EFFECT OF INTERNAL CONTROL SYSTEMS ON PERFORMANCE OF REGISTERED SMES IN KOGI STATE

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Abstract
This study examined the effect of internal control systems on the performance of registered Small and Medium Enterprises (SMEs) in Kogi State, Nigeria. Specifically, the study assessed the influence of the control environment, risk assessment, and control activities on performance. A descriptive survey research design was adopted, and primary data were collected through a structured questionnaire administered to owners, managers, and relevant staff of registered SMEs in the state. Out of the targeted respondents, 312 valid responses were used for analysis. The data were analysed using descriptive statistics and Pearson correlation with the aid of SPSS. The findings revealed that the control environment had a positive and significant effect on performance, indicating that ethical leadership, clear communication of policies, and employee accountability contribute to improved business outcomes. Risk assessment also showed a positive and significant relationship with performance, suggesting that SMEs that identify and manage potential risks are more likely to achieve stability. Furthermore, control activities were found to significantly influence performance, showing that approval procedures, segregation of duties, asset protection, and internal reviews enhance operational efficiency and reduce irregularities. Based on these findings, the study recommends that SME owners and managers in Kogi State should strengthen their control environment through ethical leadership and staff training, integrate risk assessment into business planning, and consistently implement effective control activities. The study concludes that well-structured internal control systems are essential for improving performance, promoting accountability, and ensuring the long-term sustainability of SMEs in Kogi State, Nigeria.
Keywords: Internal control, performance, SMEs, control environment, risk assessment

1.0 Introduction

Small and Medium Enterprises (SMEs) are widely recognized as the backbone of modern economies, contributing significantly to economic growth, employment generation, poverty reduction, wealth creation, and food security (OECD, 2023; World Bank, 2025). Given the critical role SMEs play, there is increasing focus on educating entrepreneurs and policymakers on strategies to foster and sustain a thriving SME sector. However, research indicates that efforts to strengthen an economy are unlikely to succeed if government support for SMEs is not prioritized (Akinyele & Olayemi, 2024). Government programs and system create an enabling environment that allows SMEs to flourish through the production of goods and services and the creation of jobs (Adegbite et al., 2023).

Despite these interventions, SMEs in emerging economies such as Nigeria continue to face high rates of failure and underperformance, largely due to inadequate internal control mechanisms. This underscores the need for government awareness and targeted support to help SMEs reach their full economic potential.

Internal control is a comprehensive system of processes, procedures, and regulations designed to help organizations achieve their objectives effectively (Mohammed & Usman, 2024). It includes measures to safeguard assets, prevent fraud, ensure compliance, and enhance operational efficiency (Okoye & Eze, 2023). An effective internal control framework is theorized to improve organizational performance, sustain profitability, and support growth and continuity (Abiola & Oladipo, 2025).

Historically, small-scale enterprise practices have been deeply rooted in Nigerian society, with evidence of entrepreneurial activities such as farming, iron smelting, cottage industries, and trading extending back to previous generations. The success of these enterprises has often depended less on formal system and more on cultural attitudes toward entrepreneurship and the presence of adequate incentives to encourage risk-taking and innovation.

Contemporary government system in Nigeria have recognized the vital contribution of SMEs to national economic development. These system prioritize small-scale enterprises due to their role in employment generation, production, marketing, and overall economic vitality. Many small-scale enterprises have evolved over time from cottage industries to small businesses, and eventually to medium and large-scale operations, reflecting their resilience and adaptability (Ezeani et al., 2024).

Despite the growing number of SMEs in Nigeria, business failures remain widespread, often due to weak or absent internal control systems (Abdullahi & Bello, 2024). Some managers perceive internal control implementation as an additional cost with limited tangible benefits, leading to underinvestment in critical control mechanisms. Additionally, SME managers often lack sufficient understanding of the value of internal control and tend to apply uniform strategies across diverse business environments, reducing their effectiveness (Oladipo & Adebayo, 2025). Resource constraints, both and human, further hinder the adoption of robust internal control systems (Onwubuya & Chukwuma, 2023).

Nonetheless, effective internal control systems are essential for operational efficiency, reliable reporting, regulatory compliance, and safeguarding assets. SMEs, which constitute a substantial portion of the informal sector, play a key role in Nigeria's economy by providing employment opportunities and generating income that helps alleviate poverty (Abiola & Oladipo, 2025; World Bank, 2025). Recognizing the sector's potential to mitigate unemployment, the Nigerian government has increasingly emphasized the importance of strengthening SMEs.

The following research questions were formulated:

i. To what extent does the control environment enhance the performance of registered SMEs in Kogi State, Nigeria?

ii. How does risk assessment affect the performance of registered SMEs in Kogi State, Nigeria?

iii. To what extent do control activities enhance the performance of registered SMEs in Kogi State, Nigeria?

The primary aim of this study is to examine the effect of internal control systems on performance of registered SMEs in Kogi State, Nigeria. The specific objectives are to:

i. Assess the effect of control environment on performance of registered SMEs in Kogi State, Nigeria,
ii. Evaluate the effect of risk assessment on performance of registered SMEs in Kogi State, Nigeria and
iii. Investigate the effect of control activities on performance of registered SMEs in Kogi State, Nigeria.

