EFFECT OF CONTROL ENVIRONMENT, RISK ASSESSMENT AND CONTROL ACTIVITIES ON FINANCIAL PERFORMANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN KEBBI STATE

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ABSTRACT

This study examines the effect of Control environment, Risk assessment and Control Activities on financial performance of small and Medium Scale Enterprises in Kebbi State. Primary data was sourced through administration of a well-structured questionnaire using Simple Random Sampling of 30 Small and medium Enterprises in Kebbi State Nigeria. The data collected was quantified and analyzed statistically using Regression models (OLS). Data was analyzed with the aid of SPSS version 23. The result showed that control environment, risk assessment, and control activities have a positive and significant impact on the financial performance of small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria. The study therefore recommended that SME's and other businesses or organizations should learn and adopt the importance of regular and timely financial audits to help them detect any gaps in their financial systems and financial performance. Frequent risk assessment should be conducted so that SME management may determine whether or not their goals will be reached.

Keywords: Control environment, Risk assessment, Control Activities, Financial Performance, SMEs.

JEL Codes: M41, M42, G32

1. INTRODUCTION

Small and Medium Enterprises (SMEs) are critical to the development of any economy as they possess great potentials for employment generation, improvement of local technology, output diversification, development of indigenous entrepreneurship and forward integration with large-scale industries. In Nigeria, there has been gross under performance of the SMEs sub-sector and this has undermined its contribution to economic growth and development. The key issues affecting the SMEs in the country can be grouped into four namely: unfriendly business

environment, poor funding, low managerial skills and lack of access to modern technology (Financial System Strategy (FSS) 2020 SME Sector Report, 2007).
The International Conference on the Financial System Strategy 2020 Report, presentation of Wednesday, 21st June, 2007, expressed that, shortage of finance occupies a very central position. Globally, commercial banks which remain the biggest source of funds to SMEs have in most cases, shied away because of the perceived risks and uncertainties. In Nigeria, the fragile economic environment and absence of requisite infrastructure has rendered SME practice costly and inefficient, thereby worsening their credit competitiveness. To improve access to finance by SMEs, the Central Bank of Nigeria has approved the investment of the sum of N500 billion debenture stocks to be issued by the Bank of Industry (BOI) with effect from May, 2010. In the first instance, the sum of N300 billion will be applied to power projects and N200 billion to the refinancing/restructuring of banks existing loan portfolios to Nigerian SME/manufacturing sector. The objectives of the 200 billion re-financing and restructuring of banks loans to the manufacturing sector are to: Fast-track the development of the SMEs and manufacturing sector of the Nigerian economy, and to improve the financial position of the deposit money banks.
Complimentary to the above, Central Bank has also established a N200 billion Small and Medium Enterprises Credit Guarantee Scheme (SMECGS), for promoting access to credit by SMEs in Nigeria. The Scheme shall be wholly financed by the Central Bank of Nigeria (CBN) as stipulated in the Guidelines.
The objectives of the SMECGS are to: Provide guarantee for credit from banks to SMEs and manufacturers, to Increase the access of promoters of SMEs and manufacturers to credit, to Set the pace for industrialization of the Nigerian economy. The overall goal of these two initiatives are to increase output, generate employment, diversify the revenue base, increase foreign exchange earnings and provide inputs for the industrial sector on a sustainable basis.
According to the Small and Medium Enterprises (SMEs) Finance Report- World Bank (2018) SMEs play a major role in most economies, particularly in developing countries. SMEs account for the majority of businesses worldwide and are important contributors to job creation and global economic development. They represent about 90% of businesses and more than 50% of employment worldwide. Formal SMEs contribute up to 40% of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included. According to our estimates, 600 million jobs will be needed by 2030 to absorb the growing global workforce, which makes SME development a high priority for many governments around the world. In emerging markets, most formal jobs are generated by SMEs, which create 7 out of 10 jobs. However, access to finance is a key constraint to SME growth; it is the second most cited obstacle facing SMEs to grow their businesses in emerging markets and developing countries.
SMEs are less likely to be able to obtain bank loans than large firms; instead, they rely on internal funds, or cash from friends and family, to launch and initially run their enterprises. The International Finance Corporation (IFC) estimates that 65 million firms, or 40% of formal micro, small and medium enterprises (MSMEs) in developing countries, have an unmet financing need of $5.2 trillion every year, which is equivalent to 1.4 times the current level of the global MSME lending. East Asia and Pacific accounts for the largest share (46%) of the total global finance gap and is followed by Latin America and the Caribbean (23%) and Europe and Central Asia (15%). The gap volume varies considerably region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. About half of formal

SMEs don't have access to formal credit. The financing gap is even larger when micro and informal enterprises are taken into account.

