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IMPACT OF INTERNAL CONTROLS ON THE LIQUIDITY PERFORMANCE OF LISTED COMPANIES IN NIGERIA

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ABSTRACT: *The study sought to determine the impact of internal control systems on liquidity performance of listed companies on the Nigeria Securities Exchange (NSE). To achieve the objective of this study, the research specifically looked at the following objectives, several number of internal controls such as, risk management, Compliance, Internal communication and board independence and on the other hand the selected entities examine on long- and short-term solvency to properly assessed the impact of internal control on liquidity performance of companies listed on NGX. The study adopted the ex-post facto research design. The population chosen for this study was the top 10 listed companies on the NGX based on their capitalization on the exchange floor. The study used a sample of a 5 years annual report of each entity as this makes the total population to be 19. The sample was drawn using stratified random sampling technique. The study relied on secondary data, majorly the annual report of each company alongside their audited financial statements. The secondary data was extracted from audited annual reports, publications, and document analysis. Data analysis used both descriptive statistics, diagnostic statistics and inferential statistics. Frequency tables were prepared, averages determined and tests of hypothesis like ANOVA, chi-square, correlation and regression analysis were done. The data was analyzed using a statistical package for social scientists (SPSS) computer software version 21.0. The results and findings concluded that there was no significant association between internal control and liquidity performance and recommended that internal control should be improved to further enhance the liquidity performance of companies quoted in Nigeria Securities Exchange.*

KEYWORDS: Internal controls, Long-term liquidity, Risk management, Short-term liquidity.

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INTRODUCTION

Internal control remains one of the fundamental concept's entities used to achieve organizational important objectives, enhance performance and in building long lasting reputation, particularly in disruptive and uncertain times. Internal control also forms a core aspect of the activities of accountancy, finance, and internal audit professionals, helping them in ensuring that entities operate effectively.

The Committee of Sponsoring Organizations (COSO) framework led by James Treadway Jr. in 1992 looked at internal control as a process, affected by an entity's board of directors, management, and other personnel, designed to provide "reasonable assurance" regarding the achievement of objectives in the following categories: Effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations. The COSO (2013) framework identifies five major elements of internal control systems against which the review should take place. These include control environment, risk assessment, control activities, information and communication and monitoring.

There is a general belief and expectation that institution and enforcement of proper internal control systems will always lead to improved financial performance. The COSO (2013) framework also found out that properly instituted systems of internal control enhance the reporting process and also give rise to reliable financial and operational reports which enhances the accountability function of management of every entity (Egbunike & Okerekeoti, 2018).

Internal controls are put in place to ensure safe custody of all companies' assets; to avoid mismanagement or misappropriation of assets and to detect and safeguard company's resources against probable frauds. In recent times, several financial scandals have been witnessed in listed companies both in the local and international scene (Downes, 2021). For example, American investors lost $180 billion in World Com Scandal of 2002, $150 million was also lost in Tyco Scandal of 2002, while a whopping amount of $1.4 billion in Healthsouth Scandal of 2003 (the largest publicly traded company) and $3.9 billion in America international Group (AIG) scandal of 2005, among several financial fraudulent activities affecting publicly listed companies. In the early 2000s, several high-profile corporate accounting scandals resulted in some investors, company personnel and other stakeholders suffering significant losses.

These scandals resulted in demands for a greater emphasis on corporate governance. Sarbanes-Oxley Act (SOX) was passed into law by the United States Congress in July 2002, this was done to reduce public concern over several high-profile corporate failures in the United States. Rose (2016) documented that firms reporting internal control weaknesses have more complex operations; have experienced recent changes in organizational structure; are at increased exposure to accounting risks; and have fewer resources to invest in internal control. Furthermore, Ifarajimi and Audu (2022) indicated that firms with material weaknesses have a lower earnings quality than those that do not report material weaknesses. Additionally, Solomon (2009) showed a negative market reaction to firms that had reported material weaknesses in internal control per the requirement of Sarbanes-Oxley Act Section 302.

In South Africa, cases of accounting scandals have been recorded in Rand-Gold and Exploration Companies (Solomon, 2009). In Nigeria, the managing director and chief financial officer of Cadbury Nigeria were dismissed in 2006 for inflating the profits of the company for some years before the company's foreign partner acquired controlling interest. These scandals

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emphasize the need to assess, examine, and strategize patterns and systems of checks and balances to guide corporate executives in their decision-making process.