H_{01}: Control environment has no significant effect on performance of registered SMEs in Kogi State, Nigeria.

H_{02}: Risk assessment has no significant effect on performance of registered SMEs in Kogi State, Nigeria.

H_{03}: Control activities have no significant effect on performance of registered SMEs in Kogi State, Nigeria

2.0 Review of Related Literature

Concept of Internal Control System

An internal control system represents a structured framework of policies, procedures, and mechanisms that an organization implements to ensure the successful achievement of its objectives, safeguard its resources, and promote operational efficiency. These controls are designed to prevent errors, fraud, and misuse of resources while enhancing the organization's ability to make informed decisions and maintain stability. In the context of SMEs in Kogi State, internal controls are particularly crucial because these enterprises often face resource constraints, challenges, and market uncertainties. Effective internal control systems enable SMEs to maintain accountability, improve operational efficiency, and strengthen stakeholder confidence (Okoye & Agholor, 2022; Uche & Nwankwo, 2025). Despite their importance, internal control systems are not without limitations. Human error, collusion, and the potential for management override are inherent risks that can reduce the effectiveness of controls. Recognizing these limitations allows SMEs to continuously evaluate and enhance their control frameworks (Adegboye & Okoro, 2024).

Control Environment

A critical component of internal control is the control environment, which forms the foundation of the system. The control environment establishes the tone and ethical climate of the organization, influencing employee behavior, attitudes, and adherence to policies. In SMEs in Kogi State, a strong control environment reflects the ethical leadership of owners and managers, clear communication of organizational policies and responsibilities, and a consistent emphasis on integrity and accountability. Research has shown that organizations with a robust control environment are better positioned to manage risks and achieve their objectives compared to those with weak or inconsistent control climates (Ezeani et al., 2023; Chukwu & Olanrewaju, 2023).

Risk Assessment

Another essential aspect of internal control is risk assessment. Risk assessment involves the identification, analysis, and management of internal and external threats that could impede the achievement of organizational goals. Internal risks may include operational inefficiencies, employee fraud, or poor management, whereas external risks could involve market fluctuations, regulatory changes, or economic instability. SMEs in Kogi State that conduct thorough risk assessments are able to proactively implement policies and controls to prevent or mitigate these risks, thereby enhancing operational resilience and stability. Effective risk assessment allows these enterprises to make informed strategic decisions and respond swiftly to emerging challenges (Okafor & Ibe, 2022; Ibrahim & Musa, 2023).

Control Activities

Control activities represent the procedures and actions undertaken to ensure that management directives are implemented and that identified risks are addressed. In SMEs, control activities include processes such as the proper authorization of transactions, segregation of duties to prevent fraud, safeguarding of physical assets, accurate processing of information, and periodic evaluation of operational performance. By implementing these activities effectively, SMEs in Kogi State can ensure that organizational objectives are achieved efficiently and that and operational risks are minimized. Studies indicate that SMEs with well-designed control activities experience greater operational efficiency, improved performance, and enhanced resilience in the face of challenges compared to those with weak or absent controls (Adebayo & Eze, 2022; Okoye & Agholor, 2022).

The internal control system is essential for SMEs in Kogi State, providing a framework that supports performance, operational efficiency, and sustainable growth. A strong control environment, comprehensive risk assessment, effective control activities, and consistent monitoring collectively enable these enterprises to achieve their objectives, protect resources, and maintain stakeholder trust. Research consistently shows that SMEs with robust internal control systems are more resiliently stable, and better equipped to navigate challenges than those with weak or ineffective control structures (Adegboye & Okoro, 2024; Ibrahim & Musa, 2023).

Performance

The concept of performance encompasses more than just economic outcomes; it reflects the accomplishment of goals, quality of output, and overall effectiveness of an organization. Performance is inherently subjective, as it can vary based on context, priorities, and the metrics applied (Okafor & Ibe, 2021). In an organizational setting, performance is multidimensional, often evaluated across criteria such as effectiveness, efficiency, quality of work, productivity, innovation, and profitability (Adebayo & Eze, 2022).

Performance specifically refers to the extent to which a company achieves its objectives over a given period. It reflects an organization's ability to effectively manage its resources and generate sustainable value for stakeholders. Performance can be assessed using indicators such as capital adequacy, liquidity, solvency, efficiency, leverage, and profitability (Chukwu & Olanrewaju, 2023). Main statements including the balance sheet, income statement, and cash flow statement serve as the foundation for these assessments and guide critical business decisions (Ibrahim & Musa, 2021).

Several ratios are commonly employed to quantify performance. Profitability ratios such as Return on Investment (ROI), Return on Equity (ROE), and Return on Assets (ROA), along with Earnings before Interest and Tax (EBIT), measure a company's ability to generate profit from its resources. Liquidity ratios, including the current ratio, quick ratio, cash ratio, and net working capital to total assets ratio, evaluate a firm's capacity to meet short-term obligations. Leverage ratios like the debt-to-equity ratio assess the extent to which an organization relies on borrowed funds to finance its operations (Adegboye & Okoro, 2024).

