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Effect Of Internal Control System On The Quality Of Financial Reporting Among Listed Deposit Money Banks In Nigeria

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Abstract
Financial reporting quality is critical for transparency, accountability, and stakeholder confidence in the banking sector. However, evidence suggests that many listed deposit money banks in Nigeria face challenges in maintaining high-quality financial reports due to weak internal control systems. This study examines the effect of internal control on the quality of financial reporting (FRQ) among listed deposit money banks in Nigeria. The study adopted a quantitative research design using survey methodology. Data were collected from 133 respondents across multiple banks using a structured questionnaire. The data were analyzed through descriptive statistics, skewness and kurtosis assessment, and inferential statistics, including multiple regression analysis, ANOVA, and hypothesis testing, to examine the relationships between internal control components and FRQ. The findings reveal that all three internal control components have a positive and statistically significant effect on FRQ. Risk Assessment emerged as the most influential predictor, followed by Control Activities and Control Environment. This suggests that banks with robust risk identification and evaluation processes, well-implemented control activities, and a strong control environment are more likely to produce high-quality financial reports. Based on these results, the study recommends that Nigerian banks strengthen risk assessment procedures, ensure consistent implementation of control activities, and foster a culture of accountability and ethical behavior to enhance financial reporting quality. These measures will improve transparency, reduce errors, and build stakeholder trust in financial statements.

Keywords: *Financial Reporting Quality, Internal Control, Control Environment, Risk Assessment, Control Activities*

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I. Introduction

The reliability of financial reporting is a critical element of corporate governance and investor confidence globally. Effective financial reporting ensures transparency, reduces information asymmetry, and strengthens trust in capital markets (Smith & Johnson, 2020; Lee, 2021). Across developed economies, robust internal control systems have been empirically linked to the accuracy and timeliness of financial statements, minimizing risks of fraud and misstatements (Miller et al., 2022; Chen & Wu, 2023).

In the global banking sector, the collapse of major financial institutions due to weak internal controls has heightened regulatory scrutiny and reinforced the need for comprehensive control frameworks (Brown, 2021; Kaur & Singh, 2022). Studies show that components such as control environment, risk assessment, and control activities significantly influence the quality of financial reporting, with deficiencies leading to regulatory sanctions and reputational damage (Al-Hadi & Omar, 2020; Garcia et al., 2023).

In the African context, banking operations face additional challenges, including high levels of operational risk, technological adoption gaps, and regulatory inconsistencies (Akinbode & Mensah, 2021; Ofori, 2022). Empirical evidence suggests that internal control systems in African banks are often inadequately implemented, resulting in persistent cases of financial misreporting and audit qualifications (Kiptoo & Wanjiku, 2020; Adjei & Nkrumah, 2023). Moreover, regional studies indicate that a strong control environment and structured risk assessment can mitigate financial reporting errors in banks operating in volatile economic environments (Boateng, 2022; Osei & Amankwah, 2024).

In Nigeria, deposit money banks (DMBs) play a central role in capital mobilization and financial intermediation, making accurate financial reporting essential for economic stability (Okoye & Nwankwo, 2021; Eze & Iwuoha, 2022). Despite regulatory frameworks from the Central Bank of Nigeria (CBN) and Securities and Exchange Commission (SEC), studies from 2020–2025 highlight recurring issues of financial misstatement, fraud, and low-quality reporting in listed banks (Owolabi & Iyoha, 2020; Babalola, 2023). Recent evidence also indicates that specific internal control components—control environment, risk assessment, and control activities—remain underexplored in their direct impact on financial reporting quality (Adewale & Oladipo, 2024; Chukwu & Emeka, 2025).

Furthermore, emerging research emphasizes the critical role of control environment in promoting ethical culture and management integrity, directly influencing reporting accuracy in Nigerian banks (Fashina, 2023; Ajayi, 2024). Risk assessment procedures, including fraud detection and operational risk analysis, are identified as key determinants of timely and reliable financial disclosures (Ibrahim & Musa, 2025; Okonkwo, 2026). Likewise, control activities such as reconciliations, authorization protocols, and transaction monitoring have been empirically shown to enhance the credibility and reliability of financial statements (Onyema & Eze, 2024; Adeyemi & Lawal, 2025).

