

# INTERNATIONAL JOURNAL OF SUSTAINABILITY PRACTICES IN FINANCE, MANAGEMENT, AND ENTREPRENEURIAL STUDIES

Volume-3, Issue-1, August, 2025

ISSN (Online): 1595-6253

<https://ijois.com/index.php/ijspfmes/index>  
A Peer Reviewed (Refereed) International Journal**Article Information**Received: 30<sup>th</sup> July, 2025Accepted: 25<sup>th</sup> Aug, 2025Published: 28<sup>th</sup> Aug, 2025

## INTERNAL FINANCIAL CONTROLS AND THE PERFORMANCE OF THRIFT AND CREDIT OF COOPERATIVE SOCIETIES IN NIGERIA

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D.O.I: 10.5281/zenodo.16982759

### ABSTRACT

*This study examined the influence of internal financial controls on the performance of thrift and credit cooperative societies in Nigeria. A descriptive survey design was employed to gather quantitative data from a sample of 500 respondents across five states, representing Nigeria's major geopolitical and linguistic zones. A multistage sampling technique ensured representation of both management officers and ordinary members, and data were collected through a validated questionnaire titled Internal Financial Control and Cooperative Performance Questionnaire (IFCCPQ). Out of the 500 questionnaires distributed, 476 were returned, achieving a 95.2% response rate. Reliability was confirmed with a Cronbach's alpha of 0.87. Descriptive statistics summarized respondents' profiles, while multiple regression analysis tested hypotheses at a 0.05 significance level using SPSS version 26. Findings revealed that internal control activities significantly influence financial performance ( $R = 0.812$ ,  $R^2 = 0.659$ ,  $p < 0.05$ ), while internal audits and monitoring strongly enhance accountability ( $R = 0.784$ ,  $R^2 = 0.615$ ,  $p < 0.05$ ). Similarly, compliance with internal control policies significantly improves operational efficiency ( $R = 0.801$ ,  $R^2 = 0.642$ ,  $p < 0.05$ ). These results indicate that effective internal controls are indispensable for transparency, fraud prevention, and organisational sustainability. The study concludes that robust internal control frameworks are essential for the growth and viability of cooperative societies. It recommends that management committees strengthen control mechanisms, regulatory agencies enforce compliance, and members actively monitor governance to safeguard resources and promote trust within the cooperative sector.*

**Keywords:** Internal financial controls, cooperative societies, accountability, compliance, financial performance, operational efficiency, Nigeria

### INTRODUCTION

Internal financial controls constitute a fundamental aspect of financial management in every organisation, including thrift and credit cooperative societies. They are designed to ensure the reliability of financial reporting, safeguard assets, promote operational efficiency, and ensure compliance with relevant laws and regulations (COSO, 2013). In cooperative societies, internal financial controls are especially critical because these organisations thrive on the principles of mutual trust and shared responsibility. Unlike corporate organisations driven by profit motives, thrift and credit cooperative societies operate based on

member contributions, savings mobilisation, and credit provision to members at affordable rates (Okeke, 2018). The success and sustainability of these societies depend largely on strong governance structures and sound financial practices.

Globally, cooperatives have played a pivotal role in advancing financial inclusion, particularly among low-income groups and rural communities (Birchall, 2013). They serve as platforms through which individuals pool resources for collective economic benefits. However, cooperative societies face unique challenges such as weak internal systems, poor accountability, and financial mismanagement (Adebayo & Yusuf, 2019). These issues often arise due to inadequate financial control measures, resulting in fraud, diversion of funds, and operational inefficiencies. In many developing economies, the absence of robust internal financial controls has contributed to the collapse of several cooperative societies, thereby eroding members' confidence and limiting their socio-economic contributions (Olowe, 2020).

Over the years, several scholars have underscored the importance of internal financial controls in enhancing organisational performance. For example, Armstrong (2016) noted that effective internal control systems provide a safeguard against irregularities and ensure the proper use of resources. Similarly, Njeri and Mwangi (2017) observed that cooperatives with well-structured internal controls demonstrate higher levels of efficiency and member satisfaction compared to those with weak systems. In the Nigerian context, studies by Oladipo and Ajayi (2019) emphasised that internal control weaknesses are a major factor responsible for the poor performance of thrift and credit societies, as evidenced by rising cases of misappropriation of funds and leadership crises.

Nigeria's cooperative sector has grown significantly, accounting for thousands of registered societies across various states (Federal Department of Cooperatives, 2022). These cooperatives have become vital channels for promoting savings, granting loans, and empowering individuals economically. Nevertheless, despite their socio-economic relevance, many thrift and credit cooperatives continue to underperform. Commonly cited reasons include lack of transparency, inadequate record keeping, and weak monitoring mechanisms (Eke & Eze, 2021). The absence of effective internal financial controls often results in delayed financial reporting, cash leakages, and loan defaults, which ultimately undermine the sustainability of these societies (Oluwole & Ajibola, 2020).

Internal financial controls encompass several components such as segregation of duties, authorisation and approval processes, internal audits, and regular reconciliations (COSO, 2013). When these controls are properly implemented, they serve as deterrents to fraud and errors, while improving decision-making and resource allocation. Conversely, weak internal control systems expose cooperatives to significant financial and reputational risks. Hence, the implementation of adequate control measures is not merely a compliance requirement but a strategic necessity for cooperative societies striving for growth and stability (Adams & Mehran, 2015).

Given the pivotal role thrift and credit cooperatives play in fostering financial inclusion and poverty alleviation in Nigeria, understanding the link between internal financial controls and their performance is critical. Previous studies have largely focused on microfinance institutions and corporate organisations, leaving a gap in literature regarding cooperative societies. Therefore, this study seeks to examine how internal financial controls influence the performance of thrift and credit cooperative societies in Nigeria. The findings are expected to provide practical insights for policymakers, regulators, and cooperative leaders on the need for robust financial control frameworks to enhance accountability and sustainability within the sector.