This is the reason the present study is initiated to find out to what extent perception of internal control and perception of financial performance of companies listed on the Nigerian stock exchange (NGX). Ahmad et al. (2021) pointed out that a firm's financial performance is to an extent dependent on how the board is composed. Adams et al. (2010) opined that strong boards which are identified with the compliance of internal control principles naturally have mechanisms that are set-up to ensure strict managerial competence which leads to the likelihood of better business financial and non-financial performance.

This remains one of the reasons why internal control stands as a topical issue of interest and as part of the corporate governance requirement in the Nigeria private sector especially to the publicly listed entities to mitigate the occurrence of business failure. Business failure happens because of poor business performance which could mean that the business is not breaking-even (profitability), or liquid enough to meet its short- or long-term obligations. Audu (2022) explained that business failure can have a devastating effect on various stakeholders. Hence, the need for effective internal control in order to ensure healthy liquidity performance by entities.

Objective of the Study

The main objective of this study is to examine the influence of internal control on the liquidity performance of companies that are listed on the Nigerian Exchange. For this study to achieve its main objective, the following specific objectives have been set out:

i. To assess the impact of internal control on the short-term solvency of companies; and

ii. To assess the effect of internal control on the long-term solvency of companies.

Research Questions

The following research questions are answered in this study:

i. What is the impact of internal control on the short-term solvency of companies?

ii. To what extent does internal control influence the long-term solvency of companies?

Research Hypotheses

The following research hypotheses are tested in this study. They are stated below in their null form:

i. **$H_0$1**: Internal control does not have a significant impact on the short-term solvency of companies.

ii. **$H_0$2:** Internal control does not have a significant effect on the long-term solvency of companies.

The remaining part of this paper shows a brief review of existing literature, the methodology, discussion of results, conclusion and recommendation.

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LITERATURE REVIEW

This section shows the review of the main concepts of this study, establishes the theoretical framework and a review of related existing literature

Conceptual Review

The concept of business performance and internal controls as used in this study are discussed in this section.

Business Performance

In this study, business performance is assessed from the perspective of liquidity (short and long term). They are briefly discussed below:

Short-Term Solvency

Short-term solvency signifies a firm's ability to fulfil their current obligations (Oluyombo, 2021). Short-term solvency can be established with the current ratio which is obtained after dividing current assets by current liabilities. It can also be assessed using the quick-acid test ratio which is derived by subtracting current assets from the liabilities.

Long-Term Solvency

Creditors that finance medium to long term credit facilities such as banks are interested in assessing a firm's ability to meet up with their debt payment as the debt falls due. The amount of credit financed in such instances is usually large and sometimes do not provide such funds without going into covenant and restrictions with the firm to protect their interest and repayment of their loans (Wanyama & Olweny, 2013).

Unlike short-term borrowing that is commonly for a short tenure and involves a limited amount of funds. Hence, Wanyama and Olweny (2013) suggested that long-term creditors are like investors in the business and as such will put processes and controls in place to protest their interest. Anderson et al. (1993) opined that in such circumstances a form of control is by the creditor to establish key personnel in management that will watch over their interest. Alsaeed (2006) illustrated that J. P. Morgan will always ensure that they establish personnel in such a firm's management team. Weir et al. (2002) also cited the United States as an example where receiver's managers are appointed to adjudicate winding-up of firms amicably.

They further suggested that the debt financing is a way of providing governance structures to any firm as the creditors will ensure that there are sets of controls in place. It should be noted that empirically debt financing helps to mitigate the problems associated with agency relationships. Debt financing has been shown empirically on its relevance (Shleifer & Vishny, 1997).

Alsaeed (2006) pointed out the significance of debt financing to firms which makes such firms to be more controlled which has made leveraging to be considered as an important variable in past studies. Leverage is determined by dividing total liabilities by total assets. However, just as other accounting ratios, leverage can also be determined by dividing debt with equity.

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Wanyama and Olweny (2013) mentioned another form of agency problem that may arise in the instance that the debtholders have a different focus from that of the shareholders. Debtholders unlike stockholders have a fixed entitlement in the business, stockholders have a residual claim in the business.

Meanwhile, the stockholders are compensated more in times of business success than the debtholders whose claims are fixed; debtholders are better-off when the business under-performs. Despite these conditions, once a business fails, both the debtholders and the stockholders will lose.

Therefore, Wanyama and Olweny (2013) pointed out that it will be of advantage to both parties if they align their interest to ensure that the business performs optimally. Like the case in Japan and Germany, large firms are to ensure that representatives of debtholders are also in the constituted board of the firm as it will ensure that the board aligns and captures the position of both debtors and equity holders.