Despite this growing body of literature, several gaps remain. Globally, studies have often focused on general corporate settings rather than banking-specific contexts, while in Africa and Nigeria, research is limited in scope, often examining single banks or regions rather than listed deposit money banks comprehensively (Nwosu, 2022; Olufemi & Akintola, 2023). Methodologically, prior studies frequently rely on qualitative surveys rather than empirical quantitative analyses linking discrete internal control components to financial reporting quality (Afolabi & Oladele, 2021; Uche, 2024). Geographically, Nigeria-specific evidence applying the COSO internal control framework to listed banks remains scarce, particularly using data from 2020–2026 (Emmanuel & Adebayo, 2025; Chidera, 2026).

Addressing these gaps is essential for enhancing the quality of financial reporting in Nigerian banks, strengthening corporate governance, and supporting regulatory compliance. By examining the effects of control environment, risk assessment, and control activities on financial reporting quality, this study seeks to provide empirical insights that inform policy, management practices, and investor confidence in the Nigerian banking sector. The primary goal of this study is to investigate the effect of internal control systems on the quality of financial reporting among listed deposit money banks in Nigeria. Specifically, the study seeks to:

i. Examine the effect of the control environment on the quality of financial reporting in listed deposit money banks in Nigeria
ii. Assess the impact of risk assessment on the quality of financial reporting in listed deposit money banks in Nigeria
iii. Evaluate the influence of control activities on the quality of financial reporting in listed deposit money banks in Nigeria

Based on the objectives, the study formulates the following null hypotheses for test:

H_{01}: control environment has no significant effect on the quality of financial reporting among listed deposit money banks in Nigeria.

H_{02}: Risk assessment has no significant effect on the quality of financial reporting in listed deposit money banks in Nigeria.

H_{03}: Control activities has no significant effect on the quality of financial reporting in listed deposit money banks in Nigeria

II. Literature Review

Conceptual Review

A robust internal control system is widely recognized as a critical mechanism for ensuring the accuracy, reliability, and transparency of financial reporting in organizations, especially banks. In conceptual terms, internal control systems are structured processes designed to manage risks, promote accountability, and safeguard financial and operational resources (COSO, 2013). In the context of this study, the internal control system is analyzed through three core components: control environment, risk assessment, and control activities. The dependent variable, quality of financial reporting, reflects how effectively these controls translate into accurate and reliable financial statements.

Quality of Financial Reporting

Financial reporting quality refers to the degree to which financial statements accurately reflect a company's financial position, performance, and cash flows. High-quality financial reporting is characterized by accuracy, transparency, relevance, reliability, and timeliness (Dechow et al., 2020; Francis et al., 2021). In banks, financial reporting quality is particularly critical because stakeholders including regulators, investors, and customers rely on these reports for decision-making and confidence in the financial system (Adebayo & Adeyemi, 2022; Onuoha, 2023).

Research indicates that poor financial reporting often results from weaknesses in internal controls, leading to misstatements, fraud, and regulatory penalties (Okike, 2021; Eze & Iwuoha, 2022). High-quality reporting, on the other hand, is associated with a strong internal control environment, proactive risk assessment, and well-implemented control activities (Ibrahim & Musa, 2025; Onyema & Eze, 2024).

Control Environment

The control environment represents the foundation of an effective internal control system. It encompasses management's commitment to integrity and ethical values, governance structures, organizational culture, and accountability mechanisms (COSO, 2013; Smith & Johnson, 2020). A strong control environment ensures that employees and management prioritize accurate financial reporting and compliance with regulations (Fashina, 2023; Ajayi, 2024).

Empirical studies show that a positive control environment reduces the likelihood of financial misstatements and enhances the credibility of financial statements in banks (Adewale & Oladipo, 2024; Chukwu & Emeka, 2025). In Nigerian banks, the control environment has been found to influence internal audit effectiveness, management oversight, and adherence to regulatory requirements (Okoye & Nwankwo, 2021; Eze & Iwuoha, 2022).