In Nigeria, the Development Finance Project supports the establishment of the Development Bank of Nigeria (DBN), a wholesale development finance institution that will provide long-term financing and partial credit guarantees to eligible financial intermediaries for on-lending to MSMEs. The project also includes technical assistance to DBN and participating commercial banks in support of downscaling their operations to the underserved MSME segment. As of May 2019, the Development Bank of Nigeria credit line to PFIs for on-lending to MSMEs has disbursed US$243.7 million, reaching nearly 50,000 end-borrowers, of which 70% were women, through 7 banks and 10 microfinance banks (SMEs Finance- world Bank, 2018)

Husaini & Mohammed (2018) opined that In order to increase the probability of achieving an organization's goals, a company's internal controls include a wide range of processes, strategies, and measures. The term "internal control" can also refer to a system of rules and procedures in place to ensure that the actions of a company are in line with the goals set by the company's management and board of director. Against this background, the broad objective of the study is to examine the impact of internal control on the financial performance of Small and Medium Enterprises in kebbi state, Nigeria. The Specific objectives are to: examine whether Control Environment enhance financial performance of SMEs in Kebbi State, determine whether Risk Assessment enhanced financial performance of SMEs in Kebbi State and dentify whether Control Activities enhanced financial performance of SMEs in Kebbi State.

The remaining part of the paper is organised as follows: section two reviews the literature; section three ushers in the methodology of the study; section four presents the results and analysis, while section five submits the conclusion and recommendations.

2. REVIEW OF LITERATURE

2.1 Small and Medium Scale Enterprises (SMEs) in Nigeria

In Nigeria, small and medium-sized businesses tend to be owned by a single person or family, which gives the sector a distinctive ownership structure. Sole proprietorships and partnerships make up the majority of SME organizations. A sole proprietorship, family firm, or partnership may be registered as a limited liability company, but it is still a sole proprietorship under the surface. Some of the other characteristics of Nigerian SMEs include: labor-intensive production processes, a high mortality rate in their first two years of operation, a lack of long-term financing options and bank charges, a high mortality rate in their first two years of operation and an overreliance on imported raw materials and spare parts – thus they do not enjoy economies of scale. The lack of adequate financial record keeping and the inability to distinguish between personal and business finances, as well as poor documentation of policy, strategy, financials, plans, and information, as well as low entrepreneurial skills and an inadequate educational or technical background, all contribute to a poor capital structure, or low capitalization.

As a result of their excessive reliance on imported raw materials and spare parts, poor cross- and intra-sectorial connections, inability to pay for skilled labor, poor managerial abilities, lack of research and development, and scant to no staff training and development, they are unable to take advantage of economies of scale. Poor policy, strategy, finance, plan, and system documentation, a lack of entrepreneurial skills, a lack of technical or academic preparation, insufficient financial record keeping, and a weak capital structure, i.e. Low capitalization, poor financial resource management, an inability to differentiate between personal and business finances, high production costs due to inadequate infrastructure and waste, the use of rather antiquated and inefficient technology, particularly with regard to processing, preservation, and storage, lack of access to the global market, an absence of a succession plan, and poor access to crucial information are just a few of the problems that can cause problems.

2.1. 1 The Role of Small Scale Industry in Nigeria Development

Small-scale industries provide numerous significant contributions to the nation's economic development (Bubou, Siyanbola, Ekperiware and Gumus, 2014). Enumerated some of them as follows:

1. It is imperative that businesses find creative ways to sell their products and services in order to generate jobs for young people. As a result, the unemployment rate and its accompanying societal complication of armed robbery and white collar crimes have been reduced significantly.
2. A wide range of industries that rely on small-scale businesses to be competitive are able to meet the demands of their customers and ensure that goods and services are easily available at all times.
3. In underdeveloped countries, they make up the great majority of industrial capacity. It was assumed that Nigeria's small businesses account for more than 80% of all registered firms, with the majority working in Agra-based and related industries, rubber-based and leather shoe industries as well as chemical and electronic industries, general merchandising and restaurants, as well as the manufacture of dresses and hair accessories as well as cane-chairs and leather products like pomade and toiletries, as well as animal feeds and husbandry (Bett and Memba, 2017).

