

Research Article

Impact of Internal Control System on Quality Financial Reports: A Case Study of Nisa Medical Group (NMG)

***^aGiwa Unueshioste Isaac, ^bAminu Ibrahim and ^cUzoaru Chidi Blessing**

^aDepartment of Accounting and Finance, Faculty of Management and Social Sciences, Baze University, Abuja, Nigeria

^bHead, Department of Accounting and Finance, Faculty of Management and Social Sciences, Baze University, Abuja, Nigeria

^cPh.D. Economics Student, Department of Economics, University of Abuja, Nigeria

*Corresponding Author Email: greatunueshioste@gmail.com

Received: June 29, 2024

Accepted: July 19, 2024

Published: July 27, 2024

Abstract

These days, the world is witnessing rapid developments in various sectors, especially in the health sector operations that health organization and institutions are currently witnessing, as there is strong competition to move to modern technology in health care management and concepts in the field of pharmaceutical services, and quality health care services. The weakness of the financial control systems in Nisa Medical Group is one of the consequences of non-implementation of its audit report and top management supervisor, and this has also negatively affect the institution preparation of quality financial reports. This is a situation characterized by failure and or ineffectiveness in the implementation of duly developed and approved standard operating procedures and non-compliance with policies, regulations and laws in Nisa Medical Group. The main objective of the study is to examine the impacts of internal control system on the preparation of quality financial report of Nisa Medical Group. A survey research design was adopted for this research study and a sample size was selected using Yaro Yamane sampling technique as data used were obtained from primary sources. Four sections of research questions were formulated from which four hypotheses were drawn and the data was analyzed using path way regression co-efficient analysis method at 5% level of significance and the analysis, using a p-value table to test levels of significance, indicates that internal control measures, top management supervision, and account reconciliation significantly impact the quality of financial reporting for Nisa Medical Group. Financial management of any organization cannot do without internal control as true and fair presentation of financial statement may never be possible if the board and top management are not committed to providing a well-planned internal control system. It also recommends that a periodical review of the hospital should be done by the management so as to cope with the model trends in organizational fraud prevention.

Keywords: Internal Control System, Top Management, Quality Financial Reporting.

Introduction

These days, the world is witnessing rapid developments in various sectors, especially in the health sector operations that health organization and institutions are currently witnessing, as there is strong competition to move to modern technology in health care management and concepts in the field of pharmaceutical services, and quality health care services. The economic advances and technological developments led to the emergence of a very large number of large international projects in all health care services, especially medical center and hospital, and this in turn led to the intensification of competition and at the same time led to an increase in interest in internal control, because it is considered one of the most important systems that help health institution to achieve all desired goals to be achieved. Internal control systems are therefore a major determinant of financial performance. Mawanda (2008), states that there is a positive relationship between proper internal control systems and financial performance of organizations.

Internal control systems act as a means of adding credibility to the financial statements. Internal controls have become of paramount importance today in business organizations, the reason being that the control systems in any organization are a pillar of an efficient accounting system (Wanemba, 2010). The increasing

volatility in global markets and need for enhanced shareholder returns has motivated the management of firms to foster the internal control mechanisms as an element of enhancing the competitive edge of firms (Rittenberg and Schwieger, 2005). This is particularly important for organisations as weak internal control system stands as one of the major causes of dismal performance in health sectors mainly due to undetected frauds. From a management point of view there is needed to ensure that internal control systems are put in place in order to reduce the occurrence of fraud. Internal control is a dynamic integral process that is adapting continuously to the changes facing modern health industry (Wielstra, 2014). Within every health institution there is a need to provide products and services at an equitable price that ensures cost efficiency in the production service. In Nigeria, medical centers failures and widespread dip in revenues over the past two decades have been due to ineffective internal control within the formal health sectors (Nyambura, 2013).

Internal control, which assures the stability of every organization, therefore, has gained importance today (Rezaee, 2002). This is because the control systems in place are a pillar of an efficient accounting system as well as the achievement of organizational goals. Also, financial control is considered the most important basic function in the hospitals or organization (CAS, 2022), due to its great role in excellence and continuity in the market, as it is the means that leads to the proper use of financial statements and reports. The quality of financial reports is one of the most important issues in all health care institution, as through its decision-makers, investors, and others can rely on them as ingredients and trust them. The quality of these financial reports is available through several standards, including legal, professional, and also supervisory, as through these standards these financial reports will be of great importance.

Internal control plays a major role in identifying errors or deviations of funds that may occur in financial reports. Therefore, there must be sound internal control systems in place. The quality of financial reports produced by Nisa Medical Group is heavily dependent on the effectiveness of its internal control system, among other factors. The characteristics of high-quality financial reports include relevance, faithful representation, understandability, comparability, and verifiability (Financial Accounting Standards Board, 2021). Most importantly, quality financial reports must derive from the events, circumstances, operations, and actual transactions of Nisa Medical Group.

Therefore, an internal control system is a major part of any organization. "Internal control is the process designed and attended by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations" (Committee of Sponsoring Organizations of the Treadway Commission, 2013).

The intent of this study is to investigate the effect of observed lapses in the internal control of Nisa Medical Group. Areas of examination/investigation, which form the basis of the study's objectives and, therefore, the research questions, include the following: lateness in the preparation of management accounts, non-preparation of accounts reconciliation, lack of top management general supervision, and non-implementation of internal audit reports (Institute of Internal Auditors, 2022).

It is in the light of the above, this study seeks to examine the impact of internal control system in promote high quality financial reporting. Emphasis of this investigation will be centered on determining the effect of the areas of concern as it relates to the case study (Nisa Medical Group) outfit without compromising its internal secret or peculiar setup. The intention is to find panacea to issues/problems assumedly existing which will result in affecting the quality of the financial statements of Nisa Medical Group.

The main objective of the study is to examine the impacts of internal control system on the preparation of quality financial report of Nisa Medical Group and the specific objectives are to: measure the impact of lateness on the preparation of management account on the quality of financial statement in Nisa Medical Group, access the impact of non-preparation of accounts reconciliation on the quality of financial statement of Nisa Medical Group and determine the effect of lack of top management general supervision on the quality of financial statement of Nisa Medical Group.