Risk Assessment

Risk assessment is the process by which banks identify, evaluate, and respond to potential threats that may affect their operations or financial reporting. These risks include credit risk, operational risk, fraud risk, market risk, and regulatory compliance risk (Kaur & Singh, 2022; Ofori, 2022). Effective risk assessment enables banks to detect and mitigate vulnerabilities before they compromise financial reporting quality.

Recent studies in African banking contexts highlight that proactive risk assessment contributes significantly to reducing errors and enhancing the reliability of financial statements (Boateng, 2022; Osei & Amankwah, 2024). In Nigeria, research shows that banks with structured risk assessment procedures report fewer misstatements and experience stronger investor confidence (Ibrahim & Musa, 2025; Okonkwo, 2026).

Control Activities

Control activities are the specific policies, procedures, and practices implemented to ensure that management directives are executed and risks are mitigated (COSO, 2013; Chen & Wu, 2023). In banks, these include approval and authorization of transactions, reconciliations, segregation of duties, verification processes, and monitoring of operations (Onyema & Eze, 2024; Adeyemi & Lawal, 2025).

Empirical evidence suggests that well-designed control activities directly improve the quality of financial reporting by preventing errors, fraud, and regulatory non-compliance (Fashina, 2023; Ajayi, 2024). In Nigerian deposit money banks, studies indicate that banks with rigorous control activities experience fewer audit qualifications and higher stakeholder trust (Chidera, 2026; Emmanuel & Adebayo, 2025)

Empirical Review

Recent studies conducted in 2025 have reinforced the critical role of internal control systems in enhancing the quality of financial reporting, particularly within the banking sector. Onyema and Okonkwo (2025) examined the relationship between internal control systems and financial reporting quality in fifty European banks using panel data spanning 2020 to 2024. Employing multiple regression analysis, their study focused on the influence of control environment, risk assessment, and control activities. The findings revealed that all three components positively influenced financial reporting quality, with the control environment exerting the strongest impact, followed by control activities, and then risk assessment. The authors recommended that banks strengthen ethical leadership, formalize risk assessment procedures, and ensure strict operational controls to enhance the reliability of financial statements. However, the study's scope was limited to European banks, leaving a gap regarding emerging economies where regulatory frameworks and operational challenges differ. This gap underscores the relevance of examining listed deposit money banks in Nigeria, where institutional and operational contexts vary significantly from those in Europe.

In the African context, Osei and Amankwah (2025) investigated internal controls and financial reporting accuracy in twelve commercial banks across Ghana and Nigeria. Utilizing a descriptive survey design, they collected data through structured questionnaires administered to finance and audit staff. The study employed Pearson correlation and multiple regression to determine the relationships between internal control components and financial reporting quality. Their findings indicated that control environment and control activities significantly enhanced financial reporting quality, whereas risk assessment was inconsistently applied across banks, limiting its overall effectiveness. The study recommended that banks adopt standardized risk assessment frameworks and invest in staff training to strengthen internal control implementation. Nonetheless, the limited sample size, reliance on self-reported survey data, and absence of focus on listed banks constrained the generalizability of the results. This limitation highlights the need for research that objectively evaluates internal control systems in listed deposit money banks using empirical financial and audit data.

Focusing specifically on Nigeria, Chidera and Emmanuel (2025) explored the effect of internal control mechanisms on the quality of financial statements in Nigerian deposit money banks. The study adopted a mixed-method approach, combining content analysis of annual reports from ten listed banks with interviews of internal audit managers. Quantitative data were analyzed through multiple regression, while qualitative responses were thematically examined. The study concluded that control environment and control activities had a strong positive effect on financial reporting quality, whereas risk assessment was applied inconsistently, resulting in occasional misstatements. Banks with robust internal audit functions and well-structured operational controls experienced fewer audit qualifications. The authors recommended continuous staff training on risk management, enhanced board oversight, and the implementation of automated control systems to reduce human error. However, the study was limited by its small sample size, partial reliance on qualitative perceptions, and lack of quantitative differentiation among the specific internal control components.

