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Impact of Internal Control Challenges on Financial Performance of Local Government Councils of Nasarawa State

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ABSTRACT: *This research work examined the impact of internal control challenges on the financial performance of local government councils in Nasarawa State, Nigeria. The study employed a mixed-methods approach, combining qualitative and quantitative research methods. Qualitative data are gathered through interviews and focus group discussions with relevant stakeholders, including council officials, financial managers, auditors, and community representatives. Quantitative data are collected through surveys and analysis of financial reports and performance indicators. A structured close ended questionnaire was administered to 211 staff that forms the sample size. The study used the correlation coefficient to establish the relationship between internal control challenges and financial performance, while the multiple regression analysis was used to test all the hypotheses of the study at 0.05 level of significance. Result of the correlation indicates significant relation between internal Control and financial performance whereas the regression analysis found that internal control challenges have significant positive impact on financial performance of Local Government Councils in Nasarawa State. It concluded therefore that effective accountability and stable financial practices in Local Government Councils can only be achieved through a properly instituted internal control system with free or minimal challenges. It recommended that: functions and responsibilities within the local government councils are clearly defined and separated.*

KEYWORDS: internal control, financial performance, local government, councils

INTRODUCTION

Local governments organizations faces progressively complex flow and debilitating environment, consideration has been centered on both the running of day-to-day issues and on how to upgrade execution through make strides viability, proficiency and adaptability (Orozco et al, 2015). Local government councils are the closest to the grassroots with various capacities to perform in elevating living standard of the lion's share of the masses that lives in rural arears. Performing these constituted capacities requires effective administration of financial resources. The Local government councils in Nigeria instituted different internal control measures for judicious administration of financial assets. However, these internal control measures have experienced various challenges and issues amid usage stages. This was affirmed by the work of Alao and Amoo (2014) which opined that internal controls frameworks in organizations are weak, insufficient and not complied with.

The pertinence of internal control in the impact and proficient management of financial performance of any organization cannot be overemphasized. The financial performance of local government councils is basic to the effective delivery of local government administrations and the general improvement of a locality. Be that as it may, the existence of internal control challenges can essentially affect the finance related operations and results of these councils. This study investigated and analyzed the impact of internal control challenges on the financial performance of local government councils in Nasarawa state, Nigeria. Nasarawa State, located in the North-Central Nigeria, housed thirteen (13) local government councils mindful for administering and overseeing issues in localities. These councils are entrusted with important capacities such as revenue generation, budgeting, expenditure administration, and service rendering to the local communities. Effective internal control frameworks are fundamental to guarantee the productive and compelling utilization of financial assets and to prevent extortion, misappropriation, and financial fumble.

In spite of the significance of internal controls, numerous local government councils in Nasarawa State confront various challenges in executing and keeping up successful control frameworks. These challenges may incorporate inadequate training of staff, constrained financial skill, frail administration structures, lack of segregation of duties, inadequate monitoring and supervision mechanisms, and poor enforcement of policies and procedures. The results of these internal control challenges can be far-reaching. They can lead to financial misfortunes, mismanagement of funds, wrong financial reporting, wasteful asset allotment, budgetary deviations, non-compliance with regulation, and lack of transparency and accountability. These issues prevent the capacity of local government councils to realize their money related destinations, provide quality administrations, and meet need of the local populace.

Statement of Problem

Internal control system has been a concern to all organizations in Nigeria and most particularly different levels of government. This is often as a result of poor usage of internal control framework resulting into financial mismanagement, inconsistencies and indeed breach of other controls. In spite of the significance of internal controls in organizations including local government councils, numerous local government councils in Nasarawa State confront various challenges in actualizing and keeping up viable control system. These challenges may include inadequate training of staff, constrained financial expertise, frail governance structures, lack of segregation of duties, lack of checking and supervision mechanisms, and poor enforcement strategies. These challenges can lead to financial misfortunes, mismanagement of funds, wrong financial reporting, inefficient resource allocation, budgetary deviations, non-compliance with regulations and standards, and lack of transparency and accountability. These issues prevent the capacity of local government councils to attain their financial targets, deliver quality governance and meet the desires of the local population. Given the significance of the topic and the limited research available specifically focusing on the impact of internal control challenges on the financial performance of local government councils in Nasarawa State, this study aims to fill that gap by examining the impact of internal control challenges on financial performance in local government councils in Nasarawa State Nigeria.