### **Statement of the Problem**

Thrift and credit cooperative societies in Nigeria are established to promote savings culture and provide affordable credit to members, thereby reducing dependence on conventional financial institutions. However, the effectiveness of these societies has been increasingly questioned due to persistent issues of mismanagement, financial irregularities, and weak governance structures (Oladipo & Ajayi, 2019). Many cooperatives operate without strong internal financial controls, leading to cases of fund diversion, unauthorised withdrawals, and fraudulent practices that erode members' trust and confidence. Another major concern is poor financial reporting and lack of transparency in the handling of members'

contributions. Several cooperatives also struggle with inadequate segregation of duties, weak authorisation procedures, and absence of regular audits, which expose them to risks of fraud and insolvency (Eke & Eze, 2021). These weaknesses have contributed to poor loan recovery, operational inefficiencies, and ultimately, low financial performance. Although previous studies have examined internal controls in microfinance institutions and corporate organisations, limited attention has been given to thrift and credit cooperatives in Nigeria. This study intends to fill this gap by assessing the influence of internal financial controls on the performance of these societies, providing evidence-based recommendations for improved accountability and sustainability.

### Research Objectives

This study examined the influence of internal financial controls on the performance of thrift and credit cooperative societies in Nigeria. Specifically, this study sought to:

1. To determine the effect of internal control activities (such as segregation of duties, authorisation, and approvals) on the financial performance of thrift and credit cooperative societies in Nigeria.
2. To evaluate the role of internal audit and monitoring systems in ensuring accountability and transparency within thrift and credit cooperative societies.
3. To assess how compliance with internal control policies influences the operational efficiency of thrift and credit cooperative societies in Nigeria.

### Research Questions

The following research questions were formulated to guide the study:

1. What is the effect of internal control activities on the financial performance of thrift and credit cooperative societies in Nigeria?
2. What is the role of internal audit and monitoring systems in promoting accountability in thrift and credit cooperative societies?
3. What is the influence of compliance with internal control policies on the operational efficiency of thrift and credit cooperative societies in Nigeria?

### Research Hypotheses

The following hypotheses were tested at 0.05 significant level

**H<sub>01</sub>:** There is no significant effect of internal control activities on the financial performance of thrift and credit cooperative societies in Nigeria.

**H<sub>02</sub>:** There is no significant relationship between internal audit and monitoring systems and accountability in thrift and credit cooperative societies.

**H<sub>03</sub>:** There is no significant influence of compliance with internal control policies on the operational efficiency of thrift and credit cooperative societies in Nigeria.

### Significance of the Study

This study is significant to multiple stakeholders. Firstly, it will benefit members and leaders of thrift and credit cooperative societies by providing insights on effective internal financial control measures to enhance transparency and sustainability. Secondly, it is valuable to policy makers and regulatory authorities, as the findings will guide the formulation of policies aimed at strengthening financial governance within cooperatives. Furthermore, financial institutions and development agencies supporting cooperative movements will gain practical knowledge to improve intervention strategies. Finally, researchers and academicians will find the study useful as a reference point for future research on internal controls and cooperative performance in Nigeria.

## Conceptual Review

### Internal Financial Controls (IFCs)

Internal financial controls refer to structured mechanisms that ensure an organisation's operations are efficient, assets are safeguarded, and financial reporting is accurate and compliant with regulations. The COSO framework (2013) defines IFCs as processes affected by an entity's board, management, and personnel to provide reasonable assurance regarding the achievement of operational, reporting, and compliance objectives. Similarly, ICAEW views IFCs as encompassing financial and managerial measures to protect resources and prevent misappropriation (ICAEW, 2018). In cooperative societies, IFCs serve as the backbone for managing members' contributions and loans. Effective IFCs include systems for authorisation, approvals, reconciliations, and audits (Salihu, 2015). When properly applied, these controls reduce fraud and errors and foster accountability, which is essential in organisations operating on principles of trust (Olowe, 2020). Conversely, weak controls can lead to mismanagement, diversion of funds, and insolvency, as observed in some Nigerian cooperatives (Eke & Eze, 2021). Nigeria's cooperative sector plays a vital role in grassroots financial inclusion, yet internal control failures remain widespread. Many thrift and credit societies lack robust structures to enforce compliance with financial policies, resulting in operational inefficiencies (Obo Rex Uno et al., 2023). Therefore, implementing strong IFCs is more than a compliance requirement; it is a strategic tool for sustainability. This study thus focuses on understanding how IFCs influence cooperative performance, bridging the gap where limited empirical evidence exists for thrift and credit cooperatives in Nigeria.

### Control Environment

The control environment represents the organisational culture that shapes employee behaviour toward internal controls and ethical practices. COSO (2013) highlights it as the foundation of all control systems, encompassing governance structures, management attitudes, and integrity standards. It reflects the "tone at the top" and influences whether policies are implemented or ignored (PricewaterhouseCoopers, 2015). Millichamp (2002) further describes the control environment as a combination of governance principles, organisational values, and attitudes toward risk and compliance. In practical terms, the control environment involves leadership commitment, transparent governance, and policies reinforcing accountability. A strong environment ensures adherence to procedures such as segregation of duties, while a weak one encourages collusion and financial irregularities (Solomon & Abubakar, 2023). In Nigerian cooperative societies, leadership often sets the precedent for ethical or unethical practices. Poor governance, lack of transparency, and nepotism have historically weakened internal control systems in cooperatives (Oluwole & Ajibola, 2020). Studies show that organisations with strong control environments experience fewer fraud incidents and maintain higher stakeholder confidence (IFAC, 2012). However, in many Nigerian thrift and credit cooperatives, leadership weaknesses, lack of accountability, and failure to enforce disciplinary measures remain major threats (Eke & Eze, 2021). Addressing these gaps requires embedding ethical principles, training leadership on financial governance, and promoting transparency as cultural norms. The present study considers the control environment as a key determinant in the performance of thrift and credit societies, given its influence on compliance and financial integrity. This perspective builds on global frameworks while contextualising the Nigerian cooperative landscape, where leadership quality directly affects operational outcomes.

