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INTERNAL CONTROL SYSTEM AND PERFORMANCE OF CO-OPERATIVE SOCIETIES IN LAGOS, NIGERIA

By

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Abstract
Co-operative societies significantly contribute to community development, enhance access to credit, and offer essential support to rural and urban communities. However, despite these positive socio-economic impacts, some co-operative societies still struggle with multifaceted challenges that undermine their performance. Internal control system is fundamental for ensuring efficiency, minimising risks and ensuring effectiveness within organisations. Thus, it is important to examine the effect of internal control system on performance of co-operative societies to ensure their long-term sustainability. This study examines the relationship between internal control system and performance of co-operative societies in Lagos, Nigeria. The study selected three Lagos-based co-operatives in different sectors with a total population of 1,174 members out of which 298 were sampled with 99% response rate. Correlation and multiple regression analyses tools were employed to test the study hypotheses. The findings indicated that both monitoring and financial controls have significant effect on performance of co-operatives in Lagos state, control environment does not have a significant effect on performance and internal control system (control environment, monitoring and financial controls) has a joint significant effect on the performance. The study concluded that an effective internal control system is a tool for enhancing performance of co-operative societies in Lagos State. The study recommended the establishment and enforcement of ethical codes of conduct and policies, regular risk assessments and audits, implementation of a robust financial control framework and targeted training to enhance internal control systems of co-operatives. Future research should extend to other geopolitical zones in Nigeria to address the generalisability limitation of the study and should also examine the role of technology adoption in enhancing internal control of co-operatives.
Keywords: Internal control system, control environment, monitoring, financial controls, performance

1.0 Introduction

The co-operative system involves pooling together resources of individuals to actualise socio-economic benefits that may be difficult for an individual to achieve independently. The shortcomings of governments at various levels are likely contributors to why people consider other business models like co-operative societies (co-operatives) to meet their needs. Co-operatives play an important role in promoting economic development, financial inclusion, and poverty alleviation in the society. These member-owned establishments provide credit facilities, savings mobilisation, and bulk purchasing opportunities across various sectors. The Rochdale Society of Equitable Pioneers, established in 1844 in Rochdale, England is regarded as the first successful modern co-operative and served as a foundational model for co-operative movements around the world (Birchall, 1997). In Nigeria, the emergence of co-operative societies dates back to the 1930s, following the introduction of the Co-

operative Societies Ordinance in 1935 by the British colonial administration. Over the years, co-operatives have become vital to supporting the informal economy and empowering underserved populations. For instance, agricultural co-operatives in the Netherlands and France command around 40% to 70 % of national food markets with nearly €90 billion in turnover (Tarkhanov, 2022). However, for co-operative societies to survive the complexities of today's economy, adequate attention must be paid to their performance.

Performance refers to how efficiently and effectively an organisation achieves its goals and objectives. In the context of co-operatives, performance refers to how efficiently and effectively members' needs are met in a sustainable manner. Some dimensions of performance for co-operatives are resource utilisation, service delivery to members, financial management, and the actualisation of socio-economic objectives.

Internal control system is the framework of policies, procedures and practices put in place by an organisation to ensure the integrity of all activities and avoid unethical conducts that can negatively affect organisational goals and reputation. Sound internal control system helps prevent and detect errors or frauds while ensuring compliance with laws and organisational objectives. In the context of co-operatives, internal control system is the framework of processes and procedures deployed to ensure transparency, accountability, and the appropriate use of members' funds and help safeguard the co-operative assets, ensure accurate financial reporting, and promote compliance with both internal policies and regulatory requirements. Hence, it is important to understand how the various dimensions of co-operatives' internal control systems affect their performance.

Statement of the Problem

Despite the socio-economic development role co-operatives play in society, many of them continue to experience performance challenges due to weak or ineffective internal controls. Inadequate or ineffective control environment, lack of oversight and poor compliance with established procedures lead to mismanagement which negatively affects performance, membership participation, growth, and confidence. Poor monitoring practices in co-operatives slow down the implementation of key operational activities.

