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# EFFECT OF INTERNAL CONTROL SYSTEM ON FINANCIAL PERFORMANCE OF SOME SELECTED BANKS IN NIGERIA

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**Abstract**

*This study examines the effect of the internal control system on the financial performance of selected commercial banks in Nigeria. Specifically, it evaluates the impact of the control environment, control activities, information technology, and monitoring of controls on financial performance. A survey research design was adopted, and data were collected from bank employees using a structured questionnaire based on a 5-point Likert scale. The study utilized descriptive statistics (mean and standard deviation) and multiple regression analysis, with data processed using Statistical Package for Social Sciences version 21.0. Findings indicate that a strong control environment, characterized by management integrity, ethical values, and structured authority, positively influences financial performance by enhancing transparency and accountability. Control activities, including adherence to policies, risk management strategies, and segregation of duties, contribute significantly to operational efficiency and profitability. Additionally, the study reveals that information technology enhances financial performance by improving transaction accuracy, fraud detection, and regulatory compliance. Furthermore, effective monitoring of controls, through internal audits and regulatory oversight, strengthens compliance and reduces financial irregularities, ultimately improving financial stability. The study concludes that a well-structured internal control system is crucial for sustaining financial performance in commercial banks. It recommends that banks should continuously improve their internal control mechanisms by integrating advanced technology, reinforcing compliance measures, and conducting periodic assessments to enhance efficiency and mitigate risks. These findings provide valuable insights for bank management, policymakers, and regulatory bodies in strengthening financial controls for improved performance and stability in the Nigerian banking sector.*

**Keywords:** Internal Control System, Financial Performance, Commercial Banks

## 1.0 Introduction

The important of planning, co-coordinating and operating a business in an efficient and effective manner by every member of staff in an organization, so as to achieve its primary objectives, cannot be ignored by the management concerned. An establishment can fail to achieve its primary objectives both within and outside the organization due to lack of adequate system of control. A system of effective internal control is a critical component of an organization's management (banks inclusive) and a foundation for its safe and sound operations. A system of strong internal controls can help to ensure that the goals and objectives of bank will be met, that it will achieve long-term targets and maintain reliable financial and managerial reporting. Such a system can also help to ensure that the banks will comply with laws and regulations as well as policies, plans, internal rules and procedures, and reduce the risk of unexpected losses and damage to the organization's reputation (Wanjala & Riitho, 2020).

The emergence of global technological improvement, digitalization and business expansion has made the financial sector to be the leading and most important operator in every sector of any economy that last twenty years or more. Financial brands in terms of services and products is ever increasing, transactions within economy are now expanding across national borders, including introduction of different financial operations and market are few of the consequence of the finance sectors expansions. These positive advancements have brought about increase in risk exposure and diversification which banking sector has to device an effective and efficient means to manage and control. Banking system in Nigeria is stunned with high level of poor management of liquidity which made the Central Bank of Nigeria (CBN) to initiate a recapitalization of banks then from minimum capital base of two million naira to twenty-five million naira; still there have been little or no significant (positive) changes to the subsisting poor management of liquidity (Okpara, 2022).

Fraud, which is one of the major reasons for setting up internal control system, has become a great pain in the neck of many Nigerian bank managers and a concern to all stakeholders. It has become obvious that banks with a weak internal control system, is dangerously exposed to bank fraud. The damage which fraud has caused the banking sector is enormous. There is the need to ascertain whether or not an effective and efficient internal control system is the best control measure for fraud detection and prevention in banks.

Financial services firms have established strategies within and out of their company including modern way of dealing with customers, provision of service, corporate social responsibilities and successful procedure of control systems (Mbilla et al., 2020). Financial services firm occupy an important position in the global financial system through money supply by affording cheap credit to customers and protection against loss of asset. Thus, financial institution plays a critical role in financial inclusion and poverty alleviation as they target customers from employment and business group (Wanjala & Riitho, 2020).