In the context of SMEs in Kogi State, performance is particularly critical. SMEs often face challenges such as limited access to capital, cash flow constraints, and market volatility. As a result, effective internal control systems, sound management practices, and strategic planning are essential for ensuring that SMEs can achieve sustained profitability and long-term growth (Okoye & Agholor, 2022; Uche & Nwankwo, 2025).

Small and Medium Enterprises in Kogi State

The concept of Small and Medium Enterprises (SMEs) is inherently relative and dynamic, with no universally accepted definition. Historically, SMEs have been characterized by their scale in terms of capital, assets, and workforce. While earlier classifications, such as that by the Centre for Industrial Research and Development in 1990, defined small-scale enterprises as those with total assets under 200,000 naira and fewer than fifty employees, contemporary definitions emphasize turnover, market reach, and organizational complexity (Adebisi & Okeke, 2023). In Kogi State, SMEs may operate on a small scale in terms of resources but collectively play a critical role in the economy. Their aggregated contributions often surpass those of larger enterprises in employment generation, innovation, and regional development (Uche & Nwankwo, 2024).

SMEs in Kogi State are often structured as sole proprietorships or partnerships. Even when formal registration occurs as a limited liability company, the underlying ownership typically remains concentrated among a single entrepreneur, family, or small partnership. These enterprises commonly face challenges including labor-intensive production methods, dependence on a few key managers, limited access to long-term financing, and high costs of capital due to prevailing interest rates. They are also prone to high failure rates within the first few years of operation, over-reliance on imported raw materials, and weak linkages across industrial sectors. Consequently, SMEs in the region often struggle with managerial inefficiencies, low product quality, minimal investment in research and development, inadequate staff training, poor documentation of policies and strategies, weak entrepreneurial skills, and insufficient record-keeping (Chukwu & Olanrewaju, 2023; Ibrahim & Musa, 2023).

Despite these challenges, SMEs form the backbone of economic activity in Kogi State, contributing significantly to industrial capacity, employment, and innovation. They provide essential employment opportunities for youth, retirees, and unemployed individuals, thereby reducing the socioeconomic consequences of unemployment, such as crime and poverty (Okoye & Agholor, 2023). These enterprises also foster innovation, producing goods and services that meet local demand while supplying larger industries that rely on small-scale operators for inputs and distribution. The presence of SMEs ensures the availability of products and services in both urban and rural markets, improving consumer convenience and accessibility (Adegboye & Okoro, 2024).

In developing regions such as Kogi State, SMEs represent a substantial proportion of registered businesses across diverse sectors, including agro-based industries, leather and footwear production, chemical manufacturing, electronics, general merchandising, hospitality, dressmaking, hairdressing, and the production of consumer goods and agricultural feeds. These enterprises not only drive industrial output but also cultivate local talent, increase indigenous participation in the manufacturing sector, and enhance skill development across communities (Ezeani et al., 2023; Uche & Nwankwo, 2025).

The impact of SMEs extends to rural development and the reduction of urban migration. By establishing operations in semi-urban and rural areas, SMEs help create local employment opportunities, stimulate regional economic activity, and provide infrastructure and services that improve living standards. Additionally, SMEs contribute to the labor market by absorbing an expanding workforce, supporting the supply of goods and services, and helping to alleviate the persistent challenge of unemployment in the state (Chukwu & Olanrewaju, 2023; Ibrahim & Musa, 2023).

SMEs in Kogi State play a multifaceted role in the region's socio-economic development. They serve as engines of employment, innovation, and regional growth while mitigating rural-urban migration and contributing to the development of human capital. Their significance underscores the need for supportive policies, capacity-building programs, and robust internal control systems to enhance their sustainability and performance (Adegboye & Okoro, 2024; Okoye & Agholor, 2023).

Theoretical Framework

This study is anchored on Agency Theory and Contingency Theory. These theories provide a suitable foundation for examining how internal control systems affect the performance of registered SMEs in Kogi State, Nigeria. While Agency Theory explains the need for accountability, monitoring, and control when business responsibilities are delegated, Contingency Theory explains why internal control practices should be designed according to the size, structure, resources, risks, and operating environment of each SME.

Agency Theory

Agency Theory was originally developed within the field of corporate governance by Jensen and Meckling (1976), who described an agency relationship as a contractual arrangement in which one party, known as the principal, delegates authority to another party, known as the agent, to act on their behalf. In a business setting, the owners of an enterprise may delegate responsibilities to managers, employees, accountants, cashiers, procurement officers, or supervisors. Once such authority is delegated, the possibility arises that the agent may not always act in the best interest of the owner or the business.

In the context of SMEs in Kogi State, agency problems may occur even where businesses are small or family-owned. For example, business owners may not be directly involved in every transaction, inventory movement, sales record, or cash-handling process. As a result, employees or managers may make decisions that affect the position of the enterprise. Where there is weak supervision, poor documentation, absence of approval procedures, or lack of segregation of duties, the business becomes exposed to errors, fraud, waste, and mismanagement.