2.2 THEORETICAL FRAMEWORK

This study adopted Agency Theory which is concerned with resolving problems that can exist in agency relationships; that is, between principals such as shareholders and agents of the principals for example, company executives. The two problems that agency theory addresses are: the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions. (Olufemi and Aladejebi, 2017) Agency theory can provide for richer and more meaningful research in the internal audit discipline. Agency theory contends that internal auditing, in common with other intervention mechanisms like financial reporting and external audit, helps to maintain cost-efficient contracting between owners and managers. (Shonubi and Taiwo, 2013).

2.3 REVIEW OF EMPIRICAL STUDIES

Akomolafe (2021) the study is to examine the influence of socio-economic factors on the performance of micro and small enterprises in Abia State. The empirical result reveals that socio-economic factors have significant influence on the performance of micro and small enterprises in Abia State at 5% level of significance. The study recommends that micro and small scale enterprises need to continuously monitor their environment that they operate in, understanding that the ethics, social norms, traditional values and practices and cultural diversity is important to the performance and survival of the business.

Nwosu, Madu and Nwokocha (2019) the study is aimed at assessing location factors of Small and Medium Scale industries in Enugu State. Results show that the 15 variables of factors of SME location were compressed to five important factors using PCA. The five factors are availability of economic factors such as market, raw material, labour, influence of infrastructure especially transportation route, family ties, agglomeration effect and Government policies. The five variables, explained 74.12% of the total variance leaving 25.88% of total variance unexplained at significant loadings exceeding +/_ 0.06. This means that before any entrepreneur sets up SMEs in Enugu state, the person must consider the availability of these variables. Also it shows that the five variables will affect the behavior of SME owner in their choice of location. Appropriate recommendation based on the findings includes provision of infrastructure especially roads and Small and medium scale industrial park, estate or clusters with up to date infrastructure.

Ngutsav and Ijirshar (2020) examined SMEs as drivers of economic recovery and sustainability in Nigeria during the COVID-19 pandemic and beyond. The findings showed that COVID-19 pandemic has drastically affected the level of employment and returns of SMEs in Nigeria negatively. Considering SMEs as critical engines of economic growth due to their potentials in creating jobs, boosting economic output, generating income, and reducing poverty, the study recommends that the Nigerian government should engage with the SMEs early, seek to better understand their challenges and how they might best mitigate the challenges that COVID-19 has caused. Some of the approaches are the granting of soft loans with a temporary moratorium of the loan or assisting the SMEs with grants, granting of SMEs payroll support programme, granting of relief programmes such as loan holiday packages for SMEs as measures mitigating against the effects caused by the COVID19 global pandemic. The study also recommends deliberate efforts towards improving innovativeness and managerial capabilities in SMEs that is focused on less finance and more innovation-based routes while creating support institutions to provide information on regulations, standards, taxation, customs duties, and marketing issues.

Nomor and Ominyi (2021) opined that the advent of Herdsmen-farmers' conflict has resulted to severe violence which is a serious threat to human security and development of our society. This persistent conflict has affected the capacity of households, firms and government to accurately carry out economic activities necessary for human existence. In Benue State, households have continued to grapple with economic instability resulting from incessant clash between herdsmen and farmers. Consequently many households have lost many members and means of livelihood. This study assesses the implications of this persistent violence on households' small off-farm businesses in Benue State. The data for this study was primary, gotten from structured questionnaire which was administered to 384 households that were affected by herdsmen-farmers' conflict in Benue State. The sample covered farmers that engaged in small off-farm businesses and were affected by herdsmen-farmers' conflict. The study revealed that, herdsmen-farmers' conflict has a significant negative impact on small off farm businesses in Benue State. The study recommended that government should revisit the existing 1964 grazing reserves act and 1978 land tenure act so as to accommodate land ownership, usage and control by farmers and herders. The study also recommended that, government should provide access to finance for farm households, whose small off farm businesses were destroyed due to herdsmen-farmers' conflict to rebuild their businesses wherever they are.