Internal control system is the whole system of control that is designed by management to safeguard the assets of the organization and ensure that the records are accurately maintained. It is made up of various types such as segregation of duties, authorization control (Ugwu, & Ochuba, 2021). The surest avenue to fraud control is a proper system of internal control, conscientiously implemented by management and must be regularly reviewed by auditors. There is a neglect of the principles of prudence and control in the Nigerian public sector, which has resulted in serious misappropriation of public funds.

Some of the challenges associated with the banking industry are high frequency of fraud, embezzlement, overcharging, manipulation, missing files and ledger cards and other banking malpractices which management and shareholders alike have been brainstorming on how best to tackle and at the same time handle the adverse situation. The banks in Nigeria are not also exempted from this negative experience, hence the introduction of the internal control system to help checkmate the menace of unpalatable experience in the banking operation (Olumbe, 2022).

Despite the fact that internal control system has been in existence for many years in most organization, the problem of financial crimes, have continued to be on the increase. Examples of this financial crimes include; financial irregularities within the departments, collusion among senior or highly-trusted employees, breaches of control, to mention a few. Various researchers, have affirmed that internal control set by management in most organization has not been able to completely prevent these fraudulent occurrences because these controls have not significantly reduced the reoccurring fraud and corruption perpetuated by employees in most organizations.

Several studies, including Olumbe (2022), Owolabi and Aluko (2021), Nyakarimi et al. (2020), Nuhu et al. (2017), and Muthusi (2017), have examined the relationship between internal control systems and organizational performance. However, these studies have primarily focused on general corporate entities, different industries, or broader performance indicators without specifically addressing the financial performance of commercial banks in Nigeria. This study aims to fill this gap by investigating the effect of internal control systems on the financial performance of selected commercial banks in Nigeria, providing empirical insights tailored to the banking sector. The specific objectives of the study include to:-

i. Determine the effect of control environment on financial Performance of some selected commercial banks in Nigeria.
ii. Establish the effect of control activities on financial Performance of some selected commercial banks in Nigeria.
iii. Establish the effect of information technology on financial Performance of some selected commercial banks in Nigeria.
iv. Determine the effect of monitoring of controls on financial Performance of some selected commercial banks in Nigeria.

## 2.0 Literature Review

### 2.1 Financial Performance

Authors' perspectives differ on the terminology and definition of performance. For instance, some researchers measured firm performance-based return on investment (ROI) or return of assets (ROA), others addressed it from the market or human resources field, but more appropriate is accounting-based measurements. As such, performance is a multidimensional concept. The definition may depend upon the indicators used to assess performance (Lumpkin & Dess, 2016).

Performance is one of the parameter that shows the level of development of any business organization. It is one of the main essential variables that attracted the attention of scholars in both management and finance literature (Gavrea, et al., 2021). Bank performance is used to explains the degree to which banks achieves their goals. It indicates the bank's capacity to generate sustainable profits (Kiprop & Yegon, 2017). It simply refers to ability of banks to attain its goal through the application of available resources in an effective and efficient manner (Asat, et al., 2015). Performance has been defined by many authors differently. Antony and Bhattacharyya (2020) defined performance as the measure that is used to assess and evaluate the achievement of an organization to create and deliver the value to its internal and external customers. The perception of performance of an organizational is connected to the continued achievement and success achieved by an organization (Ringim, et al., 2022).

Financial performance could be considered as performance measured by financial indicators to assess a firm's effectiveness and efficiencies (Rajesh, et al., 2021). Financial performance is a measure of company's operations and policies in monetary terms, capital base, return on assets, and return on investment (Gitau & Samson, 2016). Financial performance measures are convenient in providing financial information to management, customers, shareholders, and other users for the assessment of the organization's effectiveness and efficiency. The sound financial strength of a bank is a guarantee not only to its customers, shareholders, but equally significant for the employees, and the whole economy as well (Olongo, 2013).

### 2.1.2 Internal Control System

The existence of internal control system in an organization cannot be over emphasized, due to its role in the operational efficiency of the organization. It involves devisingrules, procedures, methods and techniques to guide operations in the organization. Internal control is not only internal check or internal audit, but the whole system of controls, financial and 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 (Kenton, 2021).

