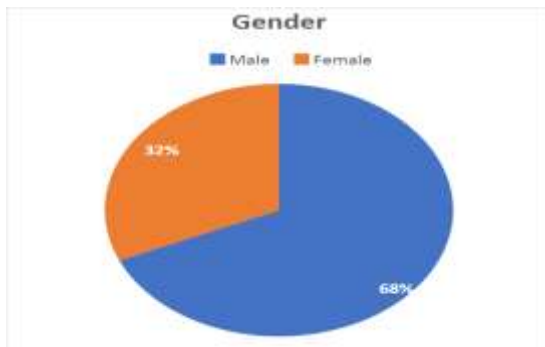
Table 4.1: Distribution of Copies of Questionnaire Administered

Copies Administered	Copies Returned	Copies Duly Completed
124	94	92

(Source, Field Survey, 2022)

4.2 Presentation and Distribution of Data

Pie Chart 4.2.1: Descriptive Statistics on demographic variables of Gender.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

From pie chart 4.2.1 above, it could be seen that 68% of the 92 respondents were male while the remaining which is 32% were female, indicating that there were more males than females.

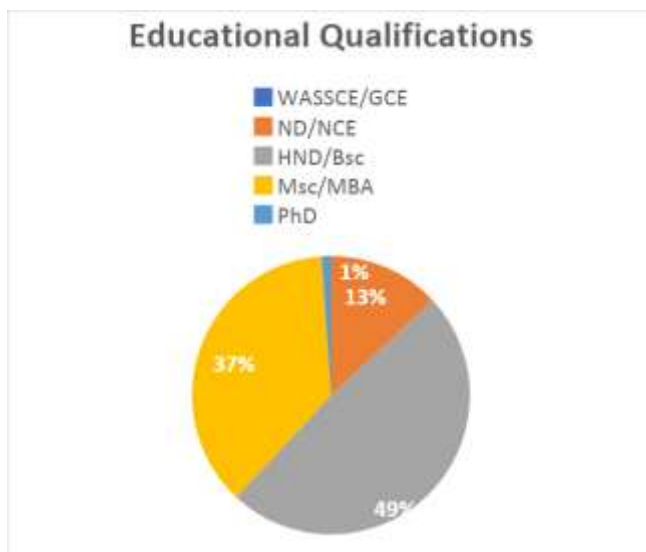
Pie Chart 4.2.2: Descriptive Statistics on demographic variables of Marital Status.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Pie chart 4.2.2 above revealed that 70% of the 92 respondents were married, 25% were single, 3% were separated and 2% were divorced, indicating that there were more married people among the respondents.

Pie Chart 4.2.3: Descriptive Statistics on demographic variables of Educational Qualifications.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Pie chart 4.2.3 above showed that 49% of the 92 respondents held HND/BSc as educational qualifications, 37% held MSc/MBA, 13% had ND/NCE, 1% had PhD and 0% were WASSCE/GCE holders, indicating that many of respondents had at least BSc/HND.

Pie Chart 4.2.4: Descriptive Statistics on demographic variables of Professional Qualifications.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Pie chart 4.2.4 above showed that 49% of the 92 respondents held ACA/ACCA as professional qualifications, 25% held FCA/FCCA, 14% had SWAIAP, 4% had AAT, 6% had other professional qualifications other than AAT, ACA, ACCA, FCA, FCCA and SWAIAP while 2% had no professional qualifications, indicating that many of respondents had at least ACA/ACCA.

Pie Chart 4.2.5: Descriptive Statistics on demographic variables of Management levels.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

From pie chart 4.2.5 above, it could be seen that 50% of the 92 respondents were middle level management staff while the 25% each were both top and low level managers, indicating that many of the respondents were at least middle level managers.

Pie Chart 4.2.6: Descriptive Statistics on demographic variables of years of experiences.



(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Looking at pie chart 4.2.6 above, one could deduced that 31% of the 92 respondents had 6-10 years of experience, 29% had 11 – 15 years experience, 23% had 16 -20 years experience, 9% of them had 0 – 5 years of experience, and 4% each had both 21 – 25 years and 26 -30 years of experience representing that many of the respondents had least 11 years of experience on the job..