Adejoh and Ojonugwa (2021) assessed commercial bank credit to Micro, Small, and Medium Enterprises (MSMEs) and economic growth in Nigeria. Particularly, it empirically assessed the causal relationship between commercial bank credit to this category of entrepreneurs and economic growth in the country spanning the period of 1992 to 2020. To do this, the study used the Toda-Yamamoto (T-Y) procedure. Using gross national product as proxy for economic growth and total commercial bank credit to MSMEs, findings from the T-Y estimation revealed that there was no causal relationship between commercial bank credit to MSMEs and economic growth in Nigeria for the period under analysis. It concludes that commercial bank credit to these entrepreneurs was inadequate to spur growth. To reverse this, the study recommends that commercial banks should extend more funds to MSMEs, while also providing them with long-term and sound credit risk management and business development services to boost their growth enhancing effects on the economy.

Adebisi and Tonjor (2021) opined that Electricity is a significant component of virtually all enterprise production processes. Hence, distorted or uncertain electricity supply has potential effects on the economic activities of firms, directly or indirectly; as it hinders business growth and development. This study examined the effect of distorted electricity supply on the profitability of small and medium scale enterprises in southwest, Nigeria. Findings from the study showed that effective power supply (EPS) exhibited a significant positive impact on the profitability of business enterprises and the cost of maintaining mechanical generators (KHZ) as an alternative source of power has a negative effect on the profitability of the enterprises. The study concluded that power supply has a significant influence on the profitability of SMEs in Nigeria. It recommended that government at all levels should formulate policies that would encourage effective power supply in other to boost productivity of the SMEs and increase profitability.

Chelangat and Rotich (2018) argued that risk if not well managed could lead to dissatisfactory performance of most organizations. Risk management should be at the central part of an organization’s operations by integrating risk management practices into Systems, processes, and culture of the entire organization. The study sought to establish the effect of Risk management practices on financial performance of Commercial state corporations in Kenya. The findings indicate that there is a fairly strong positive relationship between reputational risk management practices and financial performance to an extent of 56.2%. Efficient management of operational risks leads to lower operating expense and increased profitability. Practices that lead to general reduction of liabilities would positively affect firm’s financial performance. The study recommended that state corporations should comprehensively implement risk management good practices as outlined in their “MWONGOZO” guidelines.

Dickson and Wachira (2019) asserted that SMEs play critical role in creating job opportunities and growth of the economy. Currently, the rate at which the new firms formed have stagnated and those with less than 5 years are closing down is very high. This has triggered research on the financial performance of the SMEs especially in areas with high levels of poverty since most studies concentrate on developed economies and urban centers. The study investigated the effect of access to finance on financial performance of processing SMEs in Kitui County. The findings of the study indicated that financial performance positively correlated with the access to finance. The findings were supported by the literature reviewed by the study. With reference to the findings, various recommendations were made. The study recommended financial institutions to create favorable policies to enable SMEs access loans easily. Secondly, the study recommended government to offer incentives and funding to SMEs at a lower cost to boost their financial performance.

Bukur and Tabitha (2021) in their study evaluated financial factors affecting the production efficiency of small-scale coffee farms in Burundi. The findings of the research obtained that selling prices per kilogram of coffee beans had not significant negative effect on production efficiency, while capital availability and production costs had a positive effect on the production efficiency. The study recommended that government should review the policies relating to the selling prices per kilogram of coffee beans to improve small-scale coffee farmers' incomes. Government should also facilitate access to credit to small-scale coffee farmers.

Kurban and Nasir (2022) investigated that the Liquidity Risk and Organizational Performance in Malaysia Small and Medium Enterprises. The result shows, out of six hypotheses, three hypotheses were tested as positive and three hypotheses tested as negative. It suggests that firms need to consider liquidity risk as a strategic step that needs to be taken into account.