### Risk Assessment

Risk assessment is a systematic process for identifying and analysing potential events that may hinder the achievement of organisational objectives. According to COSO (2013), it entails recognising internal and external risks and developing measures to mitigate them. The Institute of Internal Auditors (IIA, 2018) notes that risk assessment enables organisations to prioritise threats and allocate resources effectively. For cooperative societies, risk exposure includes loan defaults, fraudulent withdrawals, and poor record-keeping. In Nigeria, many thrift and credit cooperatives lack structured risk assessment frameworks, resulting in significant financial losses and diminished trust among members (Oladipo & Ajayi, 2019). A proactive risk assessment process involves evaluating credit risks before loan disbursement, detecting operational loopholes, and monitoring compliance (Salihu, 2015). Research by Njeri and Mwangi (2017) in Kenya found that societies with established risk management practices experience fewer financial losses

and sustain stronger operational performance. In contrast, those without such measures often face liquidity crises and insolvency. Similarly, Eke and Eze (2021) assert that weak risk controls in Nigerian cooperatives contribute to poor financial performance and member dissatisfaction. Effective risk assessment within cooperatives requires continuous monitoring, leveraging technology for financial data analysis, and training staff in risk identification (Obo Rex Uno et al., 2023). This study examines how risk assessment practices affect cooperative performance, addressing an empirical gap where most Nigerian studies have prioritised microfinance institutions rather than cooperatives.

### **Control Activities**

Control activities are specific policies and procedures established to ensure that directives from management are effectively implemented. COSO (2013) defines them as actions that mitigate risks and support the achievement of objectives. These include authorisation processes, reconciliations, verifications, and segregation of duties (Millichamp, 2002). Salihu (2015) categorises control activities as preventive, detective, and corrective. Preventive activities, such as approval limits, stop irregularities before they occur; detective activities, like audits, uncover discrepancies; while corrective measures address identified weaknesses. In thrift and credit cooperatives, control activities govern loan disbursement, contributions, and fund utilisation. A strong system ensures that no single person performs conflicting roles, reducing opportunities for fraud (Olowe, 2020). However, many Nigerian cooperatives lack adequate checks, enabling officers to approve and record transactions, leading to misappropriation (Eke & Eze, 2021). Empirical studies confirm the positive link between robust control activities and financial performance. For instance, Oladipo and Ajayi (2019) found that Nigerian organisations implementing layered control activities reported higher efficiency and reduced fraud cases. Similarly, Obo Rex Uno et al. (2023) established that cooperatives with regular reconciliations and approval hierarchies recorded better sustainability indicators. The present research evaluates the effectiveness of control activities in Nigerian thrift and credit societies, given their critical role in minimising risks and ensuring accountability.

### **Information, Communication, and Monitoring**

Information and communication form an essential part of internal controls, enabling relevant stakeholders to receive timely and accurate data. COSO (2013) defines information systems as structures that capture and disseminate operational, financial, and compliance-related information. Communication channels ensure that roles, responsibilities, and control requirements are understood across all levels (IFAC, 2012). Monitoring complements these elements by providing continuous or periodic evaluations of control systems. It helps in detecting weaknesses and adapting to changes in the operating environment (IIA, 2018). In Nigerian cooperative societies, poor communication often leads to misunderstandings, delayed reporting, and concealment of fraudulent acts (Eke & Eze, 2021). Similarly, lack of monitoring structures such as internal audits contributes to persistent operational inefficiencies (Oluwole & Ajibola, 2020). Research by Njeri and Mwangi (2017) demonstrated that effective information sharing and monitoring significantly improve financial accountability in cooperative settings. In Nigeria, integrating technology such as accounting software and mobile notifications can strengthen reporting and oversight mechanisms. The present study focuses on these components because they not only enhance transparency but also foster trust among members, an indispensable attribute for the survival of thrift and credit cooperatives.

### **Performance of Thrift and Credit Cooperative Societies**

Performance in cooperative societies refers to the ability to achieve predetermined objectives in terms of financial stability, operational efficiency, and member satisfaction. Armstrong (2016) defines organisational performance as the extent to which goals are achieved using available resources. In financial terms, performance indicators include profitability, liquidity, and loan recovery rates (Souto, 2021). Thrift and credit cooperatives in Nigeria aim to mobilise savings and provide affordable credit. However, several are underperforming due to weak internal controls and governance failures (Obo Rex Uno et al., 2023). A study by Oladipo and Ajayi (2019) revealed that cooperatives with strong internal financial controls exhibited higher levels of financial health and membership growth than those with weak systems. Beyond financial measures, performance includes compliance with regulatory standards and maintaining member confidence. Poor performance often manifests in defaults, fund diversion, and eventual collapse,

undermining their role in financial inclusion (Eke & Eze, 2021). This study conceptualises performance holistically, linking financial and operational metrics with governance quality. It seeks to establish how internal control components directly or indirectly shape cooperative performance in Nigeria, addressing gaps in existing literature which often neglect this segment of the financial system.

### Theoretical Framework

This study anchored on Agency Theory, propounded by Jensen and Meckling in 1976, is a foundational theory in the field of organisational management, governance, and financial control. The theory primarily explains the relationship between principals (owners) and agents (managers) within an organisation. It asserts that principals delegate decision-making authority to agents, who are expected to act in the principals' best interests. However, due to information asymmetry and divergent interests, agents may engage in opportunistic behaviour such as misappropriation of resources, fraud, or inefficiency (Jensen & Meckling, 1976). However, the theory centres on issues of goal incongruence, moral hazard, and adverse selection, which occur when agents act contrary to principals' objectives. This divergence leads to agency costs, which include monitoring costs, bonding costs, and residual losses incurred in ensuring alignment of objectives. Jensen and Meckling (1976) proposed that internal control systems, proper monitoring mechanisms, and performance-based incentives can reduce agency problems. Strong governance frameworks and clear compliance structures minimise the likelihood of opportunistic behaviour by ensuring accountability and transparency. The theory underscores the need for structured internal controls such as segregation of duties, internal audits, and monitoring mechanisms, which create checks and balances in decision-making processes. Over the years, scholars have expanded Agency Theory to cover various organisational settings, including financial institutions and cooperative societies. According to Eisenhardt (1989), the theory offers valuable insights into designing control systems to minimise conflicts between agents and principals. In the context of financial organisations, especially cooperatives where members entrust resources to management committees, agency problems are prevalent when internal controls are weak or non-existent. Hence, internal financial controls act as mechanisms for monitoring agents, reducing the risk of mismanagement, fraud, and inefficiency (Ross, 1973; Fama & Jensen, 1983). Furthermore, the theory is relevant to this study because thrift and credit cooperative societies in Nigeria operate on the principle of member ownership and management. Members (principals) entrust financial resources to elected leaders or managers (agents), creating a potential for agency conflict. Without effective internal financial controls, managers may misuse funds or fail to achieve the cooperative's objectives, resulting in financial losses and loss of member confidence. Applying Agency Theory provides a framework for understanding why internal control activities, internal audits, and compliance mechanisms are essential for aligning the interests of managers with those of members, thereby enhancing financial performance and operational efficiency in Nigerian cooperative societies.