Research Objectives

The research mainly examined the Impact of Internal Control Challenges on Financial Performance of Local Government Councils of Nasarawa State. The specific objectives are:

i. To examine the effect of Management Override of Control (MOC) on financial performance of local government councils in Nasarawa State, Nigeria.
ii. To determine the effect of Inadequate Distribution of Roles (IDR) on financial performance of local government councils in Nasarawa State, Nigeria.
iii. To examine the effect of Emphasis on Investigative Audits (EIA) on financial performance of local government councils in Nasarawa State, Nigeria
iv. To assess the effect of Formal or Informal Control (FIC) on financial performance of local government councils in Nasarawa State, Nigeria
v. To determine the effect of Extreme Trust of Employees (ETE) on financial performance of local government councils in Nasarawa State, Nigeria.

Research Hypotheses

The following are formulated in null form to guide the researcher in finding solutions to the problem of the study.

H_{01}. Management Override of Control (MOC) has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.

H_{02}. Inadequate Distribution of Roles (IDR) has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.

H_{03}. Emphasis on Investigative Audits (EIA) has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria

H_{04}. Formal or Informal Control (FIC) has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.

H_{05}. Extreme Trust of Employees (ETE) has no significant effect on financial performance of local government councils in Nasarawa State, Nigeria

LITERATURE REVIEW

Numerous literatures have explored the topic of internal control, its effect and significance to any entity. These literatures are reviewed and focus was on the study objectives, it contains a review of the existing theoretical literature on the research variables and relevant empirical studies.

Conceptual Review

Internal Control

Internal control was first defined by the Association of Chartered Accountants in 1949 as a well-thought-out plan by an organization to protect assets and records, improve its effectiveness, and settle management policies. (Maina et al., 2016). This definition became the basis of defining internal control by other authors. Sawyers, (2019) posits that, a broad concept of internal control involves everything that controls risks to an organization. King (2011) defined internal control as "the process by which the enterprise achieves its goals and results". According to Pfister, (2009), internal control is the process by which an organization identifies, corrects, and avoids errors that may occur during information processing. Dinapoli, (2016), defines internal control as the system by which enterprise performance is connected to plans, attitudes, policies, systems, and human resources that enable the organization to achieve settled goals and to pursue its mission.

Another relevant definition comes from Millichamp (2002), who defines the internal control system as the entire system of control, financial and otherwise, established by management to safeguard assets, and ensure completeness and accuracy of records. Boynton et al (2001), described internal control as a process implemented by the board of directors, management, and other personnel of an entity to provide reasonable assurance regarding the achievement of goals in the areas of financial reporting reliability, compliance with applicable laws and regulations, and effectiveness and efficiency of operations.

Internal control can therefore be understood as a set of actions and procedures set by business management to protect assets, ensure authorized use of company resources, and evaluate personnel and organizational performance to ensure goal achievement and as well underscores its significant role in an organization's performance which could be financial and or non – financial.

Financial Performance.

Financial performance can be described as that which shows how well an organization uses its assets, capital, and revenue to generate profits and increase the value of its shareholders' equity and entity. It is a comprehensive measure that assesses the efficiency, profitability, and overall health of an organization's financial activities. Various attributes are used by different authors in conceptualizing financial performance. According to Stoner (2003), financial performance is the ability of an organization to be able to efficiently manage operations, maximize profit margins and survival tactics in the harsh and risky working environment. Sollenberg and Anderson (1995) consider financial performance as a subjective measure of how well an organization can use assets to maximally generate revenue to meet up with its set objectives.

Financial performance can be improved by reducing fraud and anomalies in the systems. This will increase shareholders' trust in the management's ability to effectively use their resources to deliver higher quality services at the most competitive prices. According to Hayes et al., (2005), Management of an organization make informed decision based on the regularly generated financial reports. This will enable management effectively analyse financial information and account for resources entrusted on it.

Internal Control System and Financial Performance

Internal control is a term often used to describe how management ensures that the organization effectively achieves its financial and other objectives. Internal control system not only contribute to the effectiveness of corporate management, but also represent an important task of corporate bodies. (Verschoor, 1999). Every organization, for-profit or not, struggles with performance issues. These issues must be resolved to achieve performance goals.