According to Adhiambo (2022) his study was to investigate the moderating role of financial innovations on theeffect of monetary interventions on access to credit by micro, small and medium enterprises in Kisumu County, Kenya. The specific objectives were to assess the effect of interest rate cap on access to credit by MSMEs and to investigate the moderating role of financial innovations on the effect of interest rate cap on access to credit by MSMEs in Kisumu. The results showed that interest rate cap had a statistically significant effect on access to credit by micro, small and medium enterprises. Further, financial innovations moderated the relationship between interest rate cap and access to credit. The study concluded that MSMEs' access to credit depended on the direct and the hierarchical effects of interest rate cap and also that financial innovations moderated these effects. The study recommends that the MSMEs could save with commercial banks to enable them access credit made available through lower interest rates unlike those charged by MFIs. Also, they should take advantage of financial innovations at their disposal to enable them access credit cheaply and fast. The policy makers ought to aim at enhancing access to credit by employing sector specific interventions as opposed to blanket interventions like cushioning MSMEs from high interest rates by providing such funds as funds for inclusion of the informal sector (FIIS)and should also derive policies targeting on improving the process and role of financial innovations in the relationship between interest rate cap and access to credit by MSMEs in Kenya. The study supported the Keynesian liquidity preference theory by positing that interest rates are controlled by the rise and fall of supply and demand for money and should be allowed to adjust freely. This theory could therefore be applied to similar studies.

Aladejebi. (2017) assessed the strategies leaders of SMEs in Nigeria use for improving internal control practices. Researcher and practitioners have recognized the need for business leaders to establish effective internal control frameworks. Some small and medium enterprises (SME) leaders lack strategies for improving internal control systems. Building on the internal control theory and transactional leadership theory, semi-structured face-to-face and phone interviews were conducted with 8 purposively-selected leaders of SMEs in Nigeria who successfully implemented internal control practices. The 5 themes that emerged from the thematic analysis of the interview data were: segregation of duty; adherence to processes, policies, and procedures; staffing, training, and experience; information technology; and staff empowerment and management commitment.

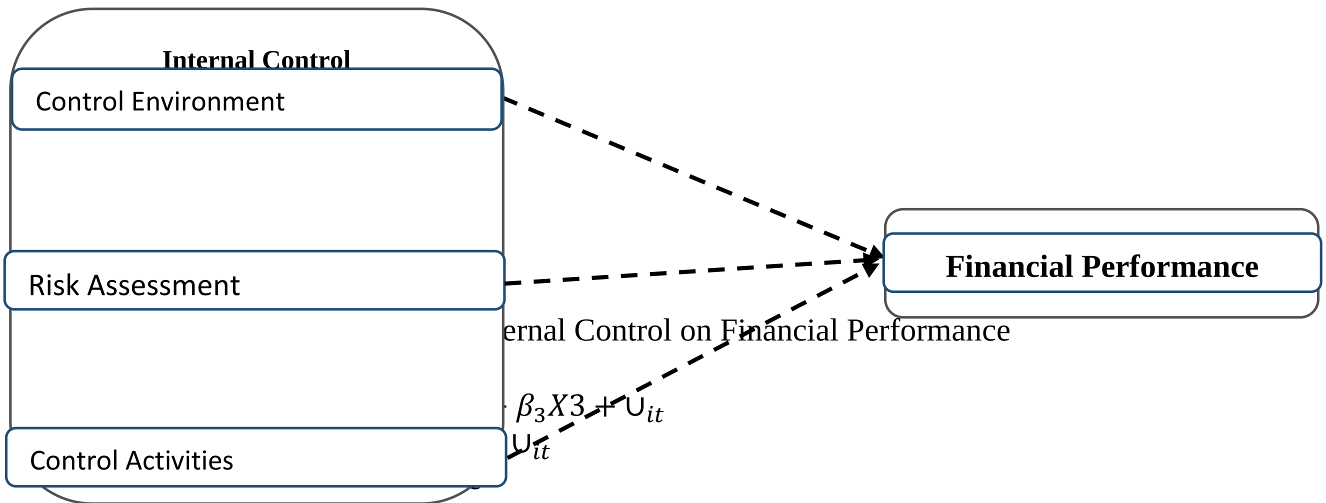
The findings from this study indicate that leaders of SMEs in Nigeria use similar strategies to improve internal control practices. All participants used segregation of duty and adherence to processes, policies, and procedures as strategies for improving internal control practices. SME leaders should possess adequate leadership skills for improving internal control systems in their business. The result of this study may contribute to positive social change by providing SME leaders with knowledge on strategies for improving internal control practices which will minimize loss of assets and boost profitability and business sustainability.