Agency Theory is therefore relevant to this study because it explains why internal control systems are necessary in SMEs. Internal controls help to reduce information gaps between owners and employees, promote transparency, and ensure that business activities are carried out in line with established objectives. Control mechanisms such as authorization of transactions, proper record keeping, and periodic review of accounts, physical safeguarding of assets, and monitoring of employee activities serve as tools for reducing agency-related risks. In this regard, internal control becomes a practical governance mechanism that helps SME owners in Kogi State protect their resources and improve performance.

The theory further suggests that when managers and employees are aware that their actions are being monitored through effective control systems, they are more likely to act responsibly and in the interest of the organization. This supports the position of the Institute of Internal Auditors (2024), which emphasizes that internal control and internal audit functions enhance accountability, governance, and organizational effectiveness. Similarly, the Committee of Sponsoring Organizations of the Treadway Commission explains that internal control provides reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance (COSO, 2023). Based on this perspective, Agency Theory provides a strong explanation for the relationship between internal control systems and performance among SMEs in Kogi State.

Empirical Review

Recent studies have highlighted the critical role of internal control systems in shaping the performance of registered SMEs across Nigeria. In a study conducted by Ezeani and Okoye (2026), the impact of internal control components including control environment, risk assessment, and control activities was assessed among selected SMEs in Kogi State. The findings revealed that while the control environment and risk assessment positively influenced performance, control activities had the most substantial impact. The study concluded that deficiencies in any component of internal control could significantly impair the stability and operational efficiency of SMEs. Consequently, it recommended that SME managers establish and maintain robust internal control frameworks to safeguard organizational resources and enhance outcomes.

Similarly, Uche and Agholor (2026) examined the relationship between management practices and SME performance in Kogi State. Their research demonstrated that effective planning, strategic investment, and prudent resource allocation substantially improve the profitability and sustainability of SMEs. The study emphasized the importance of long-term strategies, suggesting that SMEs engage qualified advisors or portfolio managers to optimize investment decisions and enhance resilience.

In another empirical study, Adegboye and Musa (2025) evaluated the operational performance of SMEs in Kogi State in relation to internal control systems. The study found that while some components, such as risk assessment and information systems, were underutilized, both the control environment and control activities positively influenced operational outcomes. The authors recommended that SMEs leverage these strengths while systematically addressing gaps in monitoring, communication, and risk assessment to achieve sustained performance improvements.

Research by Okafor and Ibe (2025) focused on the role of entrepreneurial education, technology adoption, and global market integration on SME performance in Kogi State. The study found that SMEs whose owners or managers acquired entrepreneurial skills, adopted modern technology, and engaged in global business networks exhibited higher productivity, profitability, and market competitiveness. The study concluded that continuous skill development, technological adoption, and international engagement are critical for SMEs seeking long-term growth in dynamic markets.

A comprehensive study by Adegboye, (2025) examined leadership strategies and internal control practices in SMEs across Kogi State. The research identified five major strategies that leaders employ to strengthen internal control: establishing clear procedures and policies, ensuring segregation of duties, investing in staff training, leveraging information technology, and fostering management commitment. The findings highlighted that effective leadership and strategic management are essential to ensuring that internal control practices translate into improved and operational performance.

In addition, research by Uche and Nwankwo (2025) assessed the relationship between SME development programs and business sustainability in Kogi State. The study revealed that government and institutional support could significantly enhance SME survival and performance, provided that internal control mechanisms are adequately implemented. Without proper control structures, the benefits of development programs were often limited, indicating that SMEs must integrate support initiatives with robust internal governance.

Finally, a study by Ibrahim and Musa (2024) explored the effect of internal controls on working capital management in SMEs in Kogi State. Using a survey design with a sample of 120 SME managers, the study found that effective internal control systems significantly improved cash management, inventory oversight, and overall performance. The research emphasized that SMEs that neglect internal control mechanisms in areas such as cash handling and inventory management are at higher risk of misappropriation, inefficiency, and instability. Collectively, these recent empirical studies underscore the critical importance of internal control systems, management, and leadership strategies in enhancing SME performance in Kogi State. They demonstrate that while components like control environment, risk assessment, and control activities each contribute to organizational success, their effectiveness is maximized when combined with strategic leadership, planning, and continuous skill development. The evidence strongly suggests that SMEs that implement comprehensive and well-monitored internal control systems are more resilient, ly stable, and capable of sustaining long-term growth in dynamic business.

3.0 Methodology

This study adopted a descriptive survey research design to investigate the effect of internal control systems on the performance of registered SMEs in Kogi State, Nigeria. The descriptive survey design was considered appropriate because it allows for the systematic collection and analysis of data from a defined population, enabling the researcher to describe relationships between internal control practices and outcomes. This design also facilitates the identification of trends, patterns, and associations within the SME sector, providing insights that are both practical and generalizable. Primary data for the study were collected through a well-structured questionnaire**.** The questionnaire was designed to capture detailed information on the internal control practices of SMEs, including the control environment, risk assessment procedures, control activities, and their perceived impact on performance. The respondents included CEOs, managers, and internal control specialists of registered SMEs in Kogi State. A simple random sampling technique was employed to select respondents from the population, ensuring that every individual had an equal opportunity to participate in the study. The population of this study consisted of 3,200 SME managers and internal control personnel operating in Kogi State as of 2025. The sample size of 338 respondents was determined using Taro Yamane's formula, which is widely accepted for calculating statistically representative sample sizes in social and business research.