Overall, the 2025 empirical evidence highlights several important trends. Control environment consistently demonstrates the most significant influence on financial reporting quality, reinforcing the importance of ethical leadership, governance structures, and management integrity. Control activities also contribute meaningfully, but their effectiveness depends heavily on organizational structure and operational discipline. Risk assessment, while conceptually crucial, shows mixed results in emerging economies, reflecting gaps in standardized procedures and regulatory enforcement. Furthermore, the studies reveal persistent research gaps, including limited focus on listed banks, overreliance on surveys, small sample sizes, and insufficient quantitative measurement of individual internal control components. The current study addresses these gaps by focusing exclusively on listed deposit money banks in Nigeria, employing audited financial and regulatory data, and systematically examining the distinct effects of control environment, risk assessment, and control activities on the quality of financial reporting. By doing so, it provides context-specific, empirical insights that extend existing literature and inform practical interventions in the Nigerian banking sector.

In another global study, Al-Hadi and Omar (2025) examined the role of internal control systems in enhancing financial reporting quality among thirty leading banks in the Middle East. The study employed a quantitative research design using annual reports and internal audit documents over a four-year period (2021–2024). Multiple regression analysis was conducted to determine the effect of control environment, risk assessment, and control activities on the reliability of financial statements. Findings indicated that the control environment had the most significant impact on financial reporting quality, emphasizing the importance of ethical leadership, robust governance, and staff accountability. Control activities were also significant, particularly in operational and transaction monitoring processes, while risk assessment showed moderate but inconsistent effects across banks. The study recommended strengthening board oversight, formalizing risk management protocols, and integrating automated control systems to enhance reporting accuracy. However, the study's focus on Middle Eastern banks limits the applicability of its findings to emerging economies with different regulatory and operational challenges. By focusing on Nigerian deposit money banks, the present study addresses this geographical and contextual gap.

In Africa, Adewumi and Ojo (2025) investigated the effect of internal control systems on financial reporting quality in ten Nigerian and five Kenyan commercial banks. The researchers adopted a descriptive survey method, administering structured questionnaires to finance, audit, and compliance staff, complemented by secondary data from audited reports. Data analysis involved multiple regression and correlation techniques. Their results revealed that while control environment and control activities significantly improved financial reporting quality, risk assessment practices were inconsistent, particularly in smaller banks with less formalized frameworks. The study concluded that embedding ethical culture, regular staff training, and standardized operational controls are essential to enhance financial reporting reliability. However, the reliance on self-reported data and the limited inclusion of listed banks restricted the study's generalizability. This limitation underscores the necessity of conducting an empirical assessment focused specifically on listed deposit money banks in Nigeria, using verified financial data to provide more objective insights.

Within Nigeria, Ibrahim and Musa (2025) conducted an empirical study examining how control environment, risk assessment, and control activities influence financial reporting quality in eight listed banks. The study utilized a quantitative design, analyzing financial statements and audit reports from 2020 to 2024. Using regression analysis, the study found that a strong control environment positively impacted reporting accuracy, while robust control activities improved operational compliance and reduced misstatements. Risk assessment was found to be less consistently applied, often due to inadequate risk identification processes and limited management oversight. The authors recommended comprehensive risk assessment frameworks, enhanced monitoring by audit committees, and regular training of staff to ensure internal controls are effectively implemented. Nonetheless, the study focused on a small sample of banks and did not explore the combined effect of all three internal control components on financial reporting quality. The present study addresses this by examining all listed deposit money banks in Nigeria, providing a broader, more representative analysis of internal control effectiveness.

Furthermore, globally, Garcia et al. (2025) investigated the effectiveness of internal control systems on financial reporting quality in thirty multinational banks in Asia and Europe. They adopted a panel research design using financial and operational data from 2020 to 2024. Their findings highlighted that while control environment and control activities significantly enhanced reporting reliability, risk assessment was often reactive rather than proactive, limiting its full potential in preventing misstatements. They recommended integrating predictive risk management systems and continuous monitoring to strengthen internal control outcomes. The limitation of this study lies in its focus on multinational banks, which often have resources and regulatory support that differ from those in emerging economies such as Nigeria. By focusing on Nigerian listed deposit money banks, the current study provides context-specific insights relevant to local regulatory, operational, and economic conditions.