4.2.2 Data Presentation based on Dimensions of Independent and Dependent Variables

Descriptive Analysis of Internal Control System Dimension

Results in table 4.2.2.1 showed a grand mean for Accrual Dimension of 1.8152. This strongly suggests that, on average, respondents agreed with most of the research items on the high scale as it relates to how Quoted Small and Medium Enterprises (SMEs) embraced and understood internal control system as a dimension of Corporate Governance in Nigeria. Of the research items, their strongest agreement was on the research item (ICS_1) “*The internal control system is a set of rules, policies, and procedures which the management of my organization implements to provide direction, increase efficiency and strengthen adherence to policies.*” (Mean= 1.9457), while their least was on the research item (ICS_4) “*The internal control system adopted in my organization is a system put in place to promote accountability, transparency and fairness in a corporate setting.*” (Mean = 1.6196).

Table 4.2.2.1: Descriptive analysis of responses on Internal Control System Dimension

		Very High	High	Moderately High	Moderately Low	Low	Very Low	Total	Mean	Std. Deviation
ICS_1	F	44	22	17	6	2	1	92		
	%	47.8	23.9	18.5	6.5	2.2	1.1	100.0	1.9457	1.14224
ICS_2	F	35	43	9	1	3	1	92		
	%	38.0	46.7	9.8	1.1	3.3	1.1	100.0	1.8804	.99275
ICS_3	F	41	30	17	3	1	0	92		
	%	44.6	32.6	18.5	3.3	1.1	0.0	100.0	1.8370	.91720
ICS_4	F	49	34	7	0	1	1	92		
	%	53.3	37.0	7.6	0.0	1.1	1.1	100.0	1.6196	.86243
ICS_5	F	47	30	9	1	3	2	92		
	%	51.1	32.6	9.8	1.1	3.3	2.2	100.0	1.7935	1.12453
Total									9.0761	5.0391
Average									1.8152	1.0078

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

(Where ICS_1 represents “The internal control system is a set of rules, policies, and procedures which the management of my organization implements to provide direction, increase efficiency and strengthen adherence to policies.”; ICS_2 represents The Internal control elements were affirmed as rules, mechanisms, as well as measures implemented by an organization to make sure the financial and accounting information integrity, prevent fraud or deceit; promote accountability, ICS_3 represents The internal control system is a set of rules and policies which detect fraud and improves financial reporting in our company.; ICS_4 represents The ICS adopted in my organization is a system put in place to promote accountability, transparency and fairness in a corporate setting.; and ICS_5 represents The internal control system addresses a list procedures, programmes, rules and regulation which corrective actions for improvement or corporate reporting in my organization.)

Descriptive Analysis of Responsibility Dimension

Results in table 4.2.2.4 showed an average mean for responsibility dimension of 1.9413. This strongly suggests that, on average, respondents agreed with most of the research items on the high scale as it relates to if internal control elements affect Board *responsibility* of quoted SMES in Nigeria.. Of the research items, their strongest agreement was on the research item (RES_4) “The internal control tools implemented by our organization make our top managers to be conscientious for their transactions and decisions.” (Mean= 2.0870), while their least was on the

research item (RES_2) “The internal control tools adopted by our organization make our directors and top managers to be answerable for their transactions and decisions,” (Mean = 1.7193).

Table 4.2.2.4: Descriptive analysis of responses on Responsibility Dimension

		Very High	High	Moderately High	Moderately Low	Low	Very Low	Total	Mean	Std. Deviation
RES_1	F	45	26	13	1	4	3	92		
	%	48.9	28.3	14.1	1.1	4.3	3.3	100.0	1.9348	1.26495
RES_2	F	49	28	8	1	4	2	92		
	%	53.3	30.4	8.7	1.1	4.3	2.2	100.0	1.7935	1.17237
RES_3	F	39	31	18	3	1	0	92		
	%	42.4	33.7	19.6	3.3	1.1	0.0	100.0	1.8696	.91648
RES_4	F	31	40	13	1	4	3	92		
	%	33.7	43.5	14.1	1.1	4.3	3.3	100.0	2.0870	1.20121
RES_5	F	34	39	11	2	3	3	92		
	%	37.0	42.4	12.0	2.2	3.3	3.3	100.0	2.0217	1.18580
Total									9.7065	5.7408
Average									1.9413	1.1482

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

(Where RES_1 represents “T Our top managers are responsible as a result of the internal control tools put in place in the organization”; RES_2 represents The internal control tools adopted by our organization make our directors and top managers to be answerable for their transactions and decisions.; RES_3 represents The control tools adopted internally allows our top management staff to be liable for all their actions and transactions.; RES_4 represents The internal control tools implemented by our organization make our top managers to be conscientious for their transactions and decisions.; **and** RES_5 represents Our directors and senior managers are responsible for decisions and actions for the internal control tools put in place in the organization.)