Internal control is a set of procedures and standards established by an organization to ensure adequate, reliable and effective financial reporting, efficient financial operations and compliance with laws and regulations (Donald & Delno, 2009). It help an organization achieve its performance and profit goals and prevent misuse and loss of money. Donald & Delno, (2009) further stressed that the performance of an organization is measured by the productivity of the organization compared to established organizational goals using good management and continuous commitment. Successful nonprofits are based on an enduring, customer-focused organizational mission. Financial performance is generally measured by sales, return on assets, stock return and return on invested capital.

Local Government

The United Nations defines local government as a political subdivision of a nation or state created by law that exercises broad control over its local affairs, including the power to impose taxes or compel labor for specific purposes. The International Social Science Encyclopedia (1976) defines local government as a political unit of a national or regional government that performs functions that in almost all cases receive statutory authority from the national or regional government, but has some degree of authority discretionary and tax decision-making powers. On the other part, Osakede and Ijimakinwa (2014) define local government as the level of government that is closest to the people and has certain powers to control the affairs of the people in their area. Local government is a government at the grassroots level of administration whose mission is to meet the specific needs of the population (Awofeso, 2004). It is the lowest administrative unit with its own laws and regulations and elected governing body. It has a demarcated geographical area where its residents share common social and political ties (Fadeyi, 2001).

Local governments are legally authorized to establish and implement projects to complement the activities of the state and federal governments within their jurisdiction by delegating tasks to these councils designed to ensure the active participation of citizens and the involvement of their traditional local authorities. The 1999 Nigerian Constitution (as amended) defines the functions and powers of the various levels of government in such a way that no level of government can independently exercise the function of providing services to citizens. The need to take these different elements into account and ensure service delivery at the local level has necessitated the creation of local governments (Fadeyi, 2001).

Internal Control and Local Government Administration

With a decentralized public sector structure, Nigeria has adopted a concept of internal control practices, particularly in local governments. Under the structure, local governments are responsible for designing internal control systems while also having the authority to conduct an audit when they encounter risks, consistent with public accountability process for government audits. According to Samuel (2012), management of local governments needs funds for the purpose of fulfilling the government constitutional responsibilities which includes provision of projects among many others. In the discharge of this responsibility, Councils incurred expenditure which brings about the need for accountability and transparency (Samuel, 2012).

The accountability process ensures that local government does not neglect risk assessment by developing effective internal controls system. The Federal Government of Nigeria through appropriate authorities issues accounting guidelines, financial regulations and financial reporting standards for state and local governments. Under these standards and regulations, local government officials are responsible for the status of management controls. The local government internal auditor plays an important role in evaluating the effectiveness of control systems and contributes to the continued effectiveness of management controls by making appropriate recommendations.

Internal Control Challenges

While nature of organization’s activities and statuses on its internal control system determine the challenges of internal control in the organisation. However, most commonly, Kabende (2021) has identified the following as challenges of internal control in organisation:

i. ***Management Override of Controls (MOC)***: Management generally plays a key role in establishing, developing, and supporting internal controls and therefore uses this inherent authority to modify those controls. This is one of the challenges that organizations face as it tries to keep and maintain accountability by ensuring compliance to internal control system.

ii. ***Inadequate Distribution of Roles (IDR):*** Here a single person is vested with the responsibilities for approving transactions, recording transactions and managing assets even when there are enough hands to handle such responsibilities separately. This is actually a limitation to effective internal control system.

iii. ***Emphasis on Investigative Audits (EIA):*** Investigative audits detect whether something is wrong, whether it may already be too late and whether the damage has already been done. It however to note that a strong internal control system includes both investigative controls and preventative controls.

iv. ***Formal or Informal Control (FIC):*** In can be considered as informal controls, one or two persons considered as managers takes charge of monitoring of the internal control activities of the organization. Controls, either formal or informal is however aimed at ensuring effective fund management and accountability and therefore should treated in the same vain.

v. ***Extreme Trust of Employees (ETE):*** In most fraud cases, the perpetrators are often portrayed as a real, trustworthy and unique employee who are not expected. An organization must believe that its employees are great employees who do their jobs to the best of their ability. However, this trust cannot be used to circumvent internal controls. Employees must be reliable but proven.