Lastly, this study contributes in enhancing the awareness and provides a better understanding among SMEs management, SMEs Council as well as related government parties on the significance of internal control roles in reducing the risk of fraud and mismanagement in the company.

3. METHODOLOGY

Primary data was sourced through administration of a well-structured questionnaire using Simple Random Sampling Small and Medium Enterprises in Kebbi State Nigeria. The population of the study was made- up of all SMEs in Kebbi State, Nigeria, as of the end of 2020. This study covered two thousand two hundred (2,200) SMEs in Kebbi State. 338 research questionnaires were administered physically among the SME's in Kebbi State. The data collected by the researcher was quantified and analyzed statistically using Regression model (OLS). Data was analyzed with the aid of SPSS version 23.

3.1 Conceptual Framework



ernal Control on Financial Performance

$\beta_3 X3 + U_{it}$

U_{it}

α =Alpha as intercept
β_1 = Unknown parameters
CE= control environment
RA=Risk Assessment
CA=Control Activities
U= Error term
Source: Researcher's Computation, 2022

4. DATA PRESENTATION AND ANALYSIS

Table 1: Demographic Data Analysis

Variables	Characteristics	Frequency	Percentage(%)
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
Educational Qualification	B.Sc.	182	58.3
	M.Sc.	123	39.4
	Ph.D.	7	2.2

Employment Status	Full Time	227	72.8
	Part Time	85	27.2
Organization Type	Retail	125	40.1
	Manufacturing	72	23.1
	Skill Services	58	18.6
	Catering	57	18.3
	Total	312	100.0

Source: Field Report, 2022

Analysis from the Table above indicates that 71.2% of the respondents are male, while 28.8% are female. This shows that, majority of the respondents in this study are Male; Data revealed that 38.5% of the respondents age were within the age range of 20-30years, 60.3% were between 31 to 40 years, 0.96% were between the age range of 41 and 50, while 0.3% (1) of the respondents were within the range 51 and 60 years. This shows that, respondents whose age fall within the range of 31 and 40 years are more in this study. According to the table, 58.3% (182) of the respondents have Bachelor's degree, 39.4% (123) of the respondents have Masters Degree, while 2.2% (7) respondents have PhD degree. This shows that, majority of the respondents in this study Bachelor's degree.

Data from table above shows that 72.8% (227) of the respondents are employed full time, while 27.2% (85) of the respondents have a part-time employment. This shows that majority of the respondents have full-time employment. Data from table shows that 40.1% (125) of the respondents have a retail business, 23.1% (72) of the respondents are into manufacturing business, 18.6% (58) of the respondents have skill services, while 18.3% (57) are into catering business. This shows that majority of the respondents have a retail business.

Table 4.2: Summary of Relationship between Control Environment, Risk Assessment, Control Activities, and Financial performance

		Control_Envi	Risk_Asse	Control_Acc		
Fin_Performance	Pearson Correlation	.278**	.321**	.267**		
	Sig. (2-tailed	.000	.000	.000		
	N	312	312	312		

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

Source: SPSS Computation 23.0

The first objective of the study sought to establish the effect of control environment on financial performance of SMEs in Kebbi State Nigeria. To investigate this, Pearson Correlation was used with a two-tailed test of significance at P<0.01 level. From Table 4.2, using default 5%, the p-value or Sig. value is 0.00 which is less than the p-value. Hence we reject the null hypothesis and conclude that there is a significant relationship between control environment and financial performance of SMEs in Kebbi State Nigeria. The sample correlation is 0.278 (control environment correlates with financial performance at 0.278) which is positive and shows that the relationship is moderate. The (**) means that Correlation is significant at the p<0.01 level (2-tailed). Hence, we reject the hypothesis H_{o1}–control environment has no significant effect on the financial performance of SMEs in Kebbi State. This therefore answered the research first objective. This corroborates the findings that control environment have a positive impact on the probability of an SME recording a high operating performance in a work on Internal control systems and