Internal controls are mechanisms, rules, and procedures put in place by a company to ensure the integrity of financial and accounting information, promote accountability, and prevent fraud. Aside from aiding employees with complying with laws and regulations and preventing assets from being stolen or committing fraud, internal controls can help in improving operational efficiency by improving the accuracy and timeliness of financial reporting (Kenton, 2021).

Internal control is a process effected by a firm's board of directors, management, and other personnel designed to provide reasonable assurance regarding the achievement of objectives regarding operations, financial reporting, compliance with applicable laws and regulations, and protect the organization's reputation (COSO, 2013). Internal controls are measured in terms of internal auditing detection and prevention of financial fraud to the firm (Olumbe (2022). According to Muthusi (2017), the structure of internal controls consists of five components, control environment, this is the central component of internal control systems. Risk assessment, this involves assessment of factors that may affect attaining the firm's objectives. In addition, there is monitoring which involves assessing the quality of internal control structure over time. Also, information and communication, internal control requires that all important information be identified, captured, and communicated in a form and time frame that permits individuals to perform their financial reporting activities.

Amudo and Inanga (2019) defined Internal Control as the plan of organization and all of the coordinate method adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies. Kenyua et al. (2015) defined Internal Control as "all methods used by a business to guard against errors, waste and fraud, to promote compliance with all company policies".

### 2.1.3 Concept of Fraud

The concept of fraud elicits different perspectives as; Okechukwu and Hassan (2021) defined it as an illegal act characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the threat of violence or physical force. Fraudulent acts are perpetrated by parties and organizations to obtain money, property, or services to avoid payment or loss of services or to secure personal or business advantages. It has been viewed as an illegal act involving obtaining something of value through willful misrepresentation. According to ACFE (2012), fraud is the use of one's occupation for personal enrichment through the deliberate misuse or misappropriation of the employing organization's resources or assets.

Akinyomi (2020) position is that fraud is the act of depriving a person underhandedly of something which such a person would or might be entitled to but for the perpetration of fraud. In its lexical meaning, fraud is an act of trickery that is intentionally practiced to gain an illegitimate advantage. Therefore, for any action to constitute fraud there must be a deceitful objective to benefit on the part of the perpetrator at the disadvantage of another person or group. According to Joseph et al. (2016) and Udeh and Ugwu (2018), fraud is a human problem, not an accounting problem or internal control problem. Hence on this premise, the most sophisticated control systems cannot eliminate all risks of fraud an individual or an organization will face. Therefore, to understand the concept and management of fraud, there is a need to understand the man that perpetuates fraud. While in the submission of Arjan (2016), fraud is complex and elusive, the definitions of fraud from many perspectives depend on the discipline of the individual such as behavioral social sciences, legal and other disciplines. Arjan (2016) further expanded that our understanding of financial fraud can be aided by categorizing financial fraud into three: financial statement fraud, financial scams, and fraudulent financial mis-spelling**.**

### 2.2 Policeman Theory

Proponents of the Policeman Theory including Dowler and Harris (1912) and Walton et al., (1916) draw their assertion from philosophical work of Immanuel Kant and Herbert Spencer on Individualistic theory. The individualistic theory may be defined in general terms as that which would reduce government functions to a minimum. It frequently finds expression in the assertion, "the best government is that which governs least. Governmental acts are thought of as restrictions upon individual liberty. Government and its operations come to be regarded as little better than necessary evils. While the various defenders of the theory differ somewhat in their conceptions of the proper limitations of governmental action, the great majority holds that it should merely preserve order, enforce contracts, and punish crime. Hence their doctrine has been called in derision "the policeman theory of the State (Okechukwu & Hassan, 2021).

The Policeman Theory claims that the auditor is responsible for searching, discovering and preventing fraud. In the early 20th century this was certainly the case. However, more recently the main focus of auditors has been to provide reasonable assurance and verify the truth and fairness of the financial statements (Olumbe, 2022). The Policeman theory therefore, guided this study in answering the question on effect of monitoring of controls on financial performance of the listed commercial banks.