Empirical Review

According to Kato *et al.*, (2019) the study aimed to measure the effectiveness of internal control systems and capital management for major centers and their financial status. The study sample consisted of 110 shops in Uganda, as the results of the study concluded that capital management is a necessary indicator of financial

performance. This indicates that effective capital management significantly contributes to robust internal control systems, which in turn enhance financial performance. In addition, these results may contribute to the development of working capital policy. However, the internal control system, as well as capital management, is still limited in many commercial centers.

Adegboyegun *et al.*, (2020) the study aimed to discuss the internal control systems and the level of operational performance of a group of medium and small companies in Ondo State. The study included 120 medium and small companies. The results of the study were compiled and arranged by the "logistic regression estimation scale", and the results appeared as follows: The high level of operational performance of medium and small enterprises in terms of annual profitability rises very slightly, as it reached 0.78% and 1.95% and it decreased slightly by 53.53%, 0.51% and 0.33% sequentially with the measure of improvement in communication, information and control activities and in the division of risks. The study also confirmed that the internal control systems do not have any impact on the operational performance of small and medium-sized companies.

Dewi *et al.*, (2020) this study aimed to determine the impact on government accounting standards, internal control systems, and the use of information technologies for the quality of financial data and the efficiency of human resources. The results indicated that the efficiency of human resources and accounting standards do not affect the quality of financial reports. As for the internal control system and the use of information technologies, they significantly affect the quality of financial reports. Internal control systems have a positive and important impact on the accuracy of financial reports. One of the primary objectives of internal control systems is to ensure the reliability of these reports. The responsibility for preparing financial statements used by management, investors, auditors, and owners of organizations lies with the management. Therefore, the financial statements included in the financial reports must be credible and comply with the internal control procedures established by management. The internal control systems have a significant impact on the credibility of the financial statements, as there is a relationship between them. The more effective and good the internal control systems are, the more credible the financial statements will be. In their study on a commercial store in Uganda, researchers Kato *et al.*, (2019) confirmed that the quality of good internal control systems contributes to improving financial performance through financial statements that are in line with internal control systems. Researchers Dewi *et al.*, (2020) added that internal control systems and information technology have a significant impact on the quality of financial data. In contrast, Adegboyegun *et al.*, (2020) indicated through their study of small and medium-sized companies that internal control systems have no impact on operational performance.

Shu *et al.*, (2021) this study examines the relationship between the company's integrity and the existence of internal control systems, as the results show that the company's integrity has a significant and negative correlation with internal control weaknesses. When the legal development or competition in the market is weaker, the negative correlation between the integrity of the company and the internal control systems will become more important. In addition, it was found that the corporate governance that is more effective can enhance the relationship between the integrity of the company and the quality of the internal control systems, and the results indicated that the integrity of the company it can improve the quality of internal control systems (Shu *et al.*, 2021). The development of highly efficient internal control systems in line with financial reporting standards helps the company achieve its goals, as the internal control systems contain many policies and procedures that are designed to comply with financial reporting quality standards. The internal control systems are efficient in working to protect and preserve financial reports from embezzlement and theft. The researchers, Abisola *et al.*, (2022) addressed in the study, which included the impact of the efficiency of the internal control systems and their relationship to financial performance, as explained that the efficiency of the internal control systems enhanced the impact of the size of the bank in terms of financial performance. The researchers agreed in the study that internal audits and the efficiency of internal control systems led to the elimination of misuse of funds and thus this leads to positive financial performance, meaning that the financial reports are reliable and credible (Atheru *et al.*, 2022). This was confirmed by researchers Zhang *et al.*, (2020). If the institution does not have efficient internal control systems, this may lead to large losses for the company (Zhang *et al.*, 2020). Researchers added that there is a relationship between the integrity of the company and the efficiency of the internal control systems. The result concluded that the company's integrity has a negative relationship with the weakness of the internal control system (Shu *et al.*, 2021).

Internal audit function (IAF), there is a widespread belief that an effective IAF could perform many roles relevant to the financial reporting process. These roles include evaluating the risk exposure, performing

financial statements audit, providing assurance and consulting services about the effectiveness of the internal controls over the financial reporting process, and helping prevent and detect fraudulent financial reporting (Abbott *et al.*, 2016; Kabuye *et al.*, 2017; Oussii and BoulilaTaktak, 2018; Park and Park, 2020; Baatwah *et al.*, 2021). These roles provided by the IAF are closely aligned with the financial reporting oversight responsibilities of the board of directors and the Audit Committee's (AC), and therefore the IAF is considered an important corporate governance mechanism to safeguard financial reporting quality (Goodwin and Yeo, 2001; Eighme and Cashell, 2002; Goodwin, 2003; Asare *et al.*, 2008; Gebrayel *et al.*, 2018; Ismael and Roberts, 2018).

Research Methodology

Research design used was descriptive in nature. Qualitative and quantitative data was collected. The data was collected from primary sources using questionnaires. The population of this study comprises four distinctive professionals with 300 respondents viz: 20 business owners (in health sector within Jabi, Abuja), 20 academia, 140 health sector administrators, and 120 professional accountants cut across these various organizations thus: University of Abuja, Gwagwalada, Abuja and Baze University, Jabi, Abuja representing the academia, then Abuja and District of the Institute of Chartered Accountants of Nigeria (ICAN), representing the professional accountants and also Nisa Premier Hospital, Jabi, Abuja and Garki Hospital, Garki, Abuja representing the health sector administrators. To ensure attainment of the main objective of the study, the sample size of this study is derived from the known population of business owners, the academia, health sector administrators, and professional accountants by applying the Taro Yamane (1964) and the sample size for this study is 171.

Sampling Method/Techniques

Taro Yamane (1964) is used in this study to determine the sample from the entire population. It is a formula for estimating or determining sample size in respect to the population under study, allowing inferences and conclusions drawn from the survey to be applied to the complete population from which the sample was drawn. It can be derived as thus:

Taro Yamane formula: $n = N / (1 + N(e)^2)$.