### Empirical Reviews

Obo Rex Uno et al. (2023) studied the impact of internal controls on the financial sustainability of thrift and credit cooperative societies in Cross River State, Nigeria. Using a survey research design, the researchers collected data from 50 registered cooperatives through structured questionnaires. Ordinary Least Squares (OLS) regression was employed to analyse the effect of control mechanisms on financial performance. Findings revealed that internal control elements such as control environment, monitoring, and compliance with financial policies significantly influenced sustainability. Cooperatives that failed to adopt sound control measures were more vulnerable to fund misappropriation, fraud, and leadership crises, leading to loss of member confidence and declining financial health. The study concluded that effective internal controls enhance accountability and promote prudent financial management. It recommended regular internal audits, digital record-keeping systems to minimise human errors, and continuous capacity building for cooperative leaders. Furthermore, the research suggested implementing sanctions for non-compliance and establishing independent oversight committees to ensure adherence to financial standards. The study highlighted that strong internal control structures are critical for preventing financial leakages and promoting long-term cooperative growth in Nigeria.

Patel and Sharma (2022) explored the relationship between internal control systems and financial performance among rural cooperatives in India. Using a mixed-method approach, data were obtained from 100 cooperatives through questionnaires and interviews. Quantitative data were analysed using regression

models, while qualitative insights provided contextual understanding. Results demonstrated a strong positive association between robust internal control systems comprising risk assessments, authorisation procedures, and continuous monitoring and improved financial performance indicators such as profitability and member satisfaction. Cooperatives with weak controls experienced losses, loan defaults, and low member trust. The study concluded that internal control systems are indispensable for financial sustainability and service delivery efficiency. Recommendations were made for digitalising record-keeping, regular internal audits, and leadership capacity building to enhance governance. The researchers also stressed the importance of regulatory oversight and stakeholder engagement in maintaining strong control environments. Although the study was conducted in India, its findings align with challenges faced by Nigerian cooperatives and underscore the global significance of internal controls in cooperative management.

Ogunleye and Adebayo (2021) investigated the relationship between internal control practices and fraud prevention in cooperative societies in Southwest Nigeria. The study utilised a survey research design and collected primary data from 120 respondents using structured questionnaires. Descriptive and inferential statistical analyses were applied, including regression models to test hypotheses. Findings revealed that effective internal control practices such as segregation of duties, proper authorisation, and periodic reconciliations significantly reduce fraud incidents in cooperatives. Societies with weak control measures were found to experience high levels of financial malpractices and misappropriation of funds. The study concluded that internal control is a critical mechanism for safeguarding members' contributions and ensuring trust within the cooperative system. It recommended regular financial audits, enforcement of control policies, and continuous monitoring of cooperative operations. Furthermore, the researchers suggested that regulatory bodies implement strict compliance frameworks to minimise fraudulent activities. This study highlighted that failure to maintain robust internal controls compromises the integrity and sustainability of cooperative societies in Nigeria.

Ademola and Yusuf (2021) investigated how internal control systems influence risk management in Nigerian credit unions. The study adopted a descriptive survey design, sampling 65 registered credit unions in Lagos State. Data collection was through structured questionnaires, and multiple regression analysis tested the hypotheses. Findings revealed that internal control systems significantly mitigate operational and financial risks when effectively implemented. Key control measures such as segregation of duties, approval hierarchies, and periodic reconciliations were found to reduce fraud and ensure timely identification of risks. Conversely, inadequate control frameworks were linked to high default rates and insolvency threats. The study concluded that internal controls are a vital tool for risk minimisation and financial stability in credit unions. Recommendations included automating transaction processes, enhancing staff training on risk detection, and instituting strong internal audit units with full independence from management. Ademola and Yusuf further suggested that regulators develop compliance scorecards to track control adherence across all credit unions in Nigeria.

Nwankwo and Umeh (2020) evaluated how internal control systems affect operational efficiency in Nigerian microfinance banks. The researchers adopted a descriptive research design and sampled 80 microfinance institutions in Anambra State. Data were obtained using structured questionnaires, while regression analysis tested the hypotheses. The findings showed that internal control systems, including segregation of duties, authorisation protocols, and internal audits, had a significant positive impact on efficiency indicators such as credit recovery rates and transaction turnaround time. Banks with strong internal control frameworks experienced fewer cases of loan defaults and exhibited better liquidity management than those with weak controls. The study concluded that compliance with control standards improves operational performance and reduces risks of financial irregularities. It recommended that microfinance banks integrate modern technology into their accounting systems to enhance transparency and ensure timely monitoring of financial transactions. The study also proposed regular training for bank staff on control mechanisms and fraud detection techniques. Nwankwo and Umeh stressed that regulatory bodies should enforce strict compliance with control requirements to maintain financial integrity and protect depositors' funds.

Mensah and Ofori (2020) analysed the impact of monitoring and supervision mechanisms on the financial performance of cooperative societies in Ghana. Employing a cross-sectional survey design, the study gathered data from 85 cooperative societies through questionnaires and interviews. Statistical tools such

as Pearson correlation and regression analysis were used to determine the strength of relationships between variables. Findings indicated that cooperatives with strong supervisory structures, frequent monitoring visits, and independent oversight committees recorded better financial outcomes compared to poorly supervised ones. Weak monitoring was linked to inefficiency, poor loan recovery, and misuse of funds. The study concluded that consistent supervision enhances transparency, accountability, and prudent management of resources. Recommendations included establishing clear monitoring frameworks, engaging external auditors for periodic reviews, and training cooperative leaders on supervisory responsibilities. Additionally, the study suggested leveraging technology for real-time performance tracking. Mensah and Ofori argued that monitoring should not be reactive but proactive to detect and address irregularities early.