The data collected from the questionnaires were coded, quantified, and analyzed using SPSS version 23**.** Both descriptive statistics and inferential statistics were applied. Descriptive statistics, including means, percentages, and standard deviations, were used to summarize the data and describe the characteristics of respondents. Inferential statistics were employed to test the hypotheses and determine the relationships between internal control system components and performance of SMEs. This methodology ensured that the findings were reliable, valid, and representative of the population of SMEs in Kogi State, thereby providing a solid empirical basis for assessing the effectiveness of internal control practices and their contribution to performance.

4.0 Data Analysis and Discussion of Findings

Table 1: Demographic Data Analysis

Variables	Characteristics	Frequency	(%)
Gender	Male	222	71.2
	Female	90	28.8
Age of Respondent	20-30 Years	120	38.5
	31-40 Years	188	60.3
	41-50 Years.	3	0.96
	51-60 Years	1	0.3
Employment Status	Full Time	227	72.8
	Part Time	85	27.2
Organisation Type	Retail	125	40.1
	Manufacturing	72	23.1
	Skill Services/ Catering	58	35.9
	Total	**312**	**100.0**

Source: **Field Report, 2026**

Table 1 presents the demographic characteristics of respondents who participated in the study on the effect of internal control systems on the performance of SMEs in Kogi State. A total of 312 respondents completed the questionnaire, representing CEOs, managers, and internal control personnel across different types of SMEs.

Gender Distribution**:** The majority of respondents were male, accounting for 71.2% (222 respondents), while females represented 28.8% (90 respondents) of the sample. This distribution reflects the prevalent male dominance in managerial and leadership positions within SMEs in the region, although female participation remains significant, highlighting increasing inclusivity in the SME sector.

Age of Respondents**:** Analysis of respondents' age showed that 60.3% (188) were between 31 and 40 years, indicating that the majority of SME leaders and internal control staff in Kogi State are young to middle-aged professionals. Respondents aged 20–30 years comprised 38.5% (120), suggesting a notable representation of early-career professionals actively involved in SME management. Only a small fraction were aged 41–50 years (0.96%) and 51–60 years (0.3%), reflecting limited representation of older personnel in day-to-day operational and management roles.

Employment Status: Most respondents (72.8%, 227 individuals) were employed on a full-time basis, while 27.2% (85) were part-time staff. This indicates that SMEs in Kogi State rely primarily on full-time employees for managerial, operational, and internal control functions, ensuring continuity and accountability in business processes.

Organization Type**:** In terms of the type of SME, retail businesses represented the largest proportion, accounting for 40.1% (125 respondents), followed by skill-based services and catering at 35.9% (58 respondents), and manufacturing enterprises at 23.1% (72 respondents). This distribution suggests that retail and service-oriented SMEs dominate the Kogi State business landscape, while manufacturing remains a smaller but strategically important sector.

Table 2: Control Environment and Performance

S/N	Statement	SA %	A %	N %	D %	SD %	Total %
1	Management demonstrates a strong commitment to ethical business practices in our SME.	17.3	69.2	9.3	4.2	0	100
2	Employees are aware of their responsibilities and accountability regarding transactions.	20.2	72.1	4.5	3.2	0	100
3	Policies and procedures are clearly communicated and understood by all staff.	19.6	67.3	9.0	4.2	0	100
4	The organizational culture promotes integrity, honesty, and transparency in management.	19.2	65.1	7.3	6.1	1.9	100
5	Senior management actively monitors the implementation of internal controls in day-to-day operations.	17.9	74.7	5.1	2.2	0	100

Source: **Field Report, 2026**

Table 2 presents the analysis of responses regarding the control environment and its influence on the performance of registered SMEs in Kogi State. The control environment reflects the ethical climate, management commitment, communication of policies, and employee awareness that collectively shape the effectiveness of internal controls within an organization.

The results indicate a generally strong perception among respondents that the control environment in their SMEs positively contributes to performance. Specifically, 86.5% of respondents either strongly agreed (17.3%) or agreed (69.2%) that management demonstrates a strong commitment to ethical business practices, emphasizing the importance of integrity as a foundation for management. Only a small proportion disagreed (4.2%) or remained neutral (9.3%), highlighting a minor gap in perceived ethical commitment.

Employee awareness of responsibilities and accountability for transactions was similarly rated highly. A total of 92.3% of respondents indicated agreement or strong agreement, suggesting that SMEs in Kogi State actively promote staff understanding of duties. Neutral responses were minimal (4.5%), and no respondents strongly disagreed, indicating that employee accountability is generally well-established.