Where n = sample size = 171

N = population size = 300

e = margin of error (standard and conventional rate) = 5%

The sampling techniques deployed here are: stratified, systematic and availability are the sampling techniques used in this study.

In stratified sampling, researchers divide subjects into subgroups called strata based on characteristics that they share (e.g., race, gender, educational attainment). Once divided, each subgroup is randomly sampled using another probability sampling method.

Systematic sampling is a type of probability sampling method in which sample members from a larger population are selected according to a random starting point but with a fixed, periodic interval. This interval, called the sampling interval, is calculated by dividing the population size by the desired sample size. Despite the sample population being selected in advance, systematic sampling is still thought of as being random if the periodic interval is determined beforehand and the starting point is random.

Availability sampling is a method of choosing subjects who are available or easy to find. This method is also sometimes referred to as haphazard, accidental, or convenience sampling. The primary advantage of the method is that it is very easy to carry out, relative to other methods. This study utilized a structural equation modelling to test the relationship between the dependent variable and independent variables. The functional OLS model for this study is specified thus:

$$\text{Quality financial report} = f(\text{strength of internal control}) \dots \dots \dots (1)$$

Linearly, this could be further specified as thus:

$$\text{Quality financial report} = \beta_0 + \beta_1 \text{ internal audit} + \beta_2 \text{ internal control} + \beta_3 \text{ management role in risk mitigation} + e_t \dots \dots \dots (2)$$

Quality financial report is the dependent variable or proxy for preparation of quality financial report. Internal audit, internal control and management role in risk mitigation are in tandem with the 3 line defense model which serves as the independent variables.

β_0 , β_1 , β_2 , and β_3 are the correlation coefficients and e_t is the random variable.

Data Analysis and Presentation of Findings

The results presented here are based on tests conducted using SPSS software and SmartPLS. The data used for this analysis are provided in the appendix of the study. This section discusses the research findings, including data presentation, analysis, and interpretation of outcomes. It covers the response rate, data screening (such as checking for missing values, outliers, and values outside the expected range), and the description of respondent profiles and study variables. Additionally, the assumptions for using PLS-SEM, including normality, are addressed. The measurement model is analyzed through construct validity and internal consistency reliability analysis. The structural model is then computed to examine the relationships between three exogenous constructs (standard of behavior, organizational structure and process, and control) and the endogenous construct (health institutions). Finally, effect size (f^2) and predictive relevance (Q^2) are assessed.

Response Rate

This study distributed 172 copies of questionnaires for the respondents (i.e. online questionnaires), and a total of 122 questionnaires were finally retrieved, giving a response rate of 72%. The raw data collected was subjected to an examination which was in line with opinions of Cooper and Schindler (2007) who believed that should be done to be able to ascertain the completeness, accuracy, consistency and eligibility of the respondents. Based on that, this study was able to discover fifty (50) questionnaires that were not eligible to be considered due to incompleteness and outliers. This accounted for 72% valid response rate, because Sekaran (2003) suggested that a response rate of 30% is sufficient for surveys. Appendix 1 summarized the response rate for the data collected for the analysis.

Assessment of Outliers

Outliers are defined as observations or subsets of observations which appear to be inconsistent with the remainder of the data (Barnett and Lewis, 1994). In a regression-based analysis, the presence of outliers in the data set can seriously distort the estimates of regression coefficients and lead to unreliable results (Verardi and Croux, 2008). The data were examined for univariate outliers using standardized values with a cut-off of ± 3.29 ($p < .001$) as recommended by Tabachnick and Fidell (2007). Following the criterion for detecting outliers, seven (7) cases were identified using standardized values as potential univariate outliers. Thereafter, multivariate outliers were also detected using Mahalanobis distance (D^2). Tabachnick and Fidell (2007) defined Mahalanobis distance (D^2) as the distance of a case from the centroid of the remaining cases where the centroid is the point created at the intersection of the means of all the variables. Based on 85 observed items of the study, the recommended threshold of chi-square is 93.17 ($p = 0.001$). Mahalanobis values that exceeded this threshold were deleted. Following this criterion, five (5) multivariate outliers were detected and subsequently deleted from the dataset because they could affect the accuracy of the data analysis technique. Thus, after removing fifty (50) multivariate outliers, the final dataset in this study was 122 and this finally used for analysis.

Demographic Profile of the Respondents

The researcher analyzed the respondents' profiles based on their demographic characteristics, which included gender, job field, working experience, age, and academic qualifications. Out of a total of 122 respondents, one outlier was considered unfit and excluded from the analysis, reducing the number of respondents to 121.

Respondents Profile by Gender

Out of the 121 valid responses used in this study, 83(69%) of them are males while the remaining 38(31%) are females. The number of respondent by gender is a reflection of the total number of male and female staffs working in the health institutions in the FCT.

Respondents Profile by Job Field

Of all the 121 respondents, 71(58.7%) belong to professional, 36(29.8%) belong to health worker, 5(4.1%) belong to academia, and 9(7.4%) belong to business owner. This shows that all the sampled health institutions in the FCT through job field were well represented.

Respondents Profile by Working Experience

Of all the 121 respondents, 18(14.9%) respondents 1-5, 33(27.7%) respondents were from 6-10, 34(28.1%) respondents were from 11-15, 15(12.4%) respondents were from 16-20 and 21(17.4) respondents were from 21 and above. This shows that all the sampled health institutions in the FCT were well represented.

Respondents Profile by Age

Revealed in the descriptive analysis, 6(5.0%) of the respondents are between age 18-25 years, 54(44.6%) are between 26-40 years of age, 57 of the respondents representing 47.1% are in the age of brackets 41-60 years. And 4 of the respondents representing 3.3% are above 61 years of age.

Respondents Profile by Academic Qualification

As seen in table (Appendix 5), 4(3.3%) of the respondents are National Diploma; 73(60.3%) had B.Sc. 36(29.8) respondents representing 29.8% of the total number of valid questionnaire holds M.Sc. degree, 7(5.8%) of the respondents representing 5.8% of the total number of valid questionnaire holds doctorate degree and 1(8%) of the total respondents have post doctorate.