Eze and Nwosu (2019) examined the role of internal audit independence in ensuring accountability within Nigerian public sector organisations. The research adopted a survey design, targeting 40 government agencies in Abuja, with responses from 200 audit staff. Data were analysed using correlation and regression techniques. The findings established that audit independence significantly influences accountability and financial reporting credibility. Where auditors were independent of management interference, internal audits were more effective in detecting irregularities and ensuring compliance with regulations. Conversely, compromised independence led to weak oversight and increased financial mismanagement. The study concluded that independence is essential for internal audit effectiveness. Recommendations included legislating mandatory independence for internal auditors, implementing whistle-blower protections, and establishing audit committees with autonomy from executive management. Though this research focused on the public sector, its relevance to cooperative societies is evident because autonomy and independence are crucial for internal controls to function effectively. Eze and Nwosu emphasised that without independence, internal audits become ceremonial and fail to provide genuine assurance.

Akinlabi and Fakoya (2019) examined the role of internal audit in promoting financial accountability within Nigerian deposit money banks. The study employed a cross-sectional survey design and sampled 15 commercial banks in Lagos State. Primary data were collected using structured questionnaires, and inferential analysis was carried out using correlation and multiple regression techniques. The results revealed that internal audit significantly improves accountability by detecting irregularities and strengthening compliance with regulatory requirements. Banks that maintained a robust internal audit system recorded higher operational efficiency and reduced instances of financial misstatements. The study concluded that internal audit functions play a critical role in ensuring integrity within banking operations. Recommendations were made for institutionalising internal audit units in all financial institutions, ensuring adequate resourcing, and guaranteeing auditor independence to avoid undue influence from management. The study further suggested that internal audit findings should be reviewed by independent oversight committees to ensure proper implementation. Akinlabi and Fakoya's research demonstrated that effective internal auditing does not only prevent fraud but also enhances stakeholders' confidence in financial reporting within Nigerian banks.

Muthoni and Kariuki (2018) assessed the influence of compliance with internal control policies on the performance of SACCOs in Kenya. The study used a descriptive survey design, sampling 65 SACCOs. Data were collected using questionnaires and analysed through regression techniques. The results showed a strong positive relationship between compliance with internal policies and organisational performance in terms of financial stability and service delivery. SACCOs that adhered strictly to internal control policies recorded lower default rates and improved member confidence compared to those that ignored established rules. The research concluded that compliance mechanisms ensure accountability and reduce operational risks. Recommendations included periodic compliance audits, increased regulatory supervision, and continuous training for SACCO managers to promote good governance practices. Additionally, the study advocated introducing digital platforms for policy monitoring and enforcement to eliminate manual loopholes that enable fraud. This study highlighted compliance as a fundamental factor for sustainable growth in cooperative societies.

Njeri and Mwangi (2017) investigated the effect of internal control on the financial performance of Savings and Credit Cooperative Organisations (SACCOs) in Nairobi, Kenya. The study adopted a descriptive survey design with a sample of 120 SACCOs and collected data using structured questionnaires.

Regression analysis was employed to test the relationships between control variables and performance indicators. The findings indicated a strong positive correlation between internal control components such as control activities, risk assessment, and monitoring with financial performance metrics like profitability, liquidity, and solvency. SACCOs that lacked strong internal control frameworks recorded higher cases of fraud and inefficiency, leading to losses and poor financial stability. The study concluded that sound internal control practices are essential for achieving sustainable growth in SACCOs. It recommended regular staff training on control measures, automation of accounting processes to reduce human error, and the introduction of strict compliance policies. Additionally, the researchers advocated for continuous monitoring and evaluation of internal control mechanisms to ensure accountability and transparency. The study emphasised that adopting modern financial technologies enhances the reliability of financial reports and curbs fraudulent practices in cooperative societies.

### Research Gap

Although several studies have examined internal control systems and financial performance in financial institutions, limited empirical evidence exists on how internal financial controls influence the performance of thrift and credit cooperative societies in Nigeria. Most previous research focused on banks and microfinance institutions, neglecting the peculiar governance structure and operational dynamics of cooperatives. This study seeks to fill this gap by investigating internal control activities, internal audit and monitoring systems, and compliance measures in enhancing cooperative performance.

### Research Methodology

The study adopted a descriptive survey research design because it enabled the researcher to collect quantitative data from a large population and describe the existing relationship between internal financial controls and the performance of thrift and credit cooperative societies in Nigeria. This design was appropriate as it provided insights into participants' perceptions and practices regarding internal financial controls. The population of the study comprised members and management officers of registered thrift and credit cooperative societies across five states in Nigeria, representing the major geopolitical and linguistic zones: Lagos (Yoruba-speaking), Kano (Hausa-speaking), Enugu (Igbo-speaking), Rivers (Pidgin-English prevalent), and the Federal Capital Territory, Abuja (English-speaking). These states were selected to ensure linguistic and cultural diversity, reflecting the national spread of cooperative activities. A multistage sampling technique was used to select respondents. First, 10 registered cooperative societies were randomly selected from each state, resulting in 50 societies. From each cooperative society, eight members and two executive officers were purposively chosen, giving a total of 500 respondents. The stratification was done based on membership roles to capture both managerial and ordinary members' views. Questionnaires were administered in English and translated versions in Igbo, Hausa, Yoruba, and Pidgin for respondents with limited English proficiency.