operating performance: Evidence from small and medium enterprises (SMEs) in Ondo state (Adegboyegun, Ben-Caleb, Ademola, Oladutire and Sodeinde, 2020).
Also, the second objective of the study sought to establish the impact of the level of risk evaluation on financial performance of SMEs in Kebbi State Nigeria. Hence, to investigate the relationship between risk evaluation and financial results of SMEs in Kebbi State, Nigeria, Pearson Correlation was also used with a two-tailed test of significance at $P<0.01$ level. From Table 4.2 using default 5%, the p-value is 0.000 which is less than the p-value. Hence we reject the null hypothesis and conclude that there is a significant relationship between risk evaluation and financial results of SMEs in Kebbi State, Nigeria which answered the second research objective. Similarly, the sample correlation is 0.321 (risk evaluation correlates with financial results at 0.321) which is positive and shows that the relationship is moderate. The (**) means that Correlation is significant at the $p<0.01$ level (2-tailed). Hence, we reject the hypothesis H_{o2}–There is no discernible impact of the level of Risk evaluation of the financial results of SMEs in Kebbi State, Nigeria. Hence, it answered the research second objective. This however corroborates the findings that level of risk management component influences financial performance in a work on the effects of internal control on the financial performance of processing firms in Kenya (Bett and Memba, 2017).
Further, the third objective of the study sought to establish the impact of control activities on financial performance of SMEs in Kebbi State Nigeria. To investigate this relationship, Pearson Correlation was also used with a two-tailed test of significance at $P<0.01$ level. From Table 4.16, using default 5%, the p-value is 0.000 which is less than the p-value. Hence we reject the null hypothesis and also conclude that there is a significant relationship between control activities and financial performance of SMEs in Kebbi State, Nigeria which answered the third research objective. Similarly, the sample correlation is 0.267 (shows that control activities correlates with financial performance at 0.267) which is positive and also shows that the relationship is moderate. The (**) means that Correlation is significant at the $p<0.01$ level (2-tailed). Hence, we reject the hypothesis H_{o3}–***The*** control activities put in place have no major impact on the performance of the economy of SMEs in Kebbi State, Nigeria. This supports the findings that control activity has a positive influence on financial performance in a study to access the influence of internal control systems on financial performance of Kenya Farmers' association limited3. This however contradicts the findings that there is no relationship between control activities and financial performance on a sample of forty five banking and finance companies listed on the Colombo Stock Exchange.

4.3. Discussion of Findings

This section discussed the significant findings of this study. Based on this study, impact of internal control on the financial performance of Small and Medium Enterprises in kebbi state Nigeria have been analyzed.
Research question one from Table 2 shows that majority of the respondents identified the components of control environment as regards working environment, integrity and ethical values/codes, role and responsibilities, regular training and code of ethical conduct, as majority picked strongly agree and agree options of the questionnaire. This study indicated that majority of the respondents agreed that working environment in their organization is conducive and that the role and responsibilities are clearly stated for the employee. Similarly, the study showed that majority of the respondents agreed that staff are regularly trained and equipped with resources to carry out their duties professionally and the company has a code of ethical conduct that has been made available to all employees.

According to the findings, majority 87.8% of the respondents agreed that control environment positively enhances financial performance of SME's in Kebbi State, while 12.2% of the respondents disagree. This corroborates the study findings that control environment which is a dimension of internal control has a positive influence on the performance of SMEs in a work on the impact of internal control on performance of small and medium-sized enterprises in an emerging economy.

Also, research question two from Table 3 indicated that, majority (95.8%) of the respondents agreed that SMEs identify risks that may affect achievement of the objectives in a timely manner. Also, majority (94.6%) agreed that SMEs has a criteria for ascertainment of the risks that are most critical to the organization such as opportunity to commit frauds, 93.3% of the respondents agreed that SMEs have in place mechanism of mitigating risks that may arise during the course of doing business, 92.7% of the respondents agreed that the appropriate actions are taken to improve effectiveness, that majority of the respondents and 95.2% of the respondents agreed that the appropriate actions are taken to improve effectiveness. However, 4.2%, 3.8%, 6.7%, 2.9% and 4.8% respondents are neutral respectively, while only 1.6% respondents disagrees to the statements.

This implies that 94.06% agreed to all the statements on components of risk management which shows that risk assessment enhanced financial performance of SMEs in Kebbi State. This corroborates the findings that there was a positive and significant influence between risk assessment and financial performance, r (0.616); p-value < 0.05 in a study on effect of internal controls on financial performance of small and medium enterprises in Nairobi County.