Descriptive Statistics for the Variables

The most common measure of central tendency is the mean, which is referring to the average value of the data set (Sekaran and Bougie, 2010). Standard deviation is a measure of spread or dispersion, which provides an index of variability in the data. Both mean and standard deviation are fundamental descriptive statistics for interval and ratio scale. This study used five point Likert scale, and Nik *et al.*, (2010) interpretation of the level of score is adapted. They recommended that scores of less than 2.33 are low level, 2.33 to 3.67 are moderate level, and 3.67 and above are regarded as high level.

Table below (Appendix 6) presents the mean and standard deviation of the entire variables used in this study. Internal audit report recorded the highest mean ($M = 4.56$, $SD = 0.644$), while, accounts reconciliation has the lowest mean ($M = 2.24$, $SD = 1.197$). Finally, the variables under the 5-point scale means were in the range of high level, likewise, the other variables under the 3-point scale.

Mean and Standard Deviation of the Financial Reporting Quality

The mean and standard deviation indicated in table (Appendix 7), there are six items representing financial reporting quality. All the items recorded middle levels of mean score. If segregation of duties is not practical, does supervisory oversight exist at any level over the financial reporting recorded highest mean score ($M = 1.68$, $SD = 0.77$), whereas does your organization have an accounts department a lowest mean score of ($M = 1.06$, $SD = 0.268$) respectively. This shows that despite lack of practical segregation of duties, there is more supervisory oversight function at every level of financial reporting.

Mean and Standard Deviation of Internal Audit Report

The mean and standard deviation of internal audit show twenty items representing organizational structure. All items recorded middle level of mean score of 3 point scale. Checkmating the enforcement of appropriate segregation of duties "recorded highest mean score ($M = 4.56$, $SD = 0.644$), whereas internal control recorded lowest mean scores of ($M = 4.22$ $SD = 0.790$) respectively. This result shows that "enforcement of appropriate segregation of duties will enhance the quality of financial reporting.

Management Accounts

The mean and standard deviation show four (4) items representing management accounts. All items recorded high level of mean score. "Late filing of financial statements" recorded highest mean score ($M = 4.36$, $SD = 0.7444$, whereas "late preparation of management accounts and its negative impact on quality financial statements" recorded a lowest mean score of ($M = 2.72$, $SD = 1.291$) respectively. This result shows that late preparation of management accounts has negative impact on quality financial reporting.

Top Management Supervision

The mean and standard deviation show four items representing top management supervision. Thus, three items recorded high level of mean score and an item recorded middle level of mean score "supervisory approval of overtime, on call duties" recorded highest mean score ($M = 4.37$, $SD = 0.743$), whereas "assignment of responsibilities/designation" recorded a lowest mean score of ($M = 2.75$, $SD = 1.185$) respectively. This result shows that "supervisory approval of overtime, on-call duties" as top management supervisory role can motivate staff towards diligence and adequate service delivery on quality financial reporting.

Accounts Reconciliation

The mean and standard deviation show four (4) items representing bank reconciliation. All items recorded high level of mean score. "Why accounts reconciliation" recorded highest mean score ($M = 4.45$, $SD = 0.645$), whereas "proper accounts reconciliation and its impact on quality financial reporting" recorded a lowest mean score of ($M = 2.24$, $SD = 1.197$) respectively. This result shows that the question, why accounts reconciliation enables organizations maintain quality financial reporting.

Normality Test

Normality is the most significant postulation in multivariate analysis (Hair *et al.*, 2010). It deals with the nature of data distribution for an individual construct and its association with normal distribution (Tabachnick and Fidell, 2007). Furthermore, when the final aim of research is to make inference, then screening for normality is a significant step in nearly all multivariate analysis. Accordingly, the univariate and multivariate normality were examined. The preliminary test of normality revealed that there was a sign of non-normality, which was revealed by calculating the Z-score values for each item. As a few cases had a Z-score value of more than ± 2 and above the variables. Subsequently, after the transformation, the skewness and kurtosis of all the items were within the acceptable range of ± 2.58 respectively. Perhaps this is in line with Tabachnick and Fidell, (2007) that data transformation improves outcome, and that normality should be re-checked after normalization. Appendix 1 shows the result of skewness' and kurtosis of the study.

Linearity

For a research to be able to check and deal with the occurrence of type I and type II errors, the kind of association between dependent and independent variables in a research should be linear see Appendix 4. Experts suggested that, to be able to reduce non linearity relationship to the latter, researchers may use items that have already been used in an established theory or in a previous study where both reliability and validity have been confirmed. As far as this study is concerned however, the fear of non-linearity has been allayed because all the items used for both the dependent and independent variables were adapted from previous studies as discussed in detail. Appendix 4 presents the scatter plot between internal audit report, management accounts, top management supervision, accounts reconciliation and financial reporting quality. The assumption was not violated as the plot shows that residual scores converged at the center along the zero point, hence evidencing that the linearity assumption was fulfilled.

Assessment of PLS-SEM Path Model Results

It is essential to mention that a recent study conducted by Henseler and Sarstedt (2013) suggests that goodness-of-fit (GoF) index is not suitable for model validation (see also Hair *et al.*, 2014). Two major approaches to model estimation in structural equation model (SEM) have been identified namely, variance based SEM and covariance based SEM (CB-SEM). Partial least square-structural equation modeling (PLS-SEM) is a variance-based approach to SEM. It uses the obtained data to estimate the relationships between the path models (coefficients) with the aims of reducing the error terms (residual variance) of the endogenous constructs in the structural model (Hair *et al.*, 2014). The present study adopted a two-step process to evaluate and report the results of PLS-SEM path, as suggested by prior studies (Henseler *et al.*, 2009). This two-step process adopted in the present study comprises (a) the assessment of a measurement model and (b) the assessment of a structural model as indicated in Appendix 2.