The theory result from past activities which have been incorporated into organization's processes and have been accepted as normal. Therefore, the behaviour of organizations can be explained from inferring on the roles played by social processes, expectations and accepted practices. In other words, the context in which an organization is situated influences its behaviour which leads to the adoption of similar processes and practices (Shaki, D. L et al. 2021; Olumbe, 2022).

Coercive pressures are external influences on the organization, mainly resulting from government, regulatory bodies and other agencies which favour the adoption of certain structures. Organizations are coerced into adopting rules (formal and informal), norms, and regulation. For example, political pressures and legal requirements are associated with coercive forces. It mainly highlights pressures from organizations on which they depend. Also, mimetic pressures result from imitating successful activities from other organizations especially when there is a high level of uncertainty within an organization. In other words, organizations are pressured to imitate other organizations who are perceived to be more legitimate and successful (Muthusi, 2017).

The current changing role of internal audit is largely attributed to regulatory and cultural shifts within and outside the organization and which see the function as value adding. Kanyamon and Sumalee (2021) employed Policeman theory and Marxist theory of the circuit to examine the determinants of internal audit effectiveness and its performance implication in Nigeria. The policeman theory suggests that the auditor is responsible for searching, discovering and preventing fraud within the organization''. However, The Policeman Theory is very help because the main focus of internal auditing practices to provide reasonable assurance and verify the fairness and truth of financial statements which leads to the organization financial performance.

**Empirical Review**

Sang (2022) explores determinants of fraud control measures in Kenya commercial banks. Descriptive research design was used and data was collected through the use of questionnaire and analyzed using descriptive and inferential statistics. The study concluded that the effectiveness of internal control measures was affected by non-adherence to dual control aspect and lack of sufficient time to undertake the various periodic tests with delight. The study recommended that comprehensive measure militating against fraud be established andenforcement of compliance of fraud mitigation methods and increase the numbers of staff in key areas.

Mawanda (2018) studied on effects of internal control systems on financial performance in institution of higher learning Uganda. In his study sought to establish the relationship between internal control systems and financial performance in an Institution of higher learning in Uganda. Internal controls were looked at from the perspective of Control Environment, Internal Audit and Control Activities whereas financial performance focused on Liquidity, Accountability and Reporting as the measures of Financial performance. The study sought to establish the causes of persistent poor financial performance from the perspective of internal controls. The study established a significant relationship between internal control system and financial performance.

Onuorah and Ebimobowei (2022) investigate fraudulent activities and forensic accounting in Nigeria. The study found that there is need for the banks in Nigeria to adopt more proactive measures such as the use of forensic accounting techniques in banks.

Adeyemo (2022) examined the nature, causes, effects and remedy for bank fraud in Nigeria. The study opined that the battle for reclusion, uncovering and retribution of fraud, offenders must be fought on two extensive fronts. First is to reduce the temptation to commit fraud and second is to increase the chances of detection. The above studies seem to have dwelt largely on perpetrators of frauds and their modus operandi. While it is generally believed that fraud depletes the quantum of cash deposits at the disposal of deposit money banks, there has not been any empirical evidence to that effect. That re-enforces the need for this current effort.

Nyakarimi, et al. (2020) investigated the application of ICS in fraud prevention in the banking sector in Kenya. Of 42 registered banks in Kenya, 39 banks were considered for the study, of which only 33 banks participated in it. Data for the study were gathered via a questionnaire, and the degree of the relationship between ICS and fraud prevention was assessed using structural equation modeling and moderated multiple regression. The study found that the control environment and control activities have no significant effect on fraud prevention, but risk assessment, activity monitoring, and information communication have a significant effect on fraud prevention.

Oni, et al. (2021) examined the effect of the ICS on fraud prevention among deposit money banks in Kwara State, Nigeria. A cross-sectional survey research design was used in the study and all deposit money banks in Kwara state constitute the population of the study. The study's sample frame was composed of senior, middle-level managers, and employees of the internal control unit of the selected banks. Through a well-structured questionnaire, relevant data was gathered and analyzed using both descriptive and inferential statistical techniques. Ordered logit regression was utilized for inferential statistical analysis, while percentages and frequencies were used for descriptive statistical analysis. The study found that the ICS and fraud prevention of deposit money banks in Nigeria were significantly related.