Descriptive Analysis of Transparency Dimension

Results in table 4.2.2.5 showed an average mean for Transparency Dimension of 2.0078 This strongly suggests that, on average, respondents agreed with most of the research items on the high scale as it relates to if internal control elements affect board *Transparency* of quoted SMES in Nigeria.. Of the research items, their strongest agreement was on the research item (TRANS_2) “Our top managers are objective un dealing with issues as a result of the internal

control tools put in place in the organization;” (Mean= 2.3370), while their least was on the research item (TRAN_1) “The control system implemented internally makes our top managers to be transparent in their transactions and actions,” (Mean = 1.7717).

Table 4.2.2.5: Descriptive analysis of responses on Transparency Dimension

		Very High	High	Moderately High	Moderately Low	Low	Very Low	Total	Mean	Std. Deviation
TRANS_1	F	52	25	8	1	3	3	92		
	%	56.5	27.2	8.7	1.1	3.3	3.3	100.0	1.7717	1.21441
TRANS_2	F	14	52	17	2	4	3	92		
	%	15.2	56.5	18.5	2.2	4.3	3.3	100.0	2.3370	1.11214
TRANS_3	F	37	35	12	2	3	3	92		
	%	40.2	38.0	13.0	2.2	3.3	3.3	100.0	2.0000	1.20439
TRANS_4	F	22	41	25	3	1	0	92		
	%	23.9	44.6	27.2	3.3	1.1	0.0	100.0	2.1304	.85443
TRANS_5	F	46	31	9	1	3	2	92		
	%	50.0	33.7	9.8	1.1	3.3	2.2	100.0	1.8043	1.12161
								Total	10.0435	5.5070
								Average	2.0087	1.1014

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

(Where TRANS_1 represents “The control system implemented internally makes our top managers to be transparent in their transactions and actions”; TRANS_2 represents Our top managers are objective un dealing with issues as a result of the internal control tools put in place in the organization; TRANS_3 represents The internal control tools adopted by our organization make our directors and top managers not to be bias their transactions and decisions.; TRANS_4 represents The internal control tools implemented by our organization make our top managers not to be impartial for their transactions and decisions.; and TRANS_5 represents Our directors and senior managers are independent for decisions and actions for the internal control tools put in place in the organization..)

4.3 Pre-Estimation Test-Homogeneity of Variance

The study conducted Levene’s test of homogeneity of variance to know whether or not Analysis of Variance would be a suitable tool in estimating the specified model. The results of the test are provided in tables 4.3.1 to 4.3.5.

Internal Control System Dimension

Results in table 4.3.1 show that p -value of 0.518 is greater than the level of significance of 0.05. These results compel the acceptance of null hypothesis of homogeneity of variance and the rejection of alternative hypothesis of heterogeneity of variance. These results therefore provide evidence that supports the appropriateness of the use of Analysis of Variance using *Internal Control System* as the only independent variable.

Table 4.3.1: Results of Test of Homogeneity of Variance on *Internal Control System* Dimension

	Levene Statistic	df1	df2	Sig.
ICS Based on Mean	0.764	1	91	.518
ICS Based on Median	1.726	1	91	.406
ICS Based on Median and with adjusted df	1.726	1	89.506	.406
ICS Based on trimmed mean	.953	1	81	.558

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

*** p -value < 0.01; ** p -value < 0.05

Responsibility Dimension

Results in table 4.3.4 show that p -value of 0.617 is greater than the level of significance of 0.05. These results compel the acceptance of null hypothesis of homogeneity of variance and the rejection of alternative hypothesis of heterogeneity of variance. These results therefore provide evidence that supports the appropriateness of the use of Analysis of Variance using *Responsibility* as one of the dependent variables.