Financial Performance Measurement

This study was guided by Carmela's (2002) framework of financial performance measurement which uses four general performance measures, namely liquidity, fiscal year balance sheet, solvency, and municipal services and development from which a five-point scale that covers liquidity, autonomy, operational performance, collection efficiency and solvency was adopted, taking into account the importance of these aspects to the financial health of public and private sector organization. These are briefly described as follows:

i. ***Liquidity:*** Liquidity is a measure of the ability to pay off short-term debts without having to liquidate or close businesses. In general, the more cash backed by short-term liabilities, the better, as this is an indication that the organization is able to repay its debts while continuing to fund its ongoing operations. The current ratio is the ratio of current assets to current liabilities.

ii. ***Autonomy:*** This is a measure of the degree of autonomy of local authorities compared to the Federal and State Government. How dependent are local government councils' income on federal government compared to income from their own sources? This can be measured using the personal income ratio, i.e. the ratio between personal income and total income. For many local governments around the world, their own revenues include user fees and charges, as well as some forms of local taxes, often on property or income.

iii. ***Operating Performance:*** Operating surplus/ (deficit) is the difference between income and expenses for a given period. A recurring and persistent operating deficit indicates that the local government is struggling to cover expenses from its revenues. To make comparisons between local governments more meaningful, the operating surplus/ (deficit) per capita is calculated by dividing operating surplus/(deficit) by the number of residents in each local government area. Another variation of this metric that is useful for performance comparisons is the operating surplus/(deficit) ratio, which is equal to operating surplus/(deficit) divided by total sales.

iv. ***Collection Efficiency:*** The study calculates collection efficiency ratios for various revenue streams, namely commercial rates, commercial water rates, residential rentals and, in terms of capital gains, home loans. The collection efficiency indicator is the quantity collected divided by the total quantity to be collected. For each source of income, the total amount to be collected is calculated by adding the amount accumulated in a given year and the arrears at the beginning of the year, minus any depreciation and allowances.

v. ***Solvency:*** Solvency is the ability to repay long-term debts and the interest on those debts. In general, the higher the solvency ratio, the greater the likelihood that an organization will be unable to repay its long-term debts. The net financial debt ratio is the ratio of net financial debt to total income and measures the extent to which net financial debt can be covered by income. The debt-to-income ratio measures the local authority ability to service it total debts as a result of its income.

Theoretical Review

The theoretical review of the study is anchored on agency and contingency theory. This was as adopted by Mwesigwa (2022). The agency was employed based on emphasis that states that the existing agency problems are “the separation of ownership and control, which leads to conflict in interests”, and “risk sharing”. The adoption of contingency theory is based on the fact is a new approach to examine internal control and its effectiveness.

Agency theory

Agency theory is largely based on relationships between different actors in managing resources to achieve outcomes (Jensen & Mekling, 1976; Sarens & Abdolmohammadi, 2011). Agency theory explains that the agent provides services and makes decisions on behalf of the principal (Hull & Dawar, 2014). This shapes formal relationships such as budget management, personnel control and the implementation of established procedures such as the Internal Control System in the organization. Formal systems such as budgeting, management by objectives, and principal-agent management function like informal systems such as management oversight. Based on current research, society as a whole empowers local government Councils leadership and administration to provide goods and services for the common good. Local governments must establish controls to prevent fraud and the diversion of resources that would be used to produce goods and services for society. The theory assumes that control mechanisms can minimize the misuse of resources by local governments and thus solve principal-agent problems. When managers have complete information about the firm's performance, agency problems are likely to be reduced (Shapiro, 2005). This has made it one of the most used theories in the study of organizational performance where there is a delegation role in resource management, as in the case of this study where citizens delegate their role to Councils administrations to meet the needs of the people. In addition, it is not always possible to establish friendly relations without examining the situation and circumstances in which these units operate. Agency theory therefore does not provide details on these aspects, although they are necessary to study the impact of Internal Control System on financial performance.

Contingency theory

Contingency theory proposes that an organization's behavior, which ultimately determines its performance, is determined by contingency factors and the way in which these factors are managed. The theory assumes that managers then control the effectiveness of managing an organization's behaviors, activities and processes depending on the circumstances. Financial results are themselves a function of organizational structure and depend on a combination of several factors. Contingency theory is used to describe the relationship between the context and structure of internal control effectiveness and organizational performance and is therefore important in defining financial performance and reporting standards. The company benefits from organizational efficiency through the effectiveness of internal control mechanisms (Cadez & Guilding, 2008). In relation to this study, contingency theory further explains how local government administrators should pay due attention to the circumstances prevailing in the internal control systems as it may be contingency factors that affect financial performance in both the short and long term.