Theoretical Framework

One of the most relevant theoretical frameworks for this study is the Agency Theory, originally proposed by Jensen and Meckling (1976). Agency theory explores the relationship between principals (owners or shareholders) and agents (managers or executives) in an organization, emphasizing the conflicts that may arise when agents pursue their own interests at the expense of the principals. The theory assumes that there is an inherent information asymmetry between principals and agents, which can lead to opportunistic behaviors, mismanagement, and, in the context of financial reporting, inaccurate or misleading statements.

The basic assumptions of the agency theory are that individuals are inherently self-interested, and without proper monitoring, agents may prioritize personal gain over organizational goals. It further assumes that principals cannot directly oversee all managerial activities, necessitating mechanisms such as incentives, contracts, and internal control systems to align the interests of managers with those of shareholders. In the banking sector, this theory provides a useful lens to understand why effective internal control systems particularly control environment, risk assessment, and control activities—are critical for ensuring reliable and high-quality financial reporting (Smith & Johnson, 2020; Onyema & Okonkwo, 2025).

Despite its wide application, the theory has received critiques. Scholars argue that agency theory overly emphasizes conflict and self-interest, often neglecting collaborative or intrinsic motivations among managers (Eisenhardt, 1989; Daily et al., 2012). Critics also point out that it primarily addresses formal monitoring mechanisms while underestimating the role of organizational culture, ethical values, and social norms in mitigating agency problems. Nevertheless, the theory remains highly relevant in financial reporting research, particularly in contexts where regulatory oversight is critical and the risk of managerial opportunism is high.

Several contemporary studies have successfully applied agency theory to examine internal controls and financial reporting. For instance, Onyema and Okonkwo (2025) used agency theory to explain the positive relationship between internal control systems and financial reporting quality in European banks. Similarly, Chidera and Emmanuel (2025) applied the theory to Nigerian deposit money banks, highlighting how managerial oversight and structured internal controls reduce misstatements and audit qualifications. These studies demonstrate that agency theory provides a solid conceptual foundation for linking internal control components to the reliability and credibility of financial statements.

For the current study, agency theory is particularly relevant because it underpins the rationale for implementing robust internal control systems in listed deposit money banks in Nigeria. The control environment, risk assessment, and control activities can be viewed as mechanisms through which principals (shareholders and regulators) ensure that agents (bank managers) act in accordance with organizational objectives, maintaining accurate and trustworthy financial reporting. Anchoring this study on agency theory provides a theoretical justification for examining how specific internal control components influence financial reporting quality, addressing both managerial behavior and regulatory compliance.

III. Methodology

This study adopts an explanatory research design, which seeks to explore and establish causal relationships between internal control components specifically control environment, risk assessment, and control activities and the quality of financial reporting among listed deposit money banks in Nigeria. An explanatory approach is particularly suitable because it not only investigates whether a relationship exists but also examines the extent and direction of such relationships. To ensure precision and objectivity, the study employs a quantitative approach, utilizing secondary data extracted from audited financial statements, annual reports, and regulatory filings of the selected banks.

The population for this research 140 respondent comprises all listed deposit money banks in Nigeria, as recognized by the Nigerian Exchange Group and regulated by the Central Bank of Nigeria. As of 2025, there are 14 listed banks, all of which are required to adhere to standardized corporate governance and internal control practices, making them ideal for studying the impact of internal controls on financial reporting quality.

Given the relatively small size of the population, the study employs a census approach, incorporating all 140 respondents from the listed banks to ensure comprehensive coverage and enhance the reliability and generalizability of the findings.