The instrument for data collection was a structured questionnaire titled "Internal Financial Control and Cooperative Performance Questionnaire (IFCCPQ)", which contained sections on internal control activities, internal audits, compliance measures, and performance indicators. The instrument was subjected to face and content validity by experts in cooperative management and financial accounting. Out of 500 questionnaires administered across the five states, 476 questionnaires were duly completed and returned, giving a response rate of 95.2%, which was considered adequate for statistical analysis. Reliability of the instrument was tested through a pilot study involving 30 respondents outside the main sample, and Cronbach's alpha coefficient of 0.87 was obtained, indicating high internal consistency. The respondents profile revealed that 58% were male and 42% female; 32% were between 18–30 years, 46% between 31–50 years, and 22% above 50 years. In terms of education, 10% had primary education, 24% secondary education, 50% tertiary education, and 16% postgraduate degrees. Occupationally, 38% were civil servants, 27% traders, 20% artisans, and 15% in other categories. Regarding cooperative membership duration, 30% had less than 3 years, 48% between 3–7 years, and 22% above 7 years. About 64% held no executive position, while 36% were executives in their societies. Marital status showed 62% married, 34% single, and 4% widowed or divorced. In terms of income level, 18% earned below ₦50,000 monthly, 42% between ₦50,000–₦100,000, 30% between ₦101,000–₦200,000, and 10% above ₦200,000. Language preference for questionnaire administration revealed 55% preferred English, 15% Yoruba, 13% Hausa, 10% Igbo, and 7% Pidgin English.

Data were collected by trained research assistants who distributed and retrieved the questionnaires physically, ensuring completion and addressing language barriers during administration. Ethical considerations were observed, including informed consent and confidentiality of respondents. For data analysis, descriptive statistics such as frequency counts and percentages were employed to summarise demographic data, while multiple regression analysis was used to test the hypotheses at a 0.05 significance level with the aid of Statistical Package for Social Sciences (SPSS) version 26. This approach provided a robust basis for determining the influence of internal financial controls on cooperative performance.

## Data Analysis and Discussion

### Data Analysis

#### Research Questions

**Research Question 1:** What is the effect of internal control activities on the financial performance of thrift and credit cooperative societies in Nigeria? In order to answer the research question, descriptive analysis was performed on the data collected (Table 1).

#### Item Statements

*Item 1:* Authorisation of transactions improves financial accountability.

*Item 2:* Segregation of duties reduces financial mismanagement.

*Item 3:* Proper record-keeping enhances financial performance.

*Item 4:* Regular reconciliation of accounts improves accuracy and transparency.

*Item 5:* Internal checks prevent fraud and financial irregularities.

**Table 1: Effect of Internal Control Activities on Financial Performance**

Response Category	Item 1	Item 2	Item 3	Item 4	Item 5
Strongly Disagree	12 (2.52%)	18 (3.78%)	15 (3.15%)	20 (4.20%)	14 (2.94%)
Disagree	34 (7.14%)	40 (8.40%)	38 (7.98%)	42 (8.82%)	36 (7.56%)
Neutral	56 (11.76%)	60 (12.61%)	62 (13.03%)	58 (12.18%)	59 (12.39%)
Agree	290 (60.92%)	276 (57.98%)	280 (58.82%)	270 (56.72%)	285 (59.87%)
Strongly Agree	84 (17.65%)	82 (17.23%)	81 (17.02%)	86 (18.07%)	82 (17.23%)
<b>Total</b>	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)

**Source: Field Survey, 2025**

The descriptive results in Table 1 indicates that most respondents agreed that internal control activities positively influence financial performance in thrift and credit cooperative societies. The “Agree” category consistently had the highest responses across all items, ranging from 56.72% to 60.92%, while “Strongly Agree” accounted for 17.02% to 18.07%. Minimal responses were observed in “Strongly Disagree” (2.52%–4.20%) and “Disagree” (7.14%–8.82%), while neutral responses ranged between 11.76% and 13.03%. This suggests that respondents believe practices such as proper authorisation, segregation of duties, and timely reconciliation of accounts are essential for improving financial accountability and reducing fraud within cooperative societies.

**Research Question 2:** What is the role of internal audit and monitoring systems in promoting accountability in thrift and credit cooperative societies? In order to answer the research question, descriptive analysis was performed on the data collected (Table 2).

#### Item Statements

**Item 6:** Internal audit ensures transparency in financial reporting.

**Item 7:** Monitoring systems help detect irregularities promptly.

**Item 8:** Regular audit reviews enhance accountability in operations.

**Item 9:** Effective audit checks strengthen members’ confidence.

**Item 10:** Continuous monitoring reduces financial mismanagement.

**Table 2: Role of Internal Audit and Monitoring Systems in Promoting Accountability**

Response Category	Item 6	Item 7	Item 8	Item 9	Item 10
Strongly Disagree	16 (3.36%)	14 (2.94%)	18 (3.78%)	20 (4.20%)	15 (3.15%)
Disagree	38 (7.98%)	42 (8.82%)	40 (8.40%)	44 (9.24%)	39 (8.19%)
Neutral	55 (11.55%)	60 (12.61%)	62 (13.03%)	58 (12.18%)	61 (12.82%)
Agree	280 (58.82%)	278 (58.40%)	272 (57.14%)	268 (56.30%)	276 (57.98%)
Strongly Agree	87 (18.28%)	82 (17.23%)	84 (17.65%)	86 (18.07%)	85 (17.86%)
<b>Total</b>	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)

Source: Field Survey, 2025

The descriptive results in Table 2 show that respondents largely agreed that internal audit and monitoring systems promote accountability in cooperative societies. The “Agree” category dominated responses for all items, with percentages ranging from 56.30% to 58.82%, followed by “Strongly Agree” between 17.23% and 18.28%. Neutral opinions accounted for 11.55% to 13.03%, while fewer respondents disagreed (7.98%–9.24%) or strongly disagreed (2.94%–4.20%). This implies that practices such as regular audits, prompt monitoring, and systematic checks significantly enhance financial transparency and reduce irregularities, thereby reinforcing accountability in thrift and credit cooperative societies.

**Research Question 3:** What is the influence of compliance with internal control policies on the operational efficiency of thrift and credit cooperative societies in Nigeria? In order to answer the research question, descriptive analysis was performed on the data collected (Table 3).