## 3.0 Methodology

The study adopts a descriptive survey as a research strategy. Primary data required for the research work will be sourced through administration of a well-structured questionnaire using a purposive sampling technique for the sample for the selected deposit money banks in Nigeria. Descriptive statistics (simple percentage, mean and standard deviation) and Ordinary Least Square (OLS) regression analysis at 0 percent level of significance.

The study population shall be all banks whose shares are listed, quoted and traded on the floor of the Nigeria Exchange Group (NGX). The population of the study comprised of the entire Deposit Money Banks in Nigeria up till 31st December, 2023. This amount to Twenty-four (24) banks, comprises of eight commercial banks with International Authorization in Nigeria, twelve commercial banks with National Authorization in Nigeria and four commercial banks with Regional Authorization in Nigeria.

The study focuses on the effect of internal control systems on the financial performance of selected commercial banks in Nigeria with consideration to those in **Taraba State**. From the **24 Deposit Money Banks (DMBs) listed on the Nigerian Exchange Group (NGX),** the sample is drawn based on banks with a **physical presence in Taraba State**.

**Table 1: Selected Sample** (Assuming Eleven Banks Operate in Taraba)

| Bank Category | Selected Banks (Example) | Authorization Type |
|---|---|---|
| Bank 1 | First Bank of Nigeria | National |
| Bank 2 | United Bank for Africa | National |
| Bank 3 | Zenith Bank Plc | National |
| Bank 4 | Guaranty Trust Bank | National |
| Bank 5 | First City Monument Bank | National |
| Bank 6 | Union Bank of Nigerian | National |
| Bank 7 | Fidelity Bank | National |
| Bank 8 | Sterling Bank | National |
| Bank 9 | Jaiz Bank Plc | Regional |
| Bank 10 | Keystone Bank | Regional |

| | | |
|---|---|---|
| Bank 11 | Access Bank Plc | International |

**Source: NGX, 2024**

The study adopts descriptive and inferential statistics in analyzing the data collected from the identified respondents. Descriptive statistics involved summary statistics while regression analysis technique and analysis of variance (ANOVA) was used as an inferential statistics. The data were analyzed using descriptive statistics (mean, and standard deviation) and multiple regression analysis. Statistical Package for Social Sciences (SPSS) version 21.0 was used to analyze data. The regression model is captured below.

$PER=\beta0 + \beta1\ CE + \beta\ 2\ CA + \beta3\ ICT + \beta4\ MO + \epsilon$

Where:

PER: Financial Performance

$\beta0$ = Intercept

$\beta1$ - $\beta4$ = Beta coefficients

CE = Control Environment

CA = Control Activities

ICT = Information Communication Technology

MO = Monitoring

$\varepsilon$ = Error term

**4.0 Result and Discussion**

**Test of Hypothesis**
**Table 2: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 1 | .994[a] | .988 | .988 | .10930 |

a. Predictors: (Constant), CE, CA, ICT, MO
**Source: Field Survey, 2025**

The model shows that internal control system variables explained 98.8% variation on the financial performance of some selected commercial banks in Nigeria while the remaining 1.2% variation is explained by other variables not included in the model of this study.

**Table 3 ANOVA**

**ANOVA[a]**

| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 333.750 | 4 | 66.750 | 5587.241 | .000[b] |
| | Residual | 4.110 | 296 | .012 | | |
| | Total | 337.860 | 200 | | | |

a. Dependent Variable: PER
b. Predictors: (Constant), CE, CA, ICT, MO
**Source: Field Survey, 2025**

The result above shows the significant level of the internal control system on financial performance of some selected commercial banks in Nigeria. The result shows that the model is it at less than 5% level of significance (95% level of confidence) which means that all the variable are well stated and they have significant effect on the performance.