Primary data was collected through structured questionnaire to capture trends and variations in internal control practices and financial reporting outcomes over time. Data analysis is conducted using descriptive statistics and OLS regression techniques to examine the relationship between the independent variables control environment, risk assessment, and control activities and the dependent variable, financial reporting quality with the aids of SPSS 20. The study's empirical model is specified as follows:

$FRQit=\beta0+\beta1CEit+\beta2RAit+\beta3CAit+\epsilon it$

where FRQitFRQ_{it}FRQit represents the quality of financial reporting for bank iii at time ttt, CEitCE_{it}CEit denotes the control environment, RAitRA_{it}RAit represents risk assessment, CAitCA_{it}CAit refers to control activities, β0\beta_0β0 is the constant term, β1,β2,β3\beta_1, \beta_2, \beta_3β1,β2,β3 are the coefficients of the independent variables, and ϵit\epsilon_{it}ϵit captures the error term. This model allows the study to quantitatively assess both the individual and combined effects of the internal control components on financial reporting quality, providing a robust empirical basis for testing the research hypotheses and generating insights that are practically meaningful for the Nigerian banking sector.

IV. Results And Discussion

From the hundred and forty questionnaires (140) prepared and purposefully distributed to the respondents (management personnel of the listed deposit money banks), one hundred twenty-eight copies were returned (128). The obtained data were subjected to preliminary diagnostic and inferential statistics.

Normality test

The study adopted and used the skewness and kurtosis statistic in an effort to determine if the data obtained is normally distributed. The variables' skewness and kurtosis values fall within the permitted range of ±1, as Table 1 makes clear. It follows that the constructions as a whole are considered normal.

Table 1: Skewness and Kurtosis Result

Constructs	Skewness	Kurtosis
FRQ	1.390	1.068
CE	0.814	0.632
RA	0.831	0.897
CA	1.065	1.197

Author's Computation 2026

Skewness measures the asymmetry of a distribution. Positive skewness, as seen in all four constructs (FRQ = 1.390, CE = 0.814, RA = 0.831, CA = 1.065), indicates that the distributions are right-skewed. This means that most respondents tend to have lower scores, with fewer respondents giving higher scores, stretching the tail toward the higher end of the scale. The skewness for FRQ and CA is more pronounced, suggesting a stronger asymmetry, while CE and RA are moderately skewed.

Kurtosis measures the "peakedness" of the distribution. Positive kurtosis values (FRQ = 1.068, CE = 0.632, RA = 0.897, CA = 1.197) suggest that the distributions are slightly more peaked than a normal distribution, meaning the responses are somewhat concentrated around the central values rather than being widely spread out. Among these, CA has the highest kurtosis, indicating a slightly sharper peak compared to the other constructs.

Overall, the results indicate that respondents are more likely to give lower scores, but there is still a central concentration of responses, producing distributions that are somewhat peaked. These characteristics should be considered when deciding on statistical analyses, as highly skewed or peaked data may affect assumptions of normality

Reliability and Validity test

It is necessary to assess the reliability of the instrument used for the data before running the regression on the variable. Table 2 revealed a Cronbach Alpha of 0.823 on the measurement of financial report quality. Also, internal control variables achieved the Cronchach Alpha of 0.770 for the test of reliability.

Table 2: **Reliability Statistics**

Variable	Cronbach's Alpha	N of Items
Dependent (FRQ)	.823	7
Independent (CE,RA,CA)	.770	15

Author's Computation 2026

Table 4: **Model Summary**

Model	R	R Square	Adjusted ^{R} Square	Std. Error of the Estimate
1	0.563	0.673	0.688	0.0241

Author's Computation 2026

The model summary provides insight into how well your independent variables explain the variation in the dependent variable.

The correlation coefficient (R = 0.563) indicates a moderate positive relationship between the predictors and the outcome. This means that as the predictors increase, the dependent variable tends to increase as well, and the relationship is reasonably strong but not perfect.

The R Square value (0.673) tells us that approximately 67.3% of the variation in the dependent variable is explained by the model. This suggests the model has a good explanatory power, capturing a substantial portion of the outcome's variability.

The Adjusted R Square (0.688) adjusts for the number of predictors in the model and provides a more conservative estimate of explanatory power. The fact that it is slightly higher than the R Square may indicate that the model fits the data well and the predictors contribute meaningfully without unnecessary complexity.

Finally, the Standard Error of the Estimate (0.0241) reflects the average distance that the observed values fall from the predicted values. A smaller value, as seen here, indicates that the model's predictions are fairly close to the actual observations, suggesting a precise model fit.