#### Item Statements

**Item 11:** Compliance with control policies improves resource utilisation.

**Item 12:** Adherence to internal policies reduces operational risks.

**Item 13:** Compliance ensures timely service delivery to members.

**Item 14:** Observing control guidelines enhances process efficiency.

**Item 15:** Full compliance minimises fraud and mismanagement.

**Table 3: Influence of Compliance with Internal Control Policies on Operational Efficiency**

Response Category	Item 11	Item 12	Item 13	Item 14	Item 15
Strongly Disagree	14 (2.94%)	15 (3.15%)	13 (2.73%)	16 (3.36%)	12 (2.52%)
Disagree	36 (7.56%)	40 (8.40%)	42 (8.82%)	38 (7.98%)	35 (7.35%)
Neutral	58 (12.18%)	59 (12.39%)	61 (12.82%)	60 (12.61%)	57 (11.97%)
Agree	278 (58.40%)	276 (57.98%)	272 (57.14%)	274 (57.56%)	280 (58.82%)
Strongly Agree	90 (18.91%)	86 (18.07%)	88 (18.49%)	88 (18.49%)	92 (19.33%)
<b>Total</b>	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)	476 (100.00%)

Source: Field Survey, 2025

The descriptive results in Table 3 reveals that the majority of respondents believe compliance with internal control policies positively affects operational efficiency. The “Agree” category recorded the highest percentages, ranging from 57.14% to 58.82%, followed by “Strongly Agree” with 18.07% to 19.33%. Neutral responses ranged from 11.97% to 12.82%, while disagreement was minimal (7.35%–8.82%) and strong disagreement negligible (2.52%–3.36%). These findings indicate that adherence to control policies enhances service delivery, reduces fraud, and improves operational processes, thereby increasing overall efficiency in thrift and credit cooperative societies.

### Hypotheses Testing

**Hypothesis 1:** The null hypothesis states that there is no significant effect of internal control activities on the financial performance of thrift and credit cooperative societies in Nigeria. In order to test the hypothesis, multiple regression analysis was performed on the data (table 4).

**Table 4a: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	0.812	0.659	0.657	2.413	0.659

**Table 4b: ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3245.872	3	1081.957		
Residual	1677.428	472	3.554	185.742	0.000*
Total	4923.300	475			

Significant at 0.05 level; df = (3, 472); N = 476; Critical r-value = 0.088.

**Table 4c: Coefficients**

Model	Unstandardized Coefficients	Standardized Coefficients	t-cal	Sig.

	( $\beta$ )	Std. Error	(Beta)		
(Constant)	8.216	1.032	-	7.962	0.000
Policy Checks	0.432	0.065	0.371	6.646	0.000
Authorisation	0.288	0.054	0.298	5.333	0.000
Record Review	0.257	0.061	0.244	4.213	

**a. Dependent Variable:** Financial Performance

**b. Predictors:** (Constant), Policy Checks, Authorisation, Record Review

The regression analysis in Tables 4a–c shows that internal control activities have a strong and positive effect on the financial performance of thrift and credit cooperative societies in Nigeria ( $R = 0.812 > \text{Critical } r = 0.088$ ). The model explains 65.9% of the variance in financial performance ( $R^2 = 0.659$ ). The F-statistic (185.742) is significant at  $p < 0.05$ , indicating that the overall model is significant. Each predictor (policy checks, authorisation, and record review) significantly contributes to the model with p-values  $< 0.05$ . Therefore, we reject the null hypothesis ( $H_{01}$ ) and conclude that internal control activities significantly affect the financial performance of thrift and credit cooperative societies.

**Hypothesis 2:** The null hypothesis states that there is no significant relationship between internal audit and monitoring systems and accountability in thrift and credit cooperative societies. In order to test the hypothesis, multiple regression analysis was performed on the data (table 5).

**Table 5a: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	0.784	0.615	0.612	2.176	0.615

**Table 5b: ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	2925.763	3	975.254		
Residual	2233.417	472	4.732	206.235	0.000*
Total	5159.180	475			

Significant at 0.05 level;  $df = (3, 472)$ ;  $N = 476$ ; Critical  $r$ -value = 0.088.

**Table 5c: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t-cal	Sig.
	( $\beta$ )	Std. Error	(Beta)		
(Constant)	7.842	0.986	-	7.955	0.000
Audit Frequency	0.356	0.058	0.338	6.138	0.000

Monitoring Checks	0.294	0.053	0.305	5.547	0.000
Reporting Quality	0.269	0.059	0.262	4.559	

**a. Dependent Variable:** Accountability

**b. Predictors:** (Constant), Audit Frequency, Monitoring Checks, Reporting Quality

The regression analysis in Tables 5a–c indicates a strong positive relationship between internal audit and monitoring systems and accountability in thrift and credit cooperative societies ( $R = 0.784 > \text{Critical } r = 0.088$ ). The model accounts for 61.5% of the variance in accountability ( $R^2 = 0.615$ ). The F-statistic of 206.235 ( $p < 0.05$ ) confirms that the model is statistically significant. All predictors (audit frequency, monitoring checks, and reporting quality) significantly contribute to accountability with p-values  $< 0.05$ . Consequently, the null hypothesis ( $H_{02}$ ) is rejected, implying that internal audit and monitoring systems significantly enhance accountability.

**Hypothesis 2:** The null hypothesis states that there is no significant influence of compliance with internal control policies on the operational efficiency of thrift and credit cooperative societies in Nigeria. In order to test the hypothesis, multiple regression analysis was performed on the data (table 6).

**Table 6a: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change
1	0.801	0.642	0.639	2.293	0.642

**Table 6b: ANOVA**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	3108.674	3	1036.225		
Residual	2477.302	472	5.250	197.325	0.000*
Total	5585.976	475			

Significant at 0.05 level;  $df = (3, 472)$ ;  $N = 476$ ; Critical r-value = 0.088.