Internal Control

Internal control is one of the essential enablers for entities to grow with confidence and integrity in a multi-stakeholder world filled with volatility, uncertainty, disruption, and complexity. Internal control goes beyond statutory compliance requirements, it helps entities to build trust, confidence, and a positive reputation in achieving strategic business outcomes (ACCA, 2024).

Effective internal control requires an appropriate combination of people, processes, technology, and data underpinned by an unwavering commitment to trust and ethics. For accountancy, finance and internal audit professionals it is important to have a detailed appreciation of the opportunities that technology can present; how these are translated into processes enacted and the optimized ways of working.

Through professional qualifications and continuous learning, these professionals need to ensure that they can maintain relevance, enabling them to guide decision makers in addressing the broadening governance and control requirements. In this way accountancy, finance and internal audit professionals are ready and able to guide their entities and the stakeholders into a new era for internal control (ACCA & PWC, 2021).

In assessing organizational targets, Muraleetharan (2011) found that the internal management structure and financial results were statistically important. This is in line with this study's target. Internal controls improve performance, reduce the risk of loss of funds and help ensure that financial statements are accurate and consistent with laws and regulations. Pany *et al.* (2008) addressed the comprehensiveness of internal controls in addressing financial statements, procedures and compliance with laws and regulations to accomplish targets. An *et al*. (2016) observed that poorer earnings output is correlated with the degree of control concerns that cannot be audited as effectively, investigating connections between disclosure of content deficiency and theft, earnings management, or restatements. Efficient internal controls are one of the tools used to resolve the issues of the department, according to Kataria and Garg (2013). In this study, internal control is represented by risk management, board independence, compliance, and internal communication.

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Risk Management

Jenatabadi (2015) defined risk as the chance of loss, or an unfavorable outcome associated with an action. For an individual, risk management involves optimizing expected returns subject to the risks involved and risk tolerance. Risk is what makes it possible to make a profit. If there was no risk, there would be no return to the ability to successfully manage it.

Risk management is the process of identifying, assessing and controlling threats to an organization's capital and earnings. These threats, or risk, could stem from a wide variety of sources, including financial uncertainty, legal liabilities, strategic management errors, accidents and natural disasters.

IT security threats and data-related risks, and the risk management strategies to alleviate them have become a top priority for digitized companies. As a result, a risk management plan increasingly includes companies' processes for identifying and controlling threats to its digital assets, including proprietary corporate data, a customer's personally identifiable information and intellectual property.

Risk Management is the process of measuring or assessing risk and then developing strategies to manage the risk (ACCA, 2024).

Board Independence

Board of directors is a measure put in place to curb the excesses of management (agent) of the firm. The board is made up of various types of directors which range from executive directors to non-executive directors to independent directors.

Rose (2016) explained the different categories of directors which include executive directors which are described as directors who are involved in the day-to-day management of the firm, the non-executive directors are not involved in the day to day running of the business.

In the case of the executive and non-executive directors, they both have investment stake in the firm. Unlike the first two categories of directors, the independent directors do not have any investment interest in the business. They bring their wealth of experience into the board decisions and are judged to provide more independent opinions about issues and matters. Uadiale (2010) opined that theoretically they are in a more objective view as they are not affiliated with the business.

Studies show empirically how the larger the number of independent directors, the better the performance of the business both financial and non-financial performance (An *et al*., 2016). O'Sullivan (2000) carried out a study to empirically proof that there exists a relationship between independent directors and financial performance by examining four hundred and two firms that are of British origin, it was pointed out from the study that indeed, independent directors on the board have a positive influence on the level of profit of a firm. It shows that due to their objective nature and wealth of experience, they ensure that structures are set in place to curb excesses that would have prevented the business venture from maximizing profit.

Finally, they stated that agency cost is usually lower for such firms that have more independent directors. Fabrizi *et al.* (2013) showed from his study how a higher number of independent directors have a positive influence on the level of performance displayed by a firm. Contrary

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to this view, Weir *et al*. (2002) opined that there is a negative relationship between independence of the board and performance of a firm. Other studies such as (Hategan, 2018; Uadiale, 2010) opined that independent directors do not have any correction with business performance.