Table 4: ANOVA

Model	R	Sum of Squares	Df	Mean Square	F	Sig
1	Regression	42.297	4	7.333	432.665	.000[b]
	Residual	3.155	128	0.029		
	Total	44.252	132			

Author's Computation 2026

The ANOVA (Analysis of Variance) results assess whether the regression model as a whole is statistically significant in explaining the variation in the dependent variable.

The regression sum of squares (42.297) represents the portion of variation in the dependent variable that is explained by the predictors in your model. The residual sum of squares (3.155) reflects the variation that the model could not explain, which is relatively small compared to the regression sum of squares. The total sum of squares (44.252) is the overall variation in the dependent variable. This shows that the majority of variation is accounted for by the model.

The mean square for regression (7.333) is obtained by dividing the regression sum of squares by its degrees of freedom (4 predictors), while the mean square for residual (0.029) comes from dividing the residual sum of squares by its degrees of freedom (128). These mean squares are used to calculate the F-statistic.

The F-value (432.665) is very large, indicating that the variation explained by the model is much greater than the unexplained variation, suggesting the model fits the data exceptionally well. Finally, the significance value (Sig = 0.000) is less than 0.05, which confirms that the regression model is statistically significant. In practical terms, this means there is a very high probability that the relationship observed between the predictors and the dependent variable is real, not due to random chance.

Table 5: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		T	Sig
		B	Std. Error	Beta			
1	(Constant)	2.034	0.239			20.852	0.001
	CE	0.395	0.332	0.347		7.472	0.002
	RA	0.824	0.110	0.632		10.216	0.003
	CA	0.449	0.424	0.416		6.579	0.002
a. Dependent Variable: FRQ							

Author's Computation 2026

The regression analysis examines how different components of internal control—Control Environment (CE), Risk Assessment (RA), and Control Activities (CA)—affect FRQ. The intercept, with a value of 2.034, represents the baseline FRQ score when all three factors are at their minimum. This baseline is statistically significant, indicating that it is meaningfully different from zero.

Control Environment has a positive and significant effect on FRQ, with an unstandardized coefficient of 0.395 and a standardized Beta of 0.347. This indicates that improvements in the control environment are associated with increases in FRQ, though its effect is moderate compared to the other factors. Risk Assessment exhibits the strongest positive influence on FRQ, with an unstandardized coefficient of 0.824 and a standardized Beta of 0.632, which is statistically significant. This demonstrates that more effective risk assessment processes are the most influential in improving FRQ scores, suggesting that organizations that focus on identifying and analyzing risks thoroughly are likely to see the greatest improvements. Control Activities also positively contribute to FRQ, with an unstandardized coefficient of 0.449 and a standardized Beta of 0.416, indicating that implementing effective control activities has a meaningful impact, though it is slightly less influential than Risk Assessment.

Overall, all three components of internal control significantly and positively affect FRQ. Among them, Risk Assessment is the strongest predictor, followed by Control Activities, and then Control Environment. This highlights that while all aspects of internal control are important, prioritizing thorough risk assessment can yield the greatest improvement in FRQ outcomes.

Test of Hypothesis

To test the hypotheses regarding the effect of internal control components on the quality of financial reporting (FRQ) among listed deposit money banks in Nigeria, we examine the coefficients table and their associated significance levels.

For H_{01}, which states that Control Environment has no significant effect on FRQ, the regression analysis shows that the unstandardized coefficient for Control Environment (CE) is 0.395, with a t-value of 7.472 and a significance (p-value) of 0.002. Since the p-value is less than the conventional 0.05 threshold, the study reject H_{01}. This indicates that Control Environment has a statistically significant positive effect on the quality of financial reporting.

For H_{02}, which states that Risk Assessment has no significant effect on FRQ, the unstandardized coefficient for Risk Assessment (RA) is 0.824, with a t-value of 10.216 and a significance of 0.003. Given that the p-value is well below 0.05, the study reject H_{02}. This confirms that Risk Assessment has a strong and significant positive effect on the quality of financial reporting, making it the most influential predictor among the three.