Communication of policies and procedures was also perceived positively, with 86.9% of respondents agreeing or strongly agreeing that organizational policies are clearly communicated and understood by all staff. This demonstrates that SMEs prioritize clarity in internal control procedures, which is essential for consistency in operations.

The organizational culture, reflecting integrity, honesty, and transparency, received strong support from respondents, with 84.3% agreeing or strongly agreeing. A small portion of respondents (8%) were neutral, and 8% indicated disagreement or strong disagreement, suggesting that while the majority of SMEs foster a positive ethical culture, some gaps may still exist in reinforcing transparency in practices.

Finally, 92.6% of respondents agreed or strongly agreed that senior management actively monitors the implementation of internal controls in daily operations. This indicates a high level of managerial oversight, which is critical in ensuring compliance with policies, preventing errors, and maintaining organizational accountability. Only a small fraction (2.2%) disagreed, showing that oversight is largely effective across SMEs in Kogi State.

Table 3: Risk Management

S/N	Statement	SA %	A %	N %	D %	SD %	Total %
1	Our SME regularly identifies potential risks that could affect performance.	27.9	67.9	4.2	0	0	100
2	Risk assessments are conducted periodically to ensure emerging threats are addressed.	23.4	71.2	3.8	1.6	0	100
3	Procedures exist to prevent or mitigate the impact of identified risks.	22.8	70.5	6.7	0	0	100
4	Employees are encouraged to report potential risks or irregularities in operations.	18.3	73.4	2.9	5.4	0	100
5	Risk management is integrated into the planning and decision-making processes of the SME.	25	70.2	4.8	0	0	100

Source: **Field Survey, 2026**

Table 3 presents the respondents' perceptions of risk management practices and their influence on the performance of SMEs in Kogi State**.** Risk management is a crucial component of internal control, as it involves identifying, assessing, and mitigating potential threats that could negatively impact the operations and stability of an organization.

The findings indicate that SMEs in Kogi State actively engage in risk management practices. A total of 95.8% of respondents strongly agreed (27.9%) or agreed (67.9%) that their SMEs regularly identify potential risks that could affect performance. Only a small proportion (4.2%) were neutral, with no respondents indicating disagreement. This suggests that most SMEs maintain proactive mechanisms for recognizing threats and vulnerabilities in their operations.

Regarding periodic risk assessments, 94.6% of respondents either strongly agreed (23.4%) or agreed (71.2%) that risk assessments are conducted regularly to address emerging threats. A minor fraction (5.4%) were neutral or disagreed, indicating that while periodic assessment is standard practice, some SMEs may not fully institutionalize these processes.

Procedures to prevent or mitigate risks were also perceived positively. A combined 93.3% of respondents agreed or strongly agreed that their SMEs have measures in place to reduce the impact of identified risks, demonstrating that practical steps are taken to safeguard resources. Only 6.7% were neutral, reflecting a small gap in awareness or implementation of risk-mitigation strategies.

Employee involvement in risk management was slightly lower but still significant. About 91.7% of respondents agreed or strongly agreed that employees are encouraged to report potential risks or irregularities in operations. A small proportion (5.4%) disagreed, suggesting that while the majority of SMEs foster a participatory risk culture, some employees may feel hesitant to raise concerns.
Finally, the integration of risk management into planning and decision-making processes was supported by 95.2% of respondents. This highlights that SMEs in Kogi State recognize risk management not merely as a compliance function but as a strategic tool to guide business decisions and enhance performance. A small proportion (4.8%) were neutral, indicating minor areas where risk integration could be further strengthened.

Table 4: Control Activity

S/N	Statement	SA %	A %	N %	D %	SD %	Total %
1	Authorization and approval procedures are in place for all significant transactions.	15.7	70.8	32 10.3	3.2	0	100

2	Segregation of duties is applied to reduce the risk of errors or fraud in operations.	22.8	63.5	10.3	3.5	0	100
3	Physical safeguards are implemented to protect assets such as cash, inventory, and equipment.	22.4	69.2	5.8	2.6	0	100
4	Transactions are accurately recorded and regularly reconciled.	17.3	70.2	9.9	2.6	0	100
5	Internal audits or performance reviews are conducted to evaluate compliance with policies.	25	70.2	4.8	0	0	100

Source**: Field Survey, 2026**

Table 4 presents the analysis of respondents' perceptions regarding control activities and their influence on the performance of SMEs in Kogi State. Control activities are the operational procedures and policies designed to ensure that internal controls are effectively implemented, risks are mitigated, and organizational objectives are achieved.

The findings reveal that SMEs in Kogi State maintain a generally strong system of control activities. Regarding authorization and approval procedures for significant transactions, 86.5% of respondents either strongly agreed (15.7%) or agreed (70.8%) that such procedures are in place. A smaller proportion, 13.5%, were neutral or disagreed, indicating that while most SMEs enforce approval hierarchies, some enterprises may have gaps in formal authorization protocols.

Segregation of duties, which reduces the risk of errors and fraud in operations, was highly acknowledged, with 86.3% of respondents indicating agreement or strong agreement. Only a minor fraction, 13.8%, were neutral or disagreed, reflecting that most SMEs recognize the importance of distributing responsibilities among staff to maintain accountability.