Discussion of Findings

This study tested various hypotheses, revealing how different variables either support or do not support these hypotheses. The results of the structural model assessment, focusing on management accounts and financial reporting quality, are summarized below:

1) Management Accounts and Financial Reporting Quality: Hypothesis H01 predicted a relationship between the late preparation of management accounts and financial reporting quality. Management accounts were assessed through the creation of a functional accounts department, preparation timelines, the impact of late filing on investors, and delegation of duties. Results are shown in Appendix 4. Hypothesis H02 predicted that preparation of management accounts is negatively related to financial reporting quality. An insignificant negative relationship between preparation of management accounts and financial reporting quality ($\beta = 0.824$, $t = 2.270$, $p < 0.023$) was found, indicating support for hypothesis.

2) Internal Audit Report: Hypothesis H03 suggested that internal audit reports negatively impact financial reporting quality. The analysis (Appendix 3) revealed an insignificant relationship between internal control and financial reporting quality ($\beta = 0.689$, $t = 3.146$, $p < 0.002$), supporting the hypothesis. Hypothesis H04

posited a negative relationship between internal audit reports and financial reporting quality. Results (Appendix 4) showed an insignificant negative relationship with appropriate segregation of duties ($\beta = 0.781$, $t = 3.946$, $p < 0.000$), supporting this hypothesis. Hypothesis H05 proposed that the quality of internal audit reports is negatively related to financial reporting quality. Results (Appendix 4) indicated that the organizational written mission statement had an insignificant relationship with financial reporting quality ($\beta = 0.758$, $t = 4.491$, $p = 0.000$), supporting the hypothesis.

3) Top Management Supervision: Hypothesis H06 predicted a positive relationship between top management supervision and financial reporting quality. Results (Appendix 4) indicated that institutionalization of appropriate segregation of duties had a significant relationship with financial reporting quality ($\beta = 0.671$, $t = 5.231$, $p = 0.000$), contradicting the hypothesis. Hypothesis H07, predicting a positive relationship between assignment of responsibilities/designation and financial reporting quality, found support with a significant positive relationship ($\beta = 0.791$, $t = 10.554$, $p = 0.000$). Hypothesis H08 suggested that supervisory approval of overtime and on-call duties positively impacts financial reporting quality, with results showing a significant relationship ($\beta = 0.813$, $t = 8.668$, $p = 0.000$), contradicting the hypothesis. Hypothesis H09, predicting that versatility of top management positively impacts financial reporting quality, also found significant support ($\beta = 0.813$, $t = 10.442$, $p = 0.000$). Overall, top management supervision emerged as a strong predictor of financial reporting quality in health institutions.

4) Accounts Reconciliation: Hypothesis H10 predicted that general oversight by accountants positively affects financial reporting quality. Results (Appendix 4) indicated a significant relationship with the impact of non-account reconciliation ($\beta = 0.899$, $t = 10.120$, $p = 0.000$), contradicting the hypothesis. Hypothesis H11, predicting that failure to perform accounts reconciliation positively affects financial reporting quality, showed a significant relationship ($\beta = 0.526$, $t = 4.257$, $p = 0.000$), contrary to the hypothesis. Hypothesis H12 suggested that accounts reconciliation positively impacts financial reporting quality, with results indicating a significant positive relationship ($\beta = 0.780$, $t = 2.805$, $p < 0.005$), supporting the hypothesis. Additionally, Hypothesis H13, which predicted a positive impact of accounts reconciliation on financial reporting quality, was supported with a significant positive relationship ($\beta = 0.780$, $t = 7.251$, $p < 0.000$). Accounts reconciliation was confirmed as a strong predictor of financial reporting quality in health institutions.

The research model explained 14% of the variance in financial reporting quality, suggesting that while the model captures some of the variability, much remains unexplained. This indicates that the model's fit is relatively low, as reflected by the adjusted R^2 of 11%.

Summary

- ✓ Late preparation of management accounts has a negative insignificant impact on the quality of financial statements of Nisa Medical Group. This is in line with a prior expectation in H0₁: Late preparation of management account has no impact on the quality of financial statement of Nisa Medical Group.
- ✓ Non-preparation of accounts reconciliation has a positive significant impact on the quality of financial statements of Nisa Medical Group. This does not justify a prior expectation in H0₂: Non preparation of accounts reconciliation does not affect the quality of the financial statements in Nisa Medical Group.
- ✓ Lack of top management general supervision has a positive significant impact on the quality of financial statements in Nisa Medical Group. This is not in line with a prior expectation in H0₃: Lack of top management general supervision has no impact on the quality of financial statement in Nisa Medical Group.
- ✓ The non-implementation of internal audit report does not have a positive significant impact on the quality of financial report in Nisa Medical Group. This justifies the A prior expectation in H0₄: The non-implementation of internal audit report has not diluted the quality of financial statements in Nisa Medical Group.
- ✓ Late preparation of management accounts: Had a negative insignificant impact on the quality of financial statements, which aligns with the hypothesis.
- ✓ Non-preparation of accounts reconciliation: Had a positive significant impact on financial statements, contrary to the hypothesis.
- ✓ Lack of top management supervision: Had a positive significant impact on financial statements, contradicting the hypothesis.
- ✓ Non-implementation of internal audit reports: Had no significant impact on financial report quality, consistent with the hypothesis.
- ✓ In addition, adjusted squared of 11 percent being too low portrays that the model is not fit.

Conclusion

This Research examined the impact of internal control system in the preparation of quality financial reports, a case study of Nisa Medical Group. Research questions have been raised and answered based on theories reviewed and summary of findings as thus:

- ✓ Management accounts preparation has a negative insignificant impact on financial reporting quality, internal audit report has an insignificant negative impact on financial reporting quality, top management supervision has a positive and significant impact on quality financial reporting and accounts reconciliation has a positive impact on financial reporting quality.
- ✓ R squared of 14 percent is low meaning that only 14 percent of the independent variables are explained while 86 percent are unexplained.
- ✓ Adjusted R squared of 11 percent implies that the model is not fit.