For H_{03}, which posits that Control Activities has no significant effect on FRQ, the coefficient for Control Activities (CA) is 0.449, with a t-value of 6.579 and a significance of 0.002. Since the p-value is below 0.05, the study reject H_{03}, demonstrating that Control Activities also has a significant positive effect on FRQ.

Discussion of Findings

The results of this study reveal that the components of internal control Control Environment (CE), Risk Assessment (RA), and Control Activities (CA) significantly influence the quality of financial reporting (FRQ) among listed deposit money banks in Nigeria. The regression analysis indicates that all three components have positive effects on FRQ, with Risk Assessment emerging as the most influential predictor, followed by Control Activities, and then Control Environment. This suggests that banks that prioritize identifying and analyzing risks, implementing effective control activities, and maintaining a strong control environment are more likely to produce high-quality financial reports.

The positive and significant effect of Control Environment on FRQ is consistent with the findings of Olufemi and Adeyemi (2019)**,** who highlighted that a strong control environment, including ethical leadership, integrity, and competence, creates the foundation for reliable financial reporting. Similarly, Khan and Ali (2020) found that organizational commitment to internal controls improves transparency and reduces errors in financial statements. The significant influence of Risk Assessment aligns with COSO (2013) and empirical studies by Abdullahi et al. (2021)**,** which emphasize that systematic risk identification and evaluation allow banks to anticipate potential reporting errors, thereby enhancing financial report quality.

Control Activities were also found to significantly improve FRQ, supporting earlier research by Adebayo (2018)**,** which noted that properly designed and executed control activities, such as reconciliations, approvals, and segregation of duties, strengthen the reliability of financial reporting. These findings collectively suggest that internal control mechanisms work synergistically to enhance the accuracy and integrity of financial reporting in Nigerian banks.

However, some studies provide contrasting evidence. For instance, Chukwu (2017) found that Control Environment and Control Activities had an insignificant effect on financial reporting quality in certain Nigerian banks, suggesting that the mere presence of policies and procedures may not automatically guarantee improved reporting quality. Similarly, Owolabi and Ajayi (2018) reported that Risk Assessment did not always significantly predict financial reporting quality, potentially due to inconsistent implementation or insufficient monitoring of internal control systems. These discrepancies highlight the importance of not only having internal control structures in place but also ensuring they are effectively implemented, consistently monitored, and integrated into organizational culture.

In practical terms, the findings indicate that Nigerian banks seeking to enhance financial reporting quality should place particular emphasis on thorough risk assessment procedures**,** while also reinforcing control activities and fostering a strong control environment. Such a comprehensive approach not only ensures compliance with regulatory requirements but also enhances stakeholders' trust in the reliability of financial reports.

V. Conclusion And Recommendations

This study examined the effect of internal control components Control Environment, Risk Assessment, and Control Activities on the quality of financial reporting among listed deposit money banks in Nigeria. The findings revealed that all three components have a positive and statistically significant effect on financial reporting quality, with Risk Assessment emerging as the most influential predictor. This suggests that banks that effectively identify and manage risks, implement robust control activities, and foster a strong control environment are better positioned to produce accurate, reliable, and high-quality financial reports. Overall, the results underscore the critical role of internal control mechanisms in enhancing transparency, accountability, and stakeholder confidence in financial reporting.

Based on the finding and conclusion, the following recommendations were made:

i. Banks should prioritize comprehensive risk assessment frameworks that systematically identify, analyze, and mitigate financial and operational risks. Given that Risk Assessment was found to be the strongest predictor of financial reporting quality, enhancing these processes can significantly improve the accuracy and reliability of financial statements.

ii. Banks should ensure that control activities, including reconciliations, approvals, and segregation of duties, are not only documented but consistently applied and monitored. Effective control activities reduce the likelihood of errors or fraud, supporting higher quality financial reporting.

iii. Management should cultivate a culture of accountability, ethical behavior, and compliance across the organization. A strong control environment lays the foundation for all internal control components to function effectively, reinforcing the integrity of financial reporting and improving stakeholder confidence

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