**Table 6c: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t-cal	Sig.
	( $\beta$ )	Std. Error	(Beta)		
(Constant)	6.941	1.021	-	6.798	0.000
Policy Adherence	0.389	0.063	0.362	6.174	0.000
Regulatory Compliance	0.307	0.056	0.301	5.482	0.000
Ethical Practice	0.276	0.060	0.273	4.602	

**a. Dependent Variable:** Operational Efficiency

**b. Predictors:** (Constant), Policy Adherence, Regulatory Compliance, Ethical Practice

The regression output in Tables 6a–c reveals a strong positive influence of compliance with internal control policies on operational efficiency of thrift and credit cooperative societies ( $R = 0.801 > \text{Critical } r = 0.088$ ). The model explains 64.2% of the variance in operational efficiency ( $R^2 = 0.642$ ). The F-statistic (197.325) is highly significant at  $p < 0.05$ , showing the model's validity. All three predictors (policy adherence, regulatory compliance, and ethical practice) are significant contributors, with p-values  $< 0.05$ . Therefore, the null hypothesis ( $H_{03}$ ) is rejected, confirming that compliance with internal control policies significantly enhances operational efficiency.

### Discussion of Findings

The results of this study revealed that internal control activities significantly influence the financial performance of thrift and credit cooperative societies in Nigeria. The regression analysis showed a strong positive correlation ( $R = 0.812$ ) and a substantial explanatory power ( $R^2 = 0.659$ ), indicating that internal control activities account for nearly 66% of the variance in financial performance. These findings align with Obo Rex Uno et al. (2023), who reported that control mechanisms such as segregation of duties, monitoring, and compliance greatly enhance financial sustainability. Similarly, Patel and Sharma (2022) found that rural cooperatives with robust control systems in India recorded higher profitability and reduced loan defaults. Furthermore, Ogunleye and Adebayo (2021) observed that implementing measures such as proper authorisation and periodic reconciliations significantly reduced fraud in cooperative societies. Ademola and Yusuf (2021) also supported this position, asserting that control systems mitigate risks that affect financial health. Additionally, Nwankwo and Umeh (2020) confirmed that microfinance banks with strong internal controls experienced better liquidity and recovery rates. These studies validate the current findings, emphasizing that financial performance in cooperatives is strongly tied to the rigor of internal control measures in place.

The analysis revealed a significant relationship between internal audit and monitoring systems and accountability in thrift and credit cooperative societies. The regression output ( $R = 0.784$ ;  $R^2 = 0.615$ ) suggests that internal audit and monitoring systems explain over 61% of accountability variations, highlighting their crucial role in cooperative governance. These findings are consistent with Obo Rex Uno et al. (2023), who argued that monitoring systems and internal audits foster transparency and reduce the risk of fund misappropriation in cooperatives. Patel and Sharma (2022) also documented similar findings in India, where routine auditing and systematic monitoring improved stakeholder confidence and operational discipline. Ogunleye and Adebayo (2021) emphasized that frequent auditing discourages fraudulent activities and builds trust among members. Likewise, Ademola and Yusuf (2021) identified monitoring as a core risk management mechanism that ensures compliance with established financial policies. Nwankwo and Umeh (2020) corroborated these results by demonstrating that banks with structured audit systems experienced better internal accountability and compliance with regulatory standards. Collectively, these empirical supports confirm that a strong internal audit framework is indispensable for achieving accountability in thrift and credit cooperative societies.

The results indicate a strong positive influence of compliance with internal control policies on operational efficiency, with regression statistics showing  $R = 0.801$  and  $R^2 = 0.642$ . This implies that adherence to internal control policies accounts for about 64% of the variance in operational efficiency among Nigerian cooperatives. These findings resonate with the study of Obo Rex Uno et al. (2023), which found that compliance with financial standards significantly improves operational outcomes and sustainability in cooperatives. Similarly, Patel and Sharma (2022) observed that Indian rural cooperatives that complied with control frameworks reported higher efficiency in loan processing and reduced service delays. Ademola and Yusuf (2021) also affirmed that compliance with control policies minimizes operational risks and enhances timely service delivery in credit unions. Ogunleye and Adebayo (2021) linked policy compliance to fraud reduction and improved integrity in cooperative operations. Further evidence from Nwankwo and Umeh (2020) demonstrates that compliance significantly reduces transaction errors and operational bottlenecks in microfinance institutions. Overall, these studies reinforce the present findings by establishing that compliance with internal control policies is a fundamental determinant of operational efficiency in cooperative societies.

## Conclusion

This study examined the influence of internal financial controls on the performance of thrift and credit cooperative societies in Nigeria. Findings from the analysis demonstrated that internal control activities significantly enhance financial performance by promoting transparency, reducing fraud, and improving resource utilisation. Strong internal audit and monitoring systems were found to be critical in fostering accountability, ensuring compliance with set financial policies, and building trust among members. Furthermore, the study established that adherence to internal control policies positively impacts operational efficiency, enabling cooperative societies to deliver timely services, minimise risks, and achieve organisational objectives. The research confirmed that internal financial controls are indispensable for the sustainability and growth of cooperative societies, particularly in the Nigerian context where accountability challenges and financial mismanagement often threaten cooperative viability. The theoretical and empirical evidence suggests that financial performance, accountability, and operational efficiency cannot be achieved without robust internal control systems. Hence, the study concludes that thrift and credit cooperative societies must prioritise implementing and strengthening internal control frameworks to enhance their effectiveness and ensure member confidence. These measures will not only secure financial integrity but also promote long-term stability and competitiveness in the cooperative sector.

## Recommendations

Based on the findings of this study, the following recommendations are made to relevant:

1. Management committees of cooperative societies should strengthen internal control activities by instituting clear segregation of duties, proper authorisation procedures, and regular reconciliations. These practices will reduce the risk of fraud and mismanagement while improving financial performance.
2. Internal auditors and monitoring teams should conduct frequent and independent audits of financial records and operations. This will enhance accountability, identify irregularities early, and ensure adherence to policies and standards within the societies.
3. The Federal Department of Cooperatives and other oversight bodies should enforce compliance with internal control policies through periodic inspections and mandatory reporting. Clear regulatory guidelines on financial governance for cooperative societies should also be established and monitored effectively.
4. Government agencies and cooperative regulators should design policies that mandate cooperative societies to adopt strong internal financial control systems and provide training on compliance and risk management.
5. Members should demand transparency and accountability from their leaders by actively participating in general meetings, reviewing audit reports, and insisting on strict compliance with internal control frameworks to safeguard their investments.

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