Previous studies have focused on assessing the effectiveness of co-operatives in Nigeria in terms of their performance. For instance, a five-year study (2017–2021) across multipurpose co-operative societies in Abuja revealed that cash flow significantly affected members' return on equity (Onabanjo, 2024). Also, a study on working-capital management across some agricultural co-operatives in Imo State indicated that better accounts receivable and payable management meaningfully enhanced members' return on investment (Anigbogu, Nwaogu & Ogundipe, 2023). Farmers' co-operatives in Kaduna State achieved an outstanding 93.3% loan approval rate between 2015 and 2017 with 62.9% of members rating their services satisfactory (Ezeh & Abubakar, 2019). However, adequate studies have not demonstrated how internal control systems of co-operatives influence performance in Lagos State, the commercial hub of Nigeria. This is the gap in literature this study will attempt to reduce. This study will examine the effect of internal control system on the performance of co-operative societies in Lagos, Nigeria.

Aim and Objectives of the Study

The aim of this study is to evaluate the effect of internal control system on performance of co-operative societies in Lagos State, while the specific objectives are to:

i. examine the effect of control environment on performance of co-operative societies in Lagos State.
ii. investigate the effect of monitoring on performance of co-operative societies in Lagos State.
iii. explore the effect of financial controls on performance of co-operative societies in Lagos State.

iv. find out the combined effect of internal control system on performance of co-operative societies in Lagos State.

Research Questions

This study answered the following research questions:

i. What is the effect of control environment on performance of co-operative societies in Lagos State?
ii. How does monitoring affect performance of co-operative societies in Lagos State?
iii. What is the effect of financial controls on performance of co-operative societies in Lagos State?
iv. What is the combined effect of internal control systems on performance of co-operative societies in Lagos State?

Research Hypotheses

The following hypotheses guided this research work:

i. Control environment does not significantly affect performance of co-operative societies in Lagos State.
ii. Monitoring does not have significant effect on performance of co-operative societies in Lagos State.
iii. Financial controls do not significantly affect performance of co-operative societies in Lagos State.
iv. Internal control systems do not have significant combined effect on performance of co-operative societies in Lagos State.

2.0 Literature Review

2.1 Conceptual Review

Internal Control System

Internal control system is a set of policies, procedures, and processes implemented by an establishment to guarantee integrity, safeguard assets, and ensure compliance with laws and regulations (Ostaev, Khosiev, Kubatieva & Bestaeva, 2020). It is the entire framework designed to prevent and detect errors or fraud, and ensure that a firm's objectives are actualised reliably, effectively and efficiently (Al-Mashhadi, 2021). Some organisations have a unit dedicated for internal control to ensure transparency, accountability, and proper use of funds (Saber & Sassine, 2022). This system encompasses manual and automated controls across all levels of an organisation and typically involves continuous monitoring (Ostaev, Khosiev, Kubatieva & Bestaeva, 2020). Three dimensions of internal controls namely control environment, monitoring and financial controls will be examined in this study.

Control Environment

Control environment is the foundation of a firm's internal control system, involving the general attitude, awareness, and actions of management regarding the importance of internal controls (Abiodun, 2020; Renaldo, Sudarno & Hutahuruk, 2020). This lays the groundwork for creating an atmosphere at the top to influence the control consciousness of all employees (Adegbile, Suleiman & Umaru, 2021). Some of the key elements of control environment encompass a firm's ethical values, integrity, leadership philosophy, organisational structure, and responsibilities (Alawaqleh, 2021). An effective control environment tends to create a culture of accountability and discipline, by ensuring policies and procedures are followed, and organisations operate in a reliable, ethical, and compliant manner (Odunko, 2022). This is relevant in co-operative societies because it reflects firm's values, ethical standards, and commitment to transparency, which influence how members and management conduct financial and operational activities.