The implementation of physical safeguards to protect assets such as cash, inventory, and equipment was also rated positively. A combined 91.6% of respondents agreed or strongly agreed that such measures are actively enforced, suggesting that SMEs place significant importance on securing tangible resources. Minimal neutral or disagreement responses (8.4%) highlight opportunities for strengthening asset protection in a few enterprises.

Accurate recording and regular reconciliation of transactions were similarly emphasized, with 87.5% of respondents indicating agreement or strong agreement. This underscores the role of proper documentation and reconciliation in ensuring the reliability of records and supporting sound decision-making.

Finally, respondents strongly supported the practice of internal audits and performance reviews, with 95.2% agreeing or strongly agreeing that these reviews are conducted to evaluate compliance with organizational policies. This indicates that SMEs in Kogi State recognize internal audits as an essential tool for monitoring operations, enforcing internal controls, and enhancing overall organizational performance.

Table 4: Regression Analysis

		Control Environment	Risk Assessment	Control Activities
Performance	Pearson Correlation	367**	.421**	337**
	Sig. (2-tailed)	.000	.000	.000
	N	312	312	312

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field Survey, 2026

Table 4 presents the results of the regression analysis examining the relationship between the key internal control components control environment, risk assessment, and control activities—and the performance of registered SMEs in Kogi State. The analysis used Pearson correlation coefficients to determine the strength and direction of the relationships.

The results indicate that all three components of internal control have a positive and statistically significant relationship with performance at the 0.01 level (2-tailed). Specifically, the control environment showed a Pearson correlation coefficient of 0.367, suggesting a moderate positive relationship with performance. This indicates that SMEs in Kogi State with stronger ethical leadership, clearer communication of policies, and a culture of accountability tend to achieve better outcomes.

Risk assessment demonstrated the strongest correlation, with a coefficient of 0.421. This finding highlights the critical role of identifying, analyzing, and mitigating risks in enhancing performance. SMEs that regularly assess potential threats, implement mitigation strategies, and integrate risk management into decision-making processes are more likely to maintain operational stability and achieve sustainable growth.

The control activities component also exhibited a positive correlation of 0.337 with performance, indicating that well-implemented procedures, authorization protocols, segregation of duties, and internal audits contribute meaningfully to success. This shows that SMEs that maintain robust operational controls experience fewer errors, reduced fraud, and improved efficiency, all of which enhance profitability.

The significance values ($p < 0.01$ for all three variables) confirm that these relationships are statistically meaningful. In practical terms, the findings suggest that the effectiveness of internal control systems directly influences the outcomes of SMEs in Kogi State. Stronger control environments, comprehensive risk assessments, and properly executed control activities collectively support better management, safeguard organizational resources, and improve overall performance.

Testing of Hypotheses

The study tested three null hypotheses to examine the relationship between internal control components and the performance of registered SMEs in Kogi State. The Pearson correlation coefficients and significance values obtained from the regression analysis were used to determine whether to accept or reject each hypothesis at the 0.01 significance level.

Hypothesis 1 (H_{01}): Control environment has no significant effect on performance of registered SMEs in Kogi State, Nigeria. The regression analysis revealed a Pearson correlation coefficient of 0.367 between control environment and performance, with a significance value of $p = 0.000$. Since the p-value is less than the 0.01 threshold, the null hypothesis is rejected**.** This indicates that the control environment has a statistically significant positive effect on performance of SMEs in Kogi State. In practical terms, this suggests that ethical leadership, clear communication of policies, employee awareness, and managerial oversight play a critical role in improving SME outcomes.

Hypothesis 2 (H_{02}): Risk assessment has no significant effect on performance of registered SMEs in Kogi State, Nigeria. The results showed a Pearson correlation coefficient of 0.421 for risk assessment, with a significance value of $p = 0.000$. Since this p-value is below 0.01, the null hypothesis is rejected. This confirms that risk assessment has a significant positive effect on performance. SMEs in Kogi State that consistently identify, evaluate, and mitigate potential and operational risks are more likely to achieve stable and improved performance.

Hypothesis 3 (H_{03}): Control activities have no significant effect on performance of registered SMEs in Kogi State, Nigeria. For control activities, the analysis produced a Pearson correlation coefficient of 0.337 and a significance value of $p = 0.000$**.** Given that the p-value is less than 0.01, the null hypothesis is rejected. This indicates that control activities, including proper authorization of transactions, segregation of duties, safeguarding of assets, and internal audits, have a statistically significant positive effect on the performance of SMEs in Kogi State.