Recommendations

To enhance the impact of internal control system in the preparation of quality financial reports in Nisa Medical Groups and other health institutions, there is need for the following critical areas to be focused on:

- ✓ The top management supervisory role has to be intensified in Nisa Medical Group and other health institutions because it has a significant positive impact on quality financial reporting as found in this study.
- ✓ Accounts reconciliation has to be done appropriately in Nisa Medical Group and other health institutions since it has a positive impact on quality financial reporting as found in this study.
- ✓ Health institutions and other organizations should build adequate internal control systems that will employ versatile top management team whose supervisory roles can have positive significant impact on quality financial reporting.
- ✓ Proper segregation and delegation of duties and responsibilities can serve as veritable tool of enhancing quality financial reporting in Nisa Medical Group and other health institutions.
- ✓ Supervisory diligence on approval of overtime and on-call duties can boost the morales of staff members in the discharge of their responsibilities in Nisa Medical Group and other health institutions.
- ✓ Evaluate all risks that the Nisa Medical Group may face continuously by the internal control systems, to bypass and control them so as not to affect the nature of the work, especially during the preparation of financial reports.

Declarations

Acknowledgments: I want to express my gratitude to God who has brought me this far, without him I wouldn't have made it. My sincere appreciation goes to my supervisor, Dr. Ibrahim Yakasai Aminu and, Mr. Chidi Uzoaru and all my colleagues for the great contributions made to this work. Thank you all.

Author Contributions: GUI, UCB: Definition of intellectual content, implementation of study protocol, design of study, statistical analysis and interpretation, literature survey, data collection, data analysis; AI: Manuscript revision, manuscript editing.

Conflict of Interest: The authors declare no conflict of interest.

Consent to Publish: The authors agree to publish the paper in International Journal of Recent Innovations in Academic Research.

Data Availability Statement: The datasets used or analyzed during the current study are available from the corresponding author on reasonable request.

Funding: This research received no external funding.

Institutional Review Board Statement: Not applicable.

Informed Consent Statement: Not applicable.

Research Content: The research content of manuscript is original and has not been published elsewhere.

References

1. Abbott, L.J., Parker, S., Peters, G.F. and Raghunandan, K. 2016. An empirical examination of audit fee reductions after internal control weaknesses. *Auditing: A Journal of Practice and Theory*, 25(1): 1-26.
2. Abisola, A., Adegbite, O. and Adeyemi, K. 2022. The impact of corporate governance on organizational performance. *International Journal of Business and Management*, 17(2): 45-59.
3. Adegboyegun, A.E., Ologunde, A.O. and Adeyemi, K.S. 2020. Corporate governance and financial performance of selected listed companies in Nigeria. *Journal of Business and Management*, 16(4): 98-112.

4. Asare, S.K., Davidson, R.A. and Gramling, A.A. 2008. Internal auditors' evaluation of fraud factors in planning an audit: The importance of audit committee quality and management incentives. *International Journal of Auditing*, 12(3): 181-203.
5. Atheru, Z.K., Mburugu, P. and Thuo, J.K. 2022. The influence of enterprise risk management on financial performance of listed companies in Kenya. *Journal of Finance and Accounting*, 20(1): 78-90.
6. Baatwah, S.R., Salleh, Z. and Ahmad, N. 2021. Corporate governance mechanisms and audit report timeliness: Evidence from Oman. *Managerial Auditing Journal*, 36(2): 174-204.
7. Barnett, V. and Lewis, T. 1994. *Outliers in statistical data*. 3rd Edition: John Wiley and Sons.
8. CAS. 2022. *Corporate accounting standards*. Chartered Accountants Society.
9. Committee of Sponsoring Organizations of the Treadway Commission. 2013. *Internal control-integrated framework: AICPA*.
10. Cooper, D.R. and Schindler, P.S. 2007. *Business research methods*. 10th Edition: McGraw-Hill.
11. Dewi, R.S., Ghazali, I. and Ratmono, D. 2020. The effect of corporate governance, firm characteristics, and environmental performance on environmental disclosure. *Journal of Environmental Management*, 256: 109-129.
12. Eighme, J. and Cashell, J.D. 2002. Internal auditors' roles in overcoming the financial reporting crisis. *The CPA Journal*, 72(1): 32-35.
13. Financial Accounting Standards Board. 2021. *Conceptual framework for financial reporting*. FASB.
14. Gebrayel, E., Jarrar, H. and Al Zoubi, A. 2018. Corporate governance, accounting fraud, and firm performance: Evidence from Lebanon. *Journal of International Financial Management and Accounting*, 29(2): 153-177.
15. Goodwin, J. 2003. The relationship between the audit committee and the internal audit function: Evidence from Australia and New Zealand. *International Journal of Auditing*, 7(3): 263-278.
16. Goodwin, J. and Yeo, T.Y. 2001. Two factors affecting internal audit independence and objectivity: Evidence from Singapore. *International Journal of Auditing*, 5(2): 107-125.
17. Hair, J.F., Black, W.C., Babin, B.J., Anderson, R.E. and Tatham, R.L. 2010. *Multivariate data analysis*. 7th Edition: Pearson.
18. Hair, J.F., Hult, G.T.M., Ringle, C. and Sarstedt, M. 2014. *A Primer on partial least squares structural equation modeling (PLS-SEM)*: SAGE Publications.
19. Henseler, J. and Sarstedt, M. 2013. Goodness-of-fit indices for partial least squares path modeling. *Computational Statistics*, 28(2): 565-580.
20. Henseler, J., Ringle, C.M. and Sinkovics, R.R. 2009. The use of partial least squares path modeling in international marketing. In: Sinkovics, R.R. and Ghauri, P.N., (Eds.), *Advances in international marketing* (Vol. 20, pp. 277-319). Emerald Group Publishing Limited.
21. Institute of Internal Auditors. 2022. *International professional practices framework*. The Institute of Internal Auditors.
22. Ismael, H.R. and Roberts, C. 2018. Factors influencing the voluntary disclosure of intellectual capital: Evidence from the GCC. *Journal of Financial Reporting and Accounting*, 16(3): 485-514.
23. Kabuye, F., Nkundabanyanga, S.K., Opiso, J. and Nakabuye, Z. 2017. Internal audit organizational status, competencies, activities and fraud management in the financial services sector. *Managerial Auditing Journal*, 32(9): 940-971.
24. Kato, T., Takahashi, H. and Smith, R. 2019. Corporate governance, board diversity, and firm performance: Evidence from Japan. *Journal of Business Research*, 105: 111-121.
25. Mawanda, S.P. 2008. *Effects of internal control systems on financial performance in an institution of higher learning in Uganda: A case of Uganda Martyrs University*. Unpublished Master's Thesis, Uganda Martyrs University.