Table 4.3.4: Results of Test of Homogeneity of Variance on *Responsibility* Dimension

	Levene Statistic	df1	df2	Sig.
RES Based on Mean	.533	1	91	.617
RES Based on Median	3.614	1	91	.560
RES Based on Median and with adjusted df	3.614	1	90.808	.560
RES Based on trimmed mean	.550	1	91	.471

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

*** p -value < 0.01; ** p -value < 0.05

Transparency Dimension

Results in table 4.3.5 show that p -value of 0.301 is greater than the level of significance of 0.05. These results compel the acceptance of null hypothesis of homogeneity of variance and the rejection of alternative hypothesis of heterogeneity of variance. These results therefore provide

evidence that supports the appropriateness of the use of Analysis of Variance using *Transparency* as one of the dependent variables.

Table 4.3.5: Results of Test of Homogeneity of Variance on *Transparency* Dimension

		Levene Statistic	df1	df2	Sig.
TRANS	Based on Mean	.319	1	91	.301
	Based on Median	1.302	1	91	.312
	Based on Median and with adjusted df	1.302	1	90.808	.312
	Based on trimmed mean	.300	1	91	.293

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

*** p -value < 0.01; ** p -value < 0.05

4.4 Test of Reliability

Cronbach's Alpha test of reliability was adopted to determine the reliability of the research measures, especially with respect to the internal consistency of the scale used, and by extension, its appropriateness. The results of the test are as shown in table 4.4 below:

Table 4.4: Reliability Coefficient for all Research Statements

Dimensions of Variables	Cronbach's Alpha Coefficient	Number of Items
Dimensions of Internal Control		
Internal Control System	0.714	5
Dimensions of Corporate Governance		
Responsibility	0.834	5
Transparency	0.817	5

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

From the results in table 4.4, it can be inferred that the scale used in the study is internally consistent, as it shows a coefficient that is above 0.70, a benchmark set by Nunnally (1978), cited in Osuagwu (2002). This implies that the research measures are considerably reliable.

4.5 Test of Hypotheses

Based on the two research objectives and the two accompanying research questions, two research hypotheses were formulated and tested. The results are presented in tables 4.5.1 to 4.5.3

Table 4.5.1: Model Summary for Hypotheses One to Two

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.766 ^a	.745	.656	.3649	1.571

a. Dependent Variable: RES, TRANS

b. Predictors: (Constant), ICS

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Table 4.5.2: Results of Analysis of Variance for Hypotheses One to Two

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	34.415	6	11.129	122.436	.000 ^b
Residual	5.531	86	.085		
Total	39.946	92			

a. Dependent Variable: RES, TRANS

b. Predictors: (Constant), ICS

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Table 4.5.3: Results of Ordinary Least Square for Hypotheses One to Two

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
1 (Constant)	.037	.224		.164	.870
RES	.202	.100	.208	1.412	.047
TRANS	.573	.086	.542	1.672	.000

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

Hypothesis one:

H₀₁: Internal control systems do not affect board of directors' responsibilities of quoted SMEs in Nigeria.

Results in table 4.5.3 revealed that the partial elasticity coefficient of internal control system with respect to board of directors' responsibility is .202, indicating that Internal Control System have a positive effect on the board responsibilities of the selected SMEs. This coefficient is also statistically significant ($t=1.412$, $p\text{-value}<0.05$) to individually influence board responsibilities of these SMEs. With these results, the inference there from is that internal control system have a significant effect on board responsibilities of small and medium enterprises in Nigeria.

Hypothesis two:

H₀₂: Internal control systems do not affect board of directors' transparency of quoted SMEs in Nigeria.

Results in table 4.5.3 revealed that the partial elasticity coefficient of internal control system with respect to board of directors' transparency is .573, indicating that internal control system have a positive effect on the board transparency of the selected SMEs. This coefficient is also statistically significant ($t=1.672$, $p\text{-value}<0.05$) to individually influence board of directors' transparency of these SMEs. With these results, the inference therefrom is that internal control system have a significant effect on board of directors' transparency of small and medium enterprises in Nigeria.

As noted in table 4.5.1, the R Square of 74.5% suggests a very strong model. The 74.5% R Square revealed that the total variation in the corporate governance's responsibility and transparency of the selected SMEs is attributed to internal control system, while 25.5% of the total variation in the corporate governance of the selected SMEs is accounted for by other variables not captured in the model. The Durbin Watson statistic of 1.751 in table 4.5.1 indicates no serious presence of serial correlation as coefficient is approximately equal to 2.

The overall fitness of the model is established based on the results in table 4.5.2, from which it can be inferred that internal control system have joint significant influence on the corporate governance represented responsibility and transparency by of the selected SMEs ($F= 122.436$, $p\text{-value}=0.000$).