Monitoring

Monitoring is an important constituent of an internal control system that encompasses constant evaluation of the effectiveness of internal controls over time (Hajiani, Afshari & Rezaei, 2024). This guarantees that controls are operational as projected, and deficiencies are identified and addressed speedily (Masli, Peters, Richardson & Sanchez, 2010). Monitoring can be done via ongoing activities, like regular supervision and management reviews, or as isolated evaluations like internal audits or special assessments (Renaldo, Sudarno & Hutahuruk, 2020). The major aim of monitoring is to offer feedback to management, promote accountability, and support timely improvements, and compliance objectives (Abiodun, 2020). In the case of co-operative societies, monitoring will ensure that established policies and procedures are constantly followed to guarantee members' interests and will also assist in early identification of weaknesses in operations and their timely resolution to prevent fraud or mismanagement.

Financial Controls

Financial controls are the processes, procedures, and systems that are put in place by an organisation to manage, monitor, and regulate financial resources effectively and efficiently (Okafor, Okoroji, Joseph, Njideka & Mathias, 2024; Wiklef & Whatmore, 2020). This involves setting up financial policies, budgets preparation, income and expenditures tracking, ensuring that funds are utilised efficiently in line with organisational goals and objectives (Abiodun, 2020; Cheng, Goh & Kim, 2018). Financial controls assist in preventing mismanagement, fraud, and needless spending while fostering accountability, transparency, and sound decision-making (Alawaqleh, 2021; Wiklef & Whatmore, 2020). In the context of co-operative societies, effective financial controls will facilitate compliance with financial regulations and reporting standards, thereby promoting members' trust, and achieving long-term success.

Performance

Performance is about how effectively and efficiently a firm carries out its day-to-day activities to actualise goals and objectives (Sasmita & Fitrananda, 2020). This incorporates various aspects such as productivity, cost management, and the ability to meet needs of market consistently (Kaydos, 2020). An effective performance implies that an establishment is strengthening its resource utilisation, curtailing waste, and maintaining effective processes, which eventually contribute to overall success and sustainability (Gupta, Drave, Dwivedi, Baabdullah & Ismagilova, 2020). Performance in the context of co-operative societies, is their ability to deliver value to members, manage resources, and fulfil their mission effectively and efficiently. It could also ensure sustainability, members' satisfaction, and the achievement of the societies' socio-economic objectives. Four key indicators of performance for co-operatives are dividend payment, credit performance, financial performance and membership participation.

Dividend Payment: Dividend payment is the distribution of surplus earnings to co-operative members based on their level of patronage rather than the amount of capital invested (Sugiyanto, Nur'aeni & Dewi, 2023). This reflects the commitment of co-operatives to members' benefit by rewarding them for their contribution to the co-operative's activities, and active engagement in the cooperative's operations (Noordin, Rajaratnam, Said, Hanif & Juhan, 2012).

Credit Performance: This refers to the ability of co-operatives to meet their debt obligations on time and in full. This reflects financial reliability and repayment behaviour (Gichuhi & Omagwa, 2020). It is often measured through indicators such as repayment timeliness, default rates, loan utilisation efficiency, and adherence to agreed-upon credit terms (Aduda & Obondy, 2021).

Financial Performance: This is the extent to which co-operatives achieve their financial objectives, majorly measured through indicators such as profitability, return on assets, return on equity, revenue growth, and cost efficiency (Kenkel, Briggeman & Jacobs, 2023; Tirfe, 2014).

Membership Participation: It is regarded as the opportunity given to the co-operative members to be involved in the decision-making, activities, and governance of the organisations, including attending meetings, voting on key issues, contributing to capital or resources (Hando, Senapathy & Bojago, 2022). Doing all these reflect their commitment and influence on the co-operative performance and sustainability (Liang, Huang, Lu & Wang, 2015).