26. Nik, A.M., Jantan, M. and Taib, F.M. 2010. Risk management and performance of listed firms in Malaysia: A panel data analysis. *International Journal of Economics and Finance*, 2(2): 52-65.
27. Nyambura, N. 2013. The effect of internal controls on revenue collection: A case of Kenya revenue authority. Unpublished Master's Thesis, University of Nairobi.
28. Oussii, A.A. and Boulila Taktak, N. 2018. The impact of internal audit function characteristics on internal control quality. *Managerial Auditing Journal*, 33(5): 450-469.
29. Park, S. and Park, K. 2020. The impact of CSR performance on the financial performance of Korean firms. *Journal of Business Ethics*, 163(3): 485-506.
30. Rezaee, Z. 2002. *Financial statement fraud: Prevention and detection*. John Wiley and Sons.
31. Rittenberg, L.E. and Schwieger, B.J. 2005. *Auditing: Concepts for a changing environment*. 6th Edition: South-Western College Publishing.
32. Sekaran, U. 2003. *Research methods for business: A skill building approach*. 4th Edition: John Wiley and Sons.
33. Sekaran, U. and Bougie, R. 2010. *Research methods for business: A skill building approach*. 5th Edition: John Wiley and Sons.
34. Shu, L., Ge, J. and Wang, Y. 2021. The impact of corporate governance on financial performance: Evidence from China. *Corporate Governance: The International Journal of Business in Society*, 21(1): 120-137.
35. Tabachnick, B.G. and Fidell, L.S. 2007. *Using multivariate statistics*. 5th Edition: Pearson.
36. Verardi, V. and Croux, C. 2008. Robust regression in stata. *The Stata Journal*, 9(3): 439-453.
37. Wanemba, D. 2010. An assessment of the factors influencing the growth of commercial banks in Kenya. Unpublished Master's Thesis, University of Nairobi.
38. Wielstra, P. 2014. Determinants of audit quality: Evidence from the Netherlands. Unpublished Master's Thesis, Erasmus University Rotterdam.
39. Yamane, T. 1964. *Statistics: An introductory analysis*. 2nd Edition: Harper and Row.
40. Zhang, Y., Tang, G. and Lin, Z. 2020. Corporate governance and firm innovation: The moderating effect of board independence. *Journal of Business Research*, 117: 1-10.

Citation: Giwa Unueshioste Isaac, Aminu Ibrahim and Uzoaru Chidi Blessing. 2024. Impact of Internal Control System on Quality Financial Reports: A Case Study of Nisa Medical Group (NMG). *International Journal of Recent Innovations in Academic Research*, 8(7): 40-53.

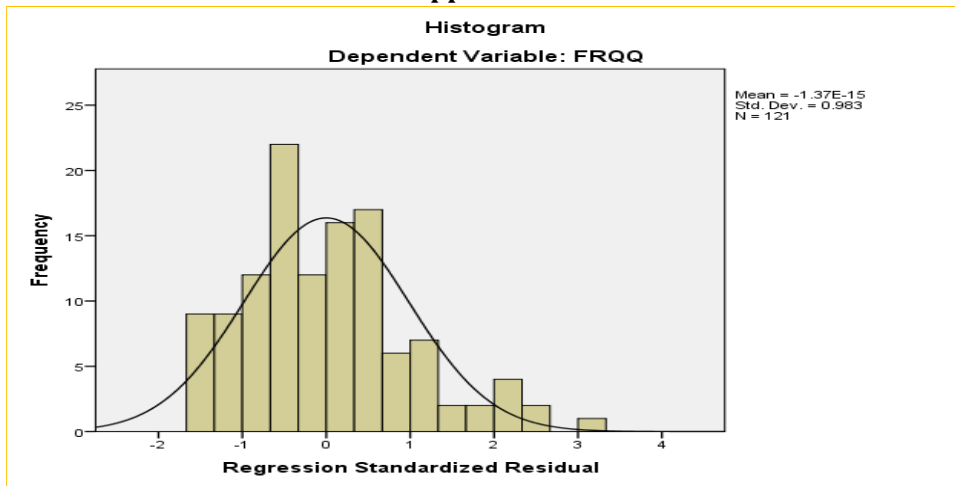
Copyright: ©2024 Giwa Unueshioste Isaac et al. This is an open-access article distributed under the terms of the Creative Commons Attribution License (<https://creativecommons.org/licenses/by/4.0/>), which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

APPENDESES

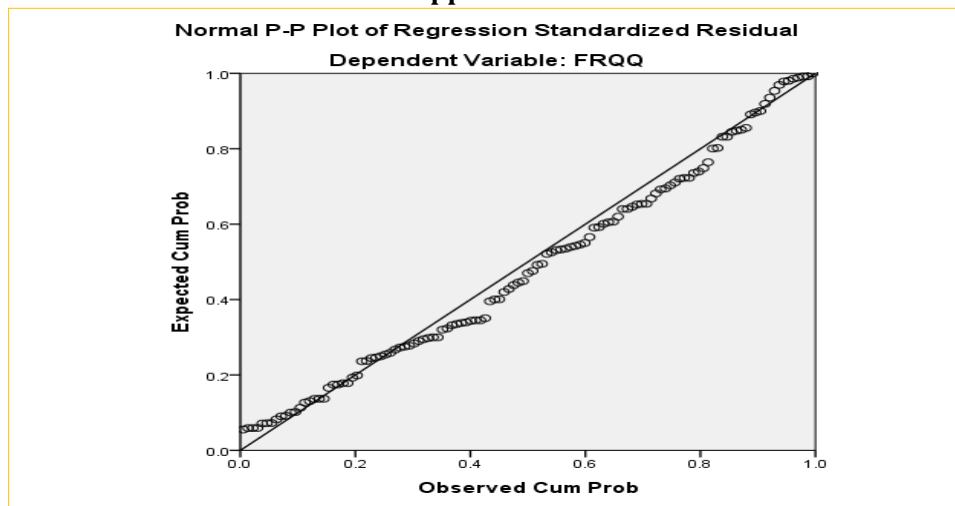
Appendix-1
Normality test.