Compliance

Compliance is the state of being in accordance with established guidelines or specifications, or the process of becoming so. Software, for example, may be developed in compliance with specifications created by a standards body, and then deployed by user organizations in compliance with a vendor's licensing agreement. The definition of compliance can also encompass efforts to ensure that organizations are abiding by both industry regulations and government legislation (Golubeva, 2021).

Compliance is a prevalent business concern, partly because of an ever-increasing number of regulations that require companies to be vigilant about maintaining a full understanding of their regulatory requirements for compliance. To adhere to compliance standards, an organization must follow requirements or regulations imposed by either itself or government legislation.

The Sarbanes-Oxley Act (SOX 2002) was enacted in response to the high-profile Enron and WorldCom financial scandals to protect shareholders and the public from accounting errors and fraudulent practices. Among other provisions, the law sets rules on storing and retaining business records in IT systems.

Accounting and Auditing compliance guidelines vary by country; Sarbanes-Oxley Act, for example, is U.S. legislation. The main legal framework for corporate governance in Nigeria is the Companies and Allied Matters Act of 2020 (CAMA 2020) as amended. Similar legislation in other countries includes Germany's Deutscher Corporate Governance Kodex and Australia's Corporate Law Economic Reform Program Act 2004.

As a result, multinational organizations must be cognizant of the regulatory compliance requirements of each country they operate within. For example, General Data Protection Regulation (GDPR) applies to all organizations that are based outside the European Union, if they also operate within the European Union.

Internal Communication

Internal communication facilitates corporate culture that is dynamic, continuous and ever-changing relevant situations (Miles, 2012). Highly effective internal communication serves as a foundation for organizational stability.

Internal communication is directly responsible for excellent financial results and organization stability. There exists a trait of internal communication in leadership positions in an organization offering mutual benefit for the company and its employees.

Effective internal communication is present throughout the entire organization and is used as base of company management (Kataria & Garg, 2013). Managers utilize internal communication for better work performance and employee attitude. Sustainable company growth relies on internal communication and provides technical solutions.

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Internal communication improves employees' understanding of organization and its products, organization, ethics, culture and external environment (Welch 2013). In addition, research results demonstrate internal communication is mandatory for employee commitment, performance, social responsibility behaviors and satisfaction.

Internal communication promotes organizational goals and policies among all personnel; Successful internal communication is important to support innovative technology leading towards prosperity, internal communication is vital to development of employees' mental inertia making them vibrant, competitive and preparing them to face uncertainty (Kataria & Garg, 2013).

Internal communication boosts employees' morale, strengthens organizations' vision, connects employees to business, advances process improvements, facilitates change and drives business results (Kataria & Garg, 2013). Internal communication encourages people to work in teams, enhances decision making processes and eradicates obstacles among different departments.

One of the fundamental outcomes of internal communication is to attain organizational strategies and objectives leading to sound management principles and financial performance. Internal communication streamlines operation procedures and implements best practices in every organization (Welch, 2013).

Many innovative steps are taken by firm's managers to improve employees' commitment and dedication towards the organization's achievement of the desired financial performance such that they can work with other employees of the same or other departments in cordial manner, safeguarding the organization assets.

Hence, employees find it a pleasure to work for the economy by applying optimum performance in every organization (Wu *et al.,* 2009).

Theoretical Framework

This study hinged on the management control theory which was developed by Otley (2004) who postulated that unity of purpose between the management and junior staff needed to be created. The management sets out control mechanisms aimed at creating synergy among staff in realization of the main objectives as anchored in the mission charter of the organization. According to Otley (2004), management control is a means of distribution by the organization to elicit the performance it needs and to check whether the levels of such performances are in accordance with organizational specifications. The management comes up with departments for ease in tracking daily occurrences; hierarchy in the form of a pyramid is instituted so that information is quickly relied at the top for decision making. The managers coordinate work activities and subunits through systematic rules and procedures (Wright, 2007).

According to Wright (2007), the theory ratifies the three elements as controller, controlled and the method of control. The controller represents the top administrative group responsible for making decisions. Control is the activities that must be subjected to a controlled output or the behavior with the set rules. With this set up, organization goals are accomplished with minimum use of resources as its organizational effectiveness and congruence of individual and organization goals (Anthony & Govindarajan, 1995). It also abets the employees to make decisions and take actions which are in the best interest of the organization.