Research question three from Table 4 shows that majority (86.5%) of the respondents agreed that controls are in place to check on incurring expenditure in excess of allocated funds. Also, 86.3% of the respondents agreed to the statement "there is segregation of duties in my organization". Similarly, 91.6% of the respondents agreed to the statement "that the corrective actions are taken to address the weakness". Likewise, majority (87.5%) of the respondents agreed that that all transactions are verified before making payments and 90.2% of the respondents agreed that advices to voluntary resign to staff involved in fraud. However, 10.3%, 10.3%, 5.8%, 9.9% and 4.8% respondents are neutral respectively, while only 3.2%, 3.5%, 2.6% disagreed respectively. From the foregoing, it shows that majority of the respondents agreed to all the statements on control activity and implies that control activity influences financial performance.

The study shows that majority of the respondents identified the components of control environment as regards working environment, integrity and ethical values/codes, role and responsibilities, regular training and code of ethical conduct as majority picked strongly agree and agree options of the questionnaire. This study indicated that majority of the respondents agreed that working environment in their organization is conducive and that the role and responsibilities are clearly stated for the employee. Similarly, the study showed that majority of the respondents agreed that staff are regularly trained and equipped with resources to carry out their duties professionally and the company has a code of ethical conduct that has been made available to all employees.

According to the findings, majority of the respondents agreed that control environment positively enhances financial performance of SME's in Kebbi State, while 12.2% of the respondents disagree. This corroborates the study findings that control environment which is a dimension of internal control has a positive influence on the performance of SMEs in a work on the impact of internal control on performance of small and medium-sized enterprises in an emerging economy.

Also, the study indicated shows that majority of the respondents agreed that SMEs identify risks that may affect achievement of the objectives in a timely manner. Also, majority agreed that SMEs has a criteria for ascertainment of the risks that are most critical to the organization such as opportunity to commit frauds, 93.3% of the respondents agreed that SMEs have in place mechanism of mitigating risks that may arise during the course of doing business, 92.7% of the respondents agreed that the appropriate actions are taken to improve effectiveness that majority of the respondents and 95.2% of the respondents agreed that the appropriate actions are taken to improve effectiveness. However, 4.2%, 3.8%, 6.7%, 2.9% and 4.8% respondents are neutral respectively, while only 1.6% respondents disagrees to the statements.

This implies that 94.06% agreed to all the statements on components of risk management which shows that risk assessment enhanced financial performance of SMEs in Kebbi State. This corroborates the findings that there was a positive and significant influence between risk assessment and financial performance, r (0.616); p-value < 0.05 in a study one effect of internal controls on financial performance of small and medium enterprises in Nairobi County[7].

The study shows that majority (86.5%) of the respondents agreed that controls are in place to check on incurring expenditure in excess of allocated funds. Also, 86.3% of the respondents agreed to the statement "there is segregation of duties in my organization". Similarly, 91.6% of the respondents agreed to the statement "that the corrective actions are taken to address the weakness". Likewise, majority (87.5%) of the respondents agreed that that all transactions are verified before making payments and 90.2% of the respondents agreed that advices to voluntary resign to staff involved in fraud. However, 10.3%, 10.3%, 5.8%, 9.9% and 4.8% respondents are neutral respectively, while only 3.2%, 3.5%, 2.6% disagreed respectively. From the foregoing, it shows that majority of the respondents agreed to all the statements on control activity and implies that control activity influences financial performance.

5. CONCLUSION AND RECOMMENDATION

This study examined the impact of control environment, risk assessment and control activities on the financial performance of small and medium enterprises in Kebbi State Nigeria. Based on the findings of the study, it is possible to conclude that the components of internal control (control environment, risk assessment, and control activities have a positive and significant impact on the financial performance of small and medium-sized enterprises (SMEs) in Kebbi State, Nigeria. Companies, banks, and other regulatory organizations could use the findings to improve their performance, and the findings could serve as theory for further research in the North and across the country. The study therefore recommended that

1. The study recommends SME's and other businesses or organizations of the importance of regular and timely financial audits to help them detect any gaps in their financial systems and financial performance.
2. A frequent risk assessment should be conducted so that SME management may determine whether or not their goals will be reached.
3. In addition to implementing proper controls in the custody and disposal of assets, the management of a small and medium-scale enterprise (SME) should consider; control activities and risk assessment in order to improve financial performance

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