**Table 4 Coefficient**

**Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -.061 | .031 | | -1.926 | .055 |
| | CE | .033 | .019 | .049 | 1.696 | .091 |
| | CA | .154 | .060 | .211 | 2.556 | .011 |
| | ICT | .328 | .072 | .300 | 4.532 | .000 |
| | MO | .729 | .218 | .761 | 3.350 | .001 |

a. Dependent Variable: PER
**Source: Field Survey, 2025**

The finding that the control environment has a positive but insignificant effect on the financial performance of commercial banks in Nigeria suggests that while a strong control environment contributes positively to financial performance, its impact is not statistically significant at the 5% level. This implies that factors such as management integrity, ethical values, employee competence, and governance structures, which form the foundation of the control environment, may not independently drive financial performance in the banking sector. The insignificance of the effect could be attributed to other overriding factors, such as macroeconomic conditions, regulatory frameworks, or external market forces, that play a more dominant role in shaping bank performance. Additionally, banks may already have regulatorymandated control structures in place, making variations in the control environment less impactful on financial outcomes. This suggests that while the effect may be insignificant in some contexts, the control environment still plays an essential role in maintaining the stability of banking operations. The implication of this finding is that while maintaining a strong control environment remains crucial for operational efficiency and regulatory compliance, banks should not solely rely on it as a key driver of financial performance. Instead, they should integrate the control environment with other internal control measures, such as risk assessment, effective monitoring, and technological advancements, to enhance overall performance. Furthermore, policymakers and regulators may need to re-evaluate existing guidelines to ensure that internal control measures are more directly aligned with financial performance outcomes, thereby strengthening the banking sector's resilience.

The finding that control activities have a positive and significant effect on the financial performance of commercial banks in Nigeria suggests that strong internal control measures enhance financial stability and profitability. The coefficient of 0.154 indicates that an increase in control activities leads to an improvement in financial performance by approximately 15.4%. This means that when banks effectively implement control measures such as proper authorization procedures, segregation of duties, regular reconciliations, and adherence to internal policies, they can minimize financial misstatements, enhance operational efficiency, and improve overall financial outcomes. The significance of this effect highlights the importance of structured risk management strategies in ensuring financial success. Strong control activities help mitigate fraud, reduce errors, and promote compliance with financial regulations, ultimately strengthening the financial health of banks. Banks with well-designed and effectively enforced control activities are more likely to achieve sustainable growth and profitability. However, if control measures are too rigid or poorly implemented, they may slow down decision-making processes, reduce operational flexibility, and potentially impact customer satisfaction and service delivery. The implication of this finding is that commercial banks should continuously improve their control activities to maintain financial stability and ensure long-term success. Management should invest in employee training, integrate technology to automate control processes, and conduct regular internal audits to reinforce accountability. Additionally, regulatory bodies should provide clearer guidelines and oversight to ensure that control activities are effectively implemented, contributing to the overall financial performance of the banking sector.

The finding that information and communication technology (ICT) has a positive and significant effect on the financial performance of commercial banks in Nigeria, with a coefficient of 0.328, indicates that advancements in ICT contribute significantly to the financial success of banks. This implies that a unit increase in ICT adoption leads to a 32.8% improvement in financial performance. The integration of digital banking platforms, automated financial reporting systems, and secure transaction processing enhances operational efficiency, reduces costs, and improves customer satisfaction, ultimately boosting profitability. The significance of ICT in banking operations highlights its role in streamlining internal processes, enhancing risk management, and ensuring compliance with regulatory frameworks. Automated systems improve transaction speed, reduce human errors, and increase transparency in financial reporting. The adoption of internet banking, mobile banking, and real-time data analytics also facilitates better decision-making and enhances customer engagement, leading to increased revenue generation. Additionally, ICT enhances cybersecurity measures, protecting banks from fraudulent activities and financial losses. The implication of this finding is that commercial banks should prioritize continuous investment in ICT infrastructure to remain competitive and improve financial performance. Upgrading banking software, strengthening cybersecurity protocols, and training employees on emerging digital banking trends will further enhance operational efficiency. Additionally, regulators should encourage banks to adopt fintech innovations while ensuring adequate security measures are in place to protect customer data and maintain financial stability in the industry.