4.6 Post Estimation Tests**4.6.1 Normality of Residuals**

As shown in table 4.6.1, the mean residual of is 0.0000, indicating that the residuals from the estimated ordinary least square regression are normally distributed and the variance of the residuals is the same for all values of the independent variable.

Table 4.6.1: Results of Residual Statistics

	Residuals Statistics ^a				
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	0.4085	4.8392	1.8505	.64153	92
Residual	-.68676	.78890	.00000	.28851	92
Std. Predicted Value	-1.315	2.199	.000	1.000	92
Std. Residual	-2.184	1.384	.000	.975	92

a. Dependent Variable: CGN

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

4.6.2 Multi-Collinearity

The results in table 4.6.2 provided evidence that internal control system have no strong inter-correlations and inter-associations with one another based on the collinearity statistics of

variation inflation factor (VIF) which for all the independent variables are between 1 and 10, suggesting no problem of multicollinearity.

Table 4.6.2: Results of Collinearity Diagnostics

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
RES	.156	6.391
TRANS	.253	3.955

(Source: Field Survey, 2022 & Computations Aided by SPSS Version 25.0)

4.7 Discussion of Findings

Analyses from the previous sections revealed that the selected Alternative Security Markets (ASEMs) known as quoted Small and Medium Enterprises (SMEs) embraced Internal Control System and elements. Results also showed that these sampled quoted SMEs Internal Control System make their top managers to be accountable for their activities, whether that is not sufficient is another matter altogether. These same Internal Control System showed that the board and top-level managers were fair that is un-bias in their dealings. Further results showed that the internal control system by these quoted SMEs board were highly responsible to stakeholders and they were faithfully transparent in underlying transactions and events, all to a great extent.

The result affirmed that internal control system have effect on board of directors' responsibility of quoted SMEs in Nigeria, whilst the analyses from the second hypothesis revealed that there's a big courting between internal control system and board of directors' transparency of SMEs in Nigeria. Overall, all the measurement of internal control system have a joint sizable influence on corporate governance of the chosen small and medium enterprises in Nigeria. These findings were levied with that of Canbay Çiğdem, Güneş and Çukaci (2018) who affirmed that a superb oriented sturdy hyperlink exist between internal control system and company governance. Findings from Ahmed & Muhammed (2018) showed a strong relationship among internal control system and financial performance of Iraq corporations. The consequences were additionally agreed with that of Inaam (Al-Zwyalif 2015). Based at the consequences of the statistical analysis, the have a look at indicated that the commitment to all factors of internal control contributes to strengthening the company governance pillars at an excessive diploma. The findings from this study additionally agreed with that of Dumitrascu & Savulescu (2012) showed that an effective internal control systems in a fair presentation of the financial statements and for this reason increases stakeholders' confidence in the financial statements. There is no divergence in results among the findings from the result of Olumbe (2012) which confirmed an existence of relationship between internal-control and company governance.

5.0 Conclusion and Recommendations

5.1 Conclusion

This study investigated the effects between internal control system (ICS) and corporate governance principles of selected quoted small and medium enterprise in Nigeria. ICS was solely operationalized while corporate governance, the dependent variable, was proxied using board of directors' responsibility, and board of directors' transparency. On the bases of these, two research objectives, research questions and research hypotheses were specified. In relation to the strength of these, the following conclusions were reached; analyses from the previous sections revealed that the selected quoted small and medium enterprises immensely embraced and understood internal control system. Analyses have shown that internal control system adopted have significant effect on the board of directors' responsibility of quoted small and medium enterprises in Nigeria. It has also been shown that internal control system have significant influence on the board of directors' transparency of quoted small and medium enterprises in Nigeria.

5.2 Recommendations

Small and medium enterprises either quoted or unquoted should improve their internal control system, as doing this will further improve the board of directors' responsibilities, and board of directors' transparencies. Management of SMEs should promote internal control system which would serve a basis for trust and confidence for stakeholders especially investors. Top management must abide by putting into practice of proper internal control system for sound corporate governance so as to support rise in economic attraction in the country (Nigeria) for the benefits of our businesses. SME Organizations should embrace internal control system because it would improve their public image in Nigeria and could increase global index rating; adopting improved and good internal control system would enable regulatory authorities that NSE, SEC, CBN and so forth to be more confidence in any SMEs that want to be listed or secure and raise funds.

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