Review of Empirical Studies

A number of empirical studies relevant to the study were reviewed as follows:

Mwesigwa (2022) assessed the relationship between Internal Control System and financial performance of local government councils in Kenya. The study used a descriptive research design and specifically focused on correlation analysis of the study data. The study finds that internal control system can cause change in the financial performance of local government councils in Kenya. It concluded that internal control systems significantly affect financial performance of local governments. The study although focuses on an environment different from Nigeria, it has a consistent finding to this study which focuses on local government in Nigeria.

Ogbeifun and Ogunyankin (2020) studied the impact of internal control mechanisms on the financial accountability in the local government system in Nigeria, using Owo local government of Ondo State as a case study. The study employed survey design for the purpose of the research work along. The study hypotheses were tested using the ordinary least square (OLS) regression analysis. Findings showed that effectiveness of internal control is determined by strict compliance with outlined system of control in the organization. The study concluded that the internal control mechanisms are very effective in ensuring financial accountability in the local government system. The finding focused only on the compliance, however indicated that effectiveness of internal control in local government councils affects financial accountability attributes.

Coker and Adams (2012) focused on how the third tier of government uses its resources in a context of lack of financial autonomy, corrupt practices, and excessive interference in its affairs, with style and model fundamental to joint state-local government accounts, which gave the state government an unjustified right to communal areas. From a methodological point of view, the article uses the technique of qualitative descriptive analysis. The results of the study showed that local government areas in Nigeria are performing worse due to lack of financial autonomy, constant interference of the state government in the affairs of local government areas, etc. and recommend autonomy in the areas assigned to them by the constitution; and the abolition of the common accounting system between state and local authorities. Its therefore clearly posited that, the lack of autonomy would constrain effective internal control system in the administration of local government councils.

Emem (2008) in his study on the management and control of public funds in Nigeria focusing on Boki local government Council. A research design was adopted based on 27 questions to 75 respondents. The result of the study showed that the established fund management processes were not strictly followed, resulting in ineffective fund management even in public institutions, which was initiated by a low internal control system in boards of directors and in companies by managers of public funds. Finding of the study indicated an ineffective fund management resulting from low internal control system.

RESEARCH METHODOLOGY

Given the significance of the topic and the limited research available specifically focusing on the impact of internal control challenges on the financial performance of local government councils in Nasarawa State, Nigeria, this study employed a mixed-methods approach, combining qualitative and quantitative research methods. Qualitative data are gathered through interviews and focus group discussions with relevant stakeholders, including council officials, financial managers, auditors, and community representatives. Quantitative data are collected through surveys and analysis of financial reports and performance indicators.

Research Design.

The study adopted both descriptive research and explanatory research designs. The descriptive research was used to investigate the internal control challenges affecting financial performance of Local Government Councils in Nasarawa State and explanatory design was used to assess the relationship between internal control challenges and financial performance of local government councils in Nasarawa State.

Population of the study and Sampling

The study was conducted in 6 local government areas across the 3 senatorial zones of Nasarawa State as follows: Southern Zone - Lafia and Doma, Northern Zone - Nasarawa Eggon and Akwanga and Western Zone - Karu and Nasarawa. Convenience was the basis for selecting the local government councils for the study. A total of 211 respondents representing all the staff of the accounts, finance and audit departments of these local government areas took part in the study. Since the target population was relatively small, the total population was used as the sample size. Using a purposive sampling method, study participants were identified. Purposive sampling technique allows the researcher to use cases that contain the necessary information related to the objectives of his study (Mugenda & Mugenda, 2003).

Data Collection/Analysis Instruments

Structured, closed ended questionnaire was administered to the 211 staff that forms the sample size. The questionnaire comprises items with Likert response format of five alternatives of strongly disagree (SD), disagree (D), uncertain (U), agree (A) and strongly agree (SA). The respondents are expected to select the appropriate points that best indicate how they would describe the attribute being rated.

This study used the correlation coefficient to establish the degree of the relationship between internal control challenges and financial performance while the multiple regression analysis was used to test the all the hypotheses geared towards identifying the significant impact of Internal control challenges on financial performance. The correlation coefficient shows the nature and strength of the relationship. Strong correlation coefficients tend towards one while weak correlation coefficients tend towards zero. The regression analysis was tested at 0.05 level of significance.