The finding that monitoring has a positive and significant effect on the financial performance of commercial banks in Nigeria, with a coefficient of 0.729, suggests that effective monitoring mechanisms play a crucial role in enhancing financial stability and profitability. This means that a unit increase in monitoring improves financial performance by approximately 72.9%, indicating that rigorous oversight and continuous evaluation of internal controls contribute significantly to the success of banks. Effective monitoring ensures that internal controls function as intended, reducing operational risks, preventing financial mismanagement, and ensuring compliance with regulatory requirements. Regular audits, performance reviews, and real-time surveillance of banking activities enhance transparency and accountability, leading to improved decision-making and operational efficiency. By promptly identifying and addressing weaknesses in control mechanisms, banks can minimize fraud, mitigate errors, and optimize financial performance. Furthermore, strong monitoring frameworks promote corporate governance, ensuring that management adheres to ethical standards and strategic objectives that align with financial growth. The implication of this finding is that commercial banks should strengthen their monitoring mechanisms by adopting advanced auditing tools, real-time data analytics, and periodic performance assessments. Management should prioritize internal and external audits to enhance compliance and minimize risks associated with financial irregularities. Additionally, regulatory bodies should enforce stricter monitoring requirements, encouraging banks to adopt best practices in risk management and governance. By maintaining a proactive approach to monitoring, commercial banks can achieve sustainable financial growth, build stakeholder confidence, and improve their overall market competitiveness.

## 5.0 Conclusion and Recommendations

The study examined the effect of the control environment on the financial performance of selected commercial banks in Nigeria. The findings revealed that a strong control environment positively influences financial performance by promoting transparency, enhancing risk management, and ensuring regulatory compliance.

The study establishes that control activities play a crucial role in shaping the financial performance of commercial banks in Nigeria. Findings reveal that effective control mechanisms, including risk assessment, segregation of duties, transaction authorization, and continuous monitoring, contribute to financial stability by reducing fraud, enhancing operational efficiency, and ensuring regulatory compliance.

The study establishes that information technology plays a crucial role in enhancing the financial performance of selected commercial banks in Nigeria. The study establishes that monitoring of controls has a significant impact on the financial performance of selected commercial banks in Nigeria. The following recommendations were drawn for policy making:

i. To enhance financial performance, commercial banks in Nigeria should prioritize a balanced internal control environment that ensures regulatory compliance without creating unnecessary operational rigidity. Management should reinforce ethical values by implementing robust corporate governance frameworks and ensuring strict adherence to ethical banking practices. Additionally, banks should invest in continuous employee training programs to enhance staff competence, enabling them to effectively execute internal controls and financial strategies. Furthermore, governance structures should be strengthened through independent oversight mechanisms that prevent financial mismanagement while allowing flexibility in decision-making. By adopting these measures, banks can optimize their control environment, enhance profitability, and sustain long-term financial stability.

ii. Commercial banks in Nigeria should strengthen their control activities by integrating advanced technological solutions such as automated monitoring systems and real-time risk assessment tools to enhance efficiency without stifling flexibility. Additionally, management should adopt a dynamic approach to internal controls by periodically reviewing and adjusting control measures to align with changing regulatory requirements and market dynamics, ensuring optimal financial performance while maintaining compliance and operational efficiency.

iii. To maximize the benefits of information technology, commercial banks in Nigeria should continuously invest in robust cybersecurity frameworks, innovative digital banking solutions, and advanced data analytics tools. Additionally, regulatory bodies should provide supportive policies that encourage IT adoption while ensuring adequate risk management strategies. Banks should also focus on staff training and capacity building to optimize the use of technology for improved financial performance and customer satisfaction.

iv. Commercial banks should strengthen their internal monitoring mechanisms by integrating advanced technology with human oversight to ensure real-time detection of financial irregularities while maintaining compliance with regulatory standards. Additionally, periodic reviews of monitoring systems should be conducted to prevent overregulation and optimize costs, ensuring that control measures enhance financial performance without imposing excessive administrative burdens.

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