Discussion of Results

Hypothesis 1 (H_{01}): Control environment has no significant effect on performance of registered SMEs in Kogi State. The study found that the control environment has a significant positive effect on the performance of SMEs, with a Pearson correlation coefficient of 0.367 ($p < 0.01$). This indicates that SMEs with strong ethical leadership, clear communication of policies, and an organizational culture emphasizing accountability and transparency tend to perform better ly. These findings align with recent research by Ezeani and Okoye (2023), who observed that a robust control environment enhances organizational outcomes in Nigerian SMEs by fostering employee accountability and reducing mismanagement. Similarly, Uche and Agholor (2024) reported that SMEs that promote ethical practices and clear internal policies experience improved profitability and operational stability. However, some studies report contrasting findings. For instance, Adegboye and Musa (2025) found that in certain SMEs, especially those with minimal formal structure, the control environment alone did not significantly influence performance because other factors, such as external market conditions, outweighed internal ethical practices. The findings of this study are supported by Agency Theory, which posits that internal control mechanisms, such as a strong control environment, are necessary to mitigate the risk of agents (employees or managers) acting contrary to the interests of principals (owners). A strong control environment ensures that delegated responsibilities are executed in line with organizational objectives, enhancing outcomes.

Hypothesis 2 (H_{02}): Risk assessment has no significant effect on performance of registered SMEs in Kogi State. The results revealed a strong positive relationship between risk assessment and performance, with a Pearson correlation coefficient of 0.421 ($p < 0.01$). This suggests that SMEs that regularly identify, evaluate, and mitigate potential operational and risks achieve higher stability and profitability. These findings are consistent with the work of Ibrahim and Musa (2023), who observed that SMEs with systematic risk assessment procedures were better equipped to avoid losses, optimize resource allocation, and sustain growth. Similarly, Okafor and Ibe (2023) emphasized that integrating risk assessment into planning and decision-making improves performance in small and medium enterprises.

On the contrary, Alawattegama (2023) in a cross-sector study of small enterprises in developing economies found that risk assessment alone did not always guarantee improvements; in some cases, SMEs lacked the capacity to act on identified risks, reducing the practical impact of the assessment. From a theoretical perspective, Contingency Theory explains this relationship. The effectiveness of risk assessment depends on the alignment between the control system and the SME's operational context, including size, resources, technology, and environmental volatility. SMEs in Kogi State that adapt risk management practices to their specific conditions can significantly improve performance, supporting the theory's assertion that organizational systems must be contextually appropriate.

Hypothesis 3 (H_{03}): Control activities have no significant effect on performance of registered SMEs in Kogi State The analysis showed that control activities positively affect performance, with a Pearson correlation coefficient of 0.337 ($p < 0.01$). This indicates that well-implemented procedures, such as authorization of transactions, segregation of duties, internal audits, and safeguarding of assets, significantly contribute to operational efficiency and profitability. These results are supported by Adegboye and Okoro (2024), who found that SMEs with effective control activities experienced fewer operational errors, reduced fraud, and improved reporting accuracy. Similarly, Ezeani et al. (2023) reported that structured control activities are essential for the sustainability of small and medium-sized enterprises in Nigeria, directly influencing outcomes. However, some studies diverge from this conclusion. For instance, Uche and Nwankwo (2025) argued that in micro or very small SMEs, control activities may not significantly influence performance due to limited human resources and over-reliance on owner supervision, reducing the effectiveness of formal control mechanisms. The results are consistent with both Agency Theory and Contingency Theory. Agency Theory emphasizes that control activities reduce the risk of opportunistic behavior by agents, ensuring that organizational objectives are met. Contingency Theory further explains that the effectiveness of control activities depends on the SME's context size, operational complexity, staff competence, and resource availability. SMEs in Kogi State that tailor their control activities to these contextual factors are more likely to achieve success

5.0 Conclusion and Recommendations

All three internal control components control environment, risk assessment, and control activities were found to have significant positive effects on the performance of registered SMEs in Kogi State**.** These findings demonstrate that effective internal control systems are essential for improving outcomes, reducing operational risks, and enhancing the sustainability of SMEs in the state. The results provide empirical support for the relevance of internal controls in small and medium enterprises and highlight the importance of management commitment, proactive risk management, and operational oversight in driving performance. The following recommendations were made

i. Based on the finding that the control environment significantly affects performance, SME owners and managers in Kogi State should prioritize building a strong ethical culture. This includes demonstrating integrity, clearly communicating policies and procedures, and ensuring that employees understand their roles and responsibilities in management. Providing regular training and orientation programs can reinforce accountability and promote transparency, ultimately improving decision-making and profitability.
ii. The study shows that risk assessment has a strong positive effect on performance. SMEs in Kogi State should implement systematic risk identification, evaluation, and mitigation processes. This includes regularly assessing potential operational, , and market risks, encouraging staff to report irregularities, and incorporating risk analysis into both short-term and long-term business planning. By proactively managing risks, SMEs can prevent losses, optimize resource allocation, and sustain growth even in volatile business environments.
iii. Control activities, such as authorization procedures, segregation of duties, internal audits, and safeguarding of assets, were found to significantly enhance performance. SME leaders should ensure that these activities are consistently applied and regularly reviewed for effectiveness. Where resource limitations exist, owners can adopt context-specific measures, such as owner-supervised controls or simplified reconciliation procedures, to maintain operational efficiency. Strengthening these practices will reduce errors and fraud, improve reporting, and support the overall sustainability of SMEs in Kogi State.

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