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Management control is a generic term for a wide range of formal and informal approaches and mechanisms that aim to regulate the behavior of members of an organization. It is the process of assuring that resources are obtained and used effectively and efficiently in the accomplishment of an organization's objectives (Anthony & Govindarajan, 1998). Formal management control mechanisms include organizational structure, reward systems, budgeting, standard operating rules and procedures, strategic planning systems, and operational controls. Informal techniques comprise leadership, culture, values, and norms. The term organizational controls are used to denote management controls that generally comprise technical controls, such as management accounting controls and other non-accounting controls.

The space within which this process operates can be regarded as the control environment or control context. It can be said that the controller, the controlled, and the method of control are connected through a chain of power, authority, rules, regulations, norms, values, and information within the boundary of the control context. The aggregate of the relationships between the controller, the control, the method of control, and the control context can collectively be referred to as management controls.

Empirical Review

Existing literature in relation to the focus of this study is reviewed to gain insight into the extent of work done. For instance, Anthony et al. (2021) assessed the internal control structure, and the financial performance of companies listed in Nigeria's south-west region. Ex-post facto method was used to obtain data and secondary data was gathered over a period spanning from 2011 to 2017.

The findings of the study indicated a favorable association between internal audit control, risk management, monitoring practices and operational performance, pointing to the objectives. Monitoring practices and control environments have a significant negative impact on asset returns.

Alashe and Bello (2021) evaluated the impact of internal audit on financial performance of deposit money banks in Nigeria with the aim of investigating the impact of internal audit on the financial performance of deposit money banks in Nigeria. Primary data with respect to questionnaires were used to collect data. The study concluded that there was a positive relationship between internal audit and the financial performance of money deposit banks in Nigeria.

Ngari (2017) examined the effect of internal controls on financial performance of microfinance institutions in Kenya. Primary qualitative data was gathered using questionnaires and structured interviews were administered to employees of the institutions. The data was edited, recorded and analyzed in tables and charts. The study found out segregation of duties is positively related to financial performance. Internal audit functions improved financial performance especially operational and financial review.

Obama and David (2021) assessed the internal audit function and financial performance of telecommunication firms in Nigeria. This study sought to analyze internal audit function and financial performance of telecommunication firms in Nigeria. The methodology adopted was a survey method to collect primary data using a structured questionnaire. Data was analyzed using percentage, tables and spearman rank order correlation techniques and with statistical

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package for social science (SPSS) was used to test the hypotheses. The findings revealed that, internal audit function has positive relationship between financial performance of telecommunication firms in Nigeria. It was therefore concluded that telecommunication firms should expand their network coverage and improve the quality of service they offer because this is a major factor that affects their financial performance.

Idogei *et al.* (2017) examined internal control as the basis for prevention, detection and eradication of frauds in Nigeria's banks. The focus of their study was to examine the impact of internal control quality on financial fraud detection in Nigerian banks. The objectives were mainly to investigate the effect of internal control size, internal control quality and internal control independence on financial fraud detection. The survey design was employed by the researcher. The study found that all three core internal audit features; internal audit size, internal audit quality and internal audit independence have a significant positive impact on financial fraud detection. Based on the empirical findings, the study recommends there is the need for banks to increase the size of their internal audit departments, improve the quality of their internal audit units through constant training of the personnel and enhance internal audit independence.

The review of above existing studies that were conducted in earlier years indicated that, there is a need for a revalidation of the position arrived at from the previous studies.

METHODOLOGY

The research design adopted in this study is the *ex-post facto* research design. The population of this study comprises 100 listed companies on the Nigerian Exchange (NGX). This is considered a suitable population for this study as they are highly ethical since they are made to comply with the listing requirements of the Stock exchange which centers on control and ethical issues to safeguard the public interest in such companies. The sample size was determined based on the level of market capitalization. Hence, the top ten (10) companies based on market capitalization were selected as the sample size for this study, this is because the summation of this companies alone contribute approximately seventy-seven percent (77%) as of 30th June 2023 of the market capitalization of the Nigerian Stock Exchange (NGX). Secondary data was collected over a five-year period which spans from 2019 to 2023 from the audited annual report of the selected firms. The regression model adopted for this study is shown below:

- STL = $a + \beta 1RMi + \beta_2 BOI_i + \beta 3Ci + \beta 4ICi + \xi_i$ ……………..………Model1
- LTL = $a + \beta 1RMi + \beta_2 BOI_i + \beta 3Ci + \beta 4ICi + \xi_i$ ……………..…..……Model 2

Data Analysis and Discussion of Finding

This section shows the result of the inferential analysis carried out to test each of the hypotheses in this study.

$H_0$1: Internal control does not have a significant impact on the short-term solvency of companies.