Constructs	Skewness		Kurtosis	
	Statistic	Standard error	Statistic	Standard error
Quality financial reporting (FRQ)				
Does your organization have an accounts department (FRQ1)	5.077	0.22	27.949	0.437
Are sufficient training opportunities provided to improve employee work (FRQ2)	0.76	0.22	-0.764	0.437
Related competencies in accordance with the financial reporting practices (FRQ3)	2.987	0.22	7.947	0.437
Are accounts staff members sufficiently trained to perform assigned roles to support payroll processing (FRQ4)	1.37	0.22	0.421	0.437
Are responsibilities divided among staff members (FRQ5)	0.614	0.22	-0.994	0.437
When segregation of duties are not practiced ,what is the effect on quality financial report	0.813	0.22	-0.911	0.437
Management accounts				
Creation/institutionalization of functional accounts department	-1.42	0.22	2.106	0.437
Preparation of management accounts	-0.849	0.22	0.169	0.437
Impact of late filing of financial statements on investors and others	-1.371	0.22	4.044	0.437
Impacts of improper delegation of duties	-1.182	0.22	1.031	0.437
Late preparation of management accounts and its impact on quality financial statements	0.335	0.22	-1.121	0.437
Top management supervision				
Institutionalization of appropriate segregation of duties	-0.920	0.22	1.040	0.437
Assignment of responsibilities/designation	0.403	0.22	-0.892	0.437
Management clear communication on integrity and ethical values	-1.016	0.22	0.725	0.437
Supervisory approval of overtime, on-call duties	0.743	0.22	0.968	0.437
Versatility of the top management are represented by the quality of financial report	0.763	0.22	-0.067	0.437
Account reconciliation				
Impact of non-account reconciliation	-1.048	0.22	1.371	0.437
Effects of failure to do accounts reconciliation	-1.777	0.22	4.127	0.437
Impact of account reconciliation	-1.44	0.22	2.661	0.437
Why accounts reconciliation	-0.934	0.22	5.162	0.437
Proper accounts reconciliation and its impact on quality financial reporting	1.005	0.22	0.180	0.437

Appendix-2



Appendix-3



Appendix-4

Summary of hypotheses testing.

Hypothesis relationship	T-statistics	P-values	Decision
AR1 <- AR	10.120	0.000	Supported
AR4 <- AR	7.251	0.000	Supported
FRQ2 <- FRQ	7.794	0.000	Supported
FRQ4 <- FRQ	5.886	0.000	Supported
FRQ6 <- FRQ	3.146	0.002	Not supported
IAR1 <- IAR	3.946	0.000	Not supported
IAR2 <- IAR	4.491	0.000	Not supported
IAR3 <- IAR	3.387	0.001	Not supported
IAR4 <- IAR	3.835	0.000	Not supported
IAR5 <- IAR	4.834	0.000	Not supported
MA1 <- MA	1.503	0.133	Not supported
MA2 <- MA	2.270	0.023	Not supported
MA3 <- MA	2.374	0.018	Not supported
MA4 <- MA	2.070	0.038	Not supported
TMS3 <- TMS	10.554	0.000	Supported
TMS4 <- TMS	8.668	0.000	Supported
TMS5 <- TMS	10.442	0.000	Supported

Appendix-5

Respondents by academic qualification.

Educational qualification		Frequency	Percent	Valid percent	Cumulative percent
Valid	ND	4	3.3	3.3	3.3
	B.Sc.	73	60.3	60.3	63.6
	M.Sc.	36	29.8	29.8	93.4
	Ph.D.	7	5.8	5.8	99.2
	Others	1	.8	.8	100.0
	Total	121	100.0	100.0	

Appendix-6

Mean and standard deviation of variables

	N	Min	Max	Mean	SD
Internal audit report					
Internal control	121	1	3	4.22	0.790
Checkmating the enforcement of appropriate segregation of duties	121	1	3	4.56	0.644
Quality of internal audit report	121	1	3	4.23	0.844
Existence of organizational written mission statement	121	1	3	4.32	0.808
Non-implementation of the internal audit report and diluted financial statements	121	1	3	4.42	0.761
Management accounts					
Creation/institutionalization of functional accounts department	121	1	5	4.23	0.911
Preparation of management accounts	121	1	5	4.32	0.744
Impact of late filing of financial statements on investors and others	121	1	5	4.36	0.694
Impacts of improper delegation of duties	121	1	5	4.07	1.006
Late preparation of management accounts and its impact on quality financial statements	121	1	5	2.73	1.291
Top management supervision					
Institutionalization of appropriate segregation of duties	121	1	5	4.19	0.756
Assignment of responsibilities/designation	121	1	5	2.75	1.185
Management clear communication on integrity and ethical values	121	1	5	4.07	0.959
Supervisory approval of overtime, on-call duties	121	1	5	4.37	0.743
Versatility of the top management are represented by the quality of financial report	121	1	5	4.13	0.763
Account reconciliation					
Impact of non-account reconciliation	121	1	5	4.41	0.667
Effects of failure to do accounts reconciliation	121	1	5	4.42	0.772
Impact of account reconciliation	121	1	5	4.23	0.844
Why accounts reconciliation	121	1	5	4.45	0.645
Proper accounts reconciliation and its impact on quality financial reporting	121	1	5	2.24	1.197

Appendix-7

Internal audit report

S/N	Items	Min	Max	Mean	SD
1	Internal control	1	3	4.23	0.991
2	Checkmating the enforcement of appropriate segregation of duties	1	3	4.32	0.744
3	Quality of internal audit report	1	3	4.36	0.694
4	Existence of organizational written mission statement	1	3	4.32	0.808
5	Non-implementation of the internal audit report and diluted financial statements	1	3	4.42	0.763