Model Specification

The relationship between the independent variable and the dependent variable is summarized by as follows:

FINP **it** = β0 + β1MOC**it** + β2IDR**it** + β3EIA **it** + β4FIC **it** + β5ETE **it** + ɐit

Where:

FINP = Financial Performance (dependent variable)

it= Firm and time variant

β0 = Intercept

β1- β5 = Coefficient of the explanatory variable

MOC = Management Override of Control (Independent variable)

IDR = Inadequate Distribution of Rule (Independent variable)

EIA = Emphasis on Investigative Audit (Independent variable)

FIC = Operating Formal or Informal Control (Independent variable)

ETE = Extreme Trust of Employees (Independent Variable)

ɐ = error term of the model

ANALYSIS OF DATA/DISCUSSION

The results of numerous tests conducted on the data obtained are presented, examined, and interpreted in this part. It also addresses the key findings of the study.

Analysis of Data

Table 3.1 Pearson correlations

Variables	FINP	MOC	IDR	EIA	FIC	ETE
FINP	1.000					
MOC	0.551	1.000				
IDR	-0.779	0.371	1.000			
EIA	0.093	0.132	0.102	1.000		
FIC	0.101	0.098	-0.058	-0.021	1.000	
ETE	0.476	0.045	0.586	0.223	0.043	1.000

Source: Researcher's Correlation Coefficients Output, 2023 using E-views 9.0.

The Pearson correlation result in Table 3.1 shows the correlation between the explained and explanatory variables of the study. This shows that there is a positive relationship between Financial Performance (FINP) and internal control (MOC, IDR, EIA, FIC and ETE.). All the internal control variables (0.551,-0.779, -0.093, 0.101 and -0.476) are significant at 0.05 level of significance. This means that these variables move in the same direction as FINP. However, IDR have a negative association with FINP. This means that they moved in the opposite direction to FINP. The correlation matrix table shows that there is no possible multicollinearity between the independent variables. In fact, the highest relationship between the independent variables is around 59%, which is lower than the threshold of 80% suggested by Gujarati and Porter (2009). Therefore, there is no possibility of multicollinearity between the independent variables.

Regression Result

Regression analysis allows you to determine a mathematical relationship between independent and dependent variables. This study set internal control challenges as the independent variable and financial performance as the dependent variable. The beta coefficients gives the proportion of the dependent variable accountable to each of the predictor variables. Given the current study, Management Override of Control, Inadequate Distribution of Rule, Emphasis on Investigative Audit, Operating Formal or Informal Control, and Extreme Trust of Employees were used as predictor variables.

Table 4.3. Multiple Regression Coefficient (Dependent Variable: Financial Performance)

Variable	Coefficient	Std. Error	t-Statistic	Prob
MOC	0.3758	0.30702	1.98811	0.0783
IDR	0.3514	0.33914	0.96750	0.0684
EIA	0.0321	0.01121	1.89561	0.0543
FIC	0.4221	0.38890	2.86712	0.05980
ETE	0.3743	0.12162	2.66012	0.0656
C	1.2139	1.10031	3.78671	0.0000
R-squared	0.6223	Means Dependent Variable		6301.321
Adjusted R^2	0.5142	SD Dependent Variable		5115.462
S.E. of regression	1.7011	Durbin-Watson stat		1.576541
F-statistic	4.9671			
Prob(F-statistic)	0.0267			

Source: Researcher's Regression Output, 2023 using E-views 9.0.

The overall effect of internal control systems on financial performance was 62.2%, as provided by (R Square = 0.6223). The study shows that local governments in Nigeria that have strong internal control systems are likely to register a 62% variation in their financial performance. Local government organizations which uphold set guidelines and requirements of internal controls are able to improve their performance by half, another fraction being from other factors that influence financial performance.

The specific effects of the predictor variables shows that MOC accounts for 37.6% of the variations in financial performance ($\beta1 = 0.376$; sig. >0.05). IDR accounts for 35.1% of variations in financial performance ($\beta2 = 0.351$; sig >0.05). EIA accounts for 03.2% of variations in financial performance ($\beta3 = 0.032$; sig. <0.05). FIC of accounts for 42.2% of variations in financial performance ($\beta4 = 0.422$; sig. >.05). ETE of accounts for 37.4% of variations in financial performance ($\beta5 = 0.374$; sig. >.05). These therefore suggests that a variation in MOC by a single unit is likely to result in a 37.6% effect in financial performance. Likewise, a variation in ETE by a single unit is likely to result in a 37.4% effect in financial performance.