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Table 1: Regression Result on Hypothesis One

Estimation Techniques	**Regression Result**			
Dependent Variable: STL	**Coeff.**	**Std. Err**	**T-Stat**	**Prob**
Constant	0.6297009	0.0858209	7.34	0.000
RMi	-0.1786867	0.5622968	-0.32	0.755
BOI	-8.10	3.45	-2.35	0.033
Ci	0.000	0.00	0.00	0.00
ICi	0.8332203	0.5422643	1.54	0.145
Adjusted R^2	0.6372			
R-squared	0.6977			
Number of Obs	19			
F-Stat	$F_{(3,15)} = 11.54$ (0.0004)			

Source: *Researcher's Computation (2024)*

Table 1 shows that risk management practice has an inverse non-significant influence on short term liquidity while board independence has an inverse significant influence on short term liquidity. The result also shows that internal structure has a positive significant influence on short term liability.

In addition, the result shows that the internal control model represented in this study explains approximately sixty-four percent of short-term liability. In summary, the computed p-value of 0.0004 which means that the null hypothesis is rejected and the alternative hypothesis which states that 'internal control does have a significant impact on the short-term solvency of companies' is accepted.

$H_0$2: Internal control does not have a significant effect on the long-term solvency of companies.

Table 2: Regression Result on Hypothesis Two

Estimation Techniques	**Regression Result**			
Dependent Variable: LTL	**Coeff.**	**Std. Err**	**T-Stat**	**Prob**
Constant	1.167728	3.308384	0.027	0.729
RMi	53.16652	21.67647	2.45	0.027

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BOI	-0.000013	0.0000133	-0.98	0.343
Ci	0.000	0.00	0.00	0.00
ICi	-49.31258	20.90422	-2.36	0.032
Adjusted R^2	0.1450			
R-squared	0.2875			
Number of Obs	19			
F-Stat	$F_{(3,15)} = 2.02$ (0.1547)			

Source: *Researcher's Computation (2024)*

Table 2 reveals that risk management has a positive significant influence on long term liability. In addition, board independence has an inverse non-significant influence on long term liability. Finally, the internal process has an inverse significant influence on long term liability.

The model used to represent internal control has a low predictive influence on long term liability. This is represented by the adjusted R square of 14.5%. The computed p-value is 0.1547 which shows that the alternate hypothesis is rejected while the null hypothesis which states that 'internal control does not have a significant effect on the long-term solvency of companies' is accepted.

DISCUSSION OF FINDINGS

Research Question One: What is the impact of internal control on the short-term solvency of companies?

The result shows that internal control does have a significant impact on the short-term solvency of companies. It further shows that risk management practice has an inverse non-significant influence on short term liquidity while board independence has an inverse significant influence on short term liquidity. The result also shows that internal structure has a positive significant influence on short term liability.

This position agrees with the position of Anthony et al. (2021) who opined that internal control has a significant influence on operational performance. However, the finding of this study differs with the position of Idogei et al. (2017) who pointed out that internal control does not have a significant influence on performance of firms. A possible variation in result can be attributable to the difference in location where the studies are carried out. Overall, the result confirms the validity of the agency theory that explains the need for continuous monitoring.

Research Question Two: To what extent does internal control influence the long-term solvency of companies?

The results reveal that internal control does not have a significant effect on the long-term solvency of companies. It also shows that risk management has a positive significant influence on long term liability. In addition, board independence has an inverse non-significant influence

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on long term liability. Finally, the internal process has an inverse significant influence on long term liability.

The position of this study points out that internal audit functions improved performance especially operational and financial review. This result also confirms the validity of the agency theory and shows the importance of internal control.

CONCLUSION AND RECOMMENDATIONS

This study was designed to examine the influence of internal control on the financial performance of companies that are listed on the Nigerian Exchange. The study reveals that risk management practice has an inverse non-significant influence on short term liquidity while board independence has an inverse significant influence on short term liquidity. In addition, the result also shows that internal structure has a positive significant influence on short term liability.

Furthermore, the result shows that risk management has a positive significant influence on long term liability. In addition, board independence has an inverse non-significant influence on long term liability and that internal process has an inverse significant influence on long term liability. It is thereby concluded in this study that internal control does have a significant impact on the of listed companies in Nigeria. It is recommended that:

i. Directors' fees should be monitored to enhance the short-term liquidity position of companies.

ii. Risk management committee should be encouraged to be active to improve the long-term liquidity position of companies.

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