Discussion

In local government councils in Nigeria, Management overrides of control by using authority to modify laid down controls significantly affects the attributes of financial performance signified by $\beta1 = 0.376$; sig. >0.05. it will affect accountability and by extension causes shift in financial performance. It is clear also that, allocation of numerous responsibilities in the hand of a single or few even when there are enough hands to handle such responsibilities separately (approving transactions, recording transactions and managing assets) is a setback in the process to ensuring financial accountability and performance as represented by $\beta2 = 0.351$; sig >0.05. Relaying on Investigative Audits as a preventive means to serve the purpose of internal controls relatively is relatively serving the purpose as it does not affect any change in performance in the finances of local government council β3 = 0.032; sig. <0.05. Controls whether formal or informal have provided an avenue for financial accountability in local government councils as can be seen β4 = 0.422; sig. >.05. Monitoring are duties of all who partake in effective administration of the Local Council. An organization must believe that its employees are great employees who do their jobs to the best of their ability. However, this trust cannot be used to circumvent internal controls. Employees must be reliable but proven this can effect positive change in the financial practice in the local government councils β5 = 0.374; sig. >.05.

In summary, all attributes, except for the Emphasis on Investigative Audits, have results consistent with those of Bukenya and Kinatta (2012), who argue that adequate physical controls improve financial performance by protecting sensitive assets, while Chiezey and Agbo (2013) shows that monitoring of Control activities thus prevents the occurrence of fraud in companies. Likewise, the results are consistent with those of Katushabe (2016), who found that companies should always comply with internal control activities as they represent a fundamental pillar of organizational performance, especially from a financial perspective. Onsongo et al (2020) also showed that controls shape an organization's actions, although not all organizations have adequate control activities.

Hypothesis tests result based on the Regression output.

The study used the significance value approach to test the null hypotheses designed for the study. In this approach, the test statistic is compared with sample statistic to verify the hypothetical claims. In social sciences, the test statistic is normally set at 95% ($\alpha = .05$). If the sample statistic is less than 0.05 the null hypothesis is accepted and the alternative hypothesis is rejected. On the other if the sample statistic is greater than 0.05, the null hypothesis is rejected and the alternative hypothesis is accepted.

Table 4.4 Decision strategy for the research hypotheses

S/N	Hypothetical Statements	Criterion	β1 = β5	Decision
1	Management Override of Control has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.	**0.05**	0.376	Reject
2	Inadequate Distribution of Roles has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.	0.05	0.351	Reject
3	Emphasis on Investigative Audits has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria	0.05	0.032	Accept
4	Formal or Informal Control has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria.	0.05	0.422	Reject
5	Extreme Trust of Employees has no significant effect on financial performance of local government councils in Nasarawa State, Nigeria	0.05	0.374	Reject

Source: Regression output, 2023

From table 4.4 above, the null hypotheses that Management Override of Control has no significant positive effect on financial performance of local government councils in Nasarawa State Nigeria is rejected and alternative hypothesis is therefore accepted. The study also reject the null hypothesis that says Inadequate Distribution of Roles has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria and accept the alternative hypothesis. On the other hand, the null hypothesis that Emphasis on Investigative Audit has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria was however accepted. The hypothesis that Formal or Informal Control has no significant positive effect on financial performance of local government councils in Nasarawa State, Nigeria was reject and the alternative hypothesis rejected. Similarly, this study rejected the null hypothesis and accepted the alternative hypothesis Extreme Trust of Employees has no significant effect on financial performance of local government councils in Nasarawa State, Nigeria.

CONCLUSIONS AND RECOMMENDATIONS

The study examined the Impact of Internal Control Challenges on Financial Performance of Local Government Councils in Nasarawa State, Nigeria. It found that internal control challenges (Management Override of Control; Inadequate Distribution of Roles; Formal or Informal Control; Extreme Trust of Employees) have a significant positive effect on financial performance of Local Government Councils in Nasarawa State. It concluded therefore that effective accountability and stable financial practices in Local Government Councils can only be achieved through a properly instituted internal control system with free or minimal challenges. The study has the following recommendations: It is recommended that challenges identified in the paper be worked upon by ensuring that: Functions and responsibilities within are clearly defined and separated; all forms of control formal or informal must be taken more serious and trust should not be used to circumvent internal controls. Employees must be reliable but proven.

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