2.2 Theoretical Review

Agency Theory

Agency theory was propounded by Michael C. Jensen and William H. Meckling in 1976 to explain how agency costs arise when there is a separation of ownership and control in organisations, which highlights the need for monitoring systems like internal control systems (Cheffins, 2021). The theory presumes that there is a potential for conflict of interest between an agent and the principal, because, an agent may go after personal goals that do not align with those of the principals (Lucas-Martínez, Martín-Ugedo & Minguez-Vera, 2020). Therefore, internal control systems need to be introduced as mechanisms to monitor and regulate agent behaviour, by ensuring accountability, transparency, and alignment of interests. This theory is relevant to this study because principal–agent relationship exists between members, who collectively own the co-operatives and the management committees appointed to manage the affairs of the co-operatives. This study highlights the importance of co-operatives having effective internal control systems in place to protect members' interests through sound governance practices, facilitate efficient resource utilisation and improvement in their performance. A criticism of agency theory is that it assumes all principals and agents are inherently self-interested and opportunistic, overlooking ethical and religious values that shape behavioural norms and motivations (Annakoua, Ahmad & Hassan, 2024; Yusof, 2016).

Systems Theory

Systems theory was propounded in 1945 by Ludwig von Bertalanffy. It views an organisation as a complex, interconnected system that unified various subsystems which need to work together to actualise overall goals (Friedman & Allen, 2011; Spencer, 2020). The theory highlights the interdependence of various units, and the idea that a change in one unit of the system affects the whole (Friedman & Allen, 2011). In the context of organisations, system theory encourages a holistic approach, whereby managers are expected to consider how decisions and processes in one area impact other areas and firm's performance as a whole (Guy-Evans, 2020). Systems theory is relevant to this study because a co-operative can be effectively understood through this theoretical lens because it operates as a coordinated system in which different elements interact to support collective goals. Thus, systems theory highlights how the interconnected components of a co-operative work together to ensure adaptability, sustainability, and the collective welfare of its members. A criticism of the theory is that it provides a broad and integrative view, which can be overly abstract and lacks specific guidelines for practical application (Lai & Lin, 2017). Another criticism is that it underestimates individual internal power dynamics by focusing too much on integration and interdependence (Johnson, Kast & Rosenzweig, 1964; Spronck & Compernolle, 1997). Despite these criticisms, systems theory is relevant to this study because it emphasises how internal control system as an integral subsystem within co-operative societies works cohesively with all other units to drive performance and achieve the objectives of co-operatives.

Empirical Review

Barigye, Ocan and Adyanga (2024) examined the influence of control environment on the operational efficiency of a Savings and Credit Co-Operative Society ("SACCO") in Uganda by adopting a quantitative approach using a case study. Primary data was collected from members of the Board, Supervisory Committee, elders and staff of the SACCO with the aid of self-administered questionnaire. The study concluded that control environment has a significant positive relationship with operational efficiency.

Okafor, Okoroji, Joseph, Njideka and Mathias (2024) examined the influence of internal control system on performance of agricultural co-operatives in Anambra State, Nigeria. The population of the study covered 2891 members of co-operative societies in the State, and sampled 351 members using Taro Yamane's formula. Structured questionnaire was used for data gathering while the hypotheses were tested using Pearson Product Moment Correlation, and simple linear regression. The findings revealed that monitoring played a significant role in operational performance of agricultural co-operatives in Anambra State.

Wiklef and Whatmore (2020) investigated the relationship between financial controls and performance at Grain Motor Services in South Africa using quantitative and qualitative approaches. The sample included management, operational staff, clients, and customers drawn from the firm's database. Interview and questionnaire were deployed as data collection tools. The quantitative data was analysed using correlation analysis, while thematic analysis was employed to analyse qualitative data. The findings concluded that there is significant relationship between financial controls and organisational financial performance.

Cheng, Goh and Kim (2018) investigated the effect of internal control over financial reporting on operational efficiency using secondary data. They employed a quantitative research approach using 1,380 firm-year observations from publicly listed U.S. companies between 2004 and 2011 The study concluded that the quality of internal control in a firm plays a significant role in enhancing its operational efficiency. Firms with material weaknesses in internal control tend to experience lower efficiency levels, which negatively affect their overall performance, and improvements in internal control systems, particularly through remediation efforts, lead to measurable gains in operational efficiency. This underscores the importance of maintaining robust internal controls not only for compliance but also as a driver of better performance.

Conceptual Model

The conceptual model that represents the framework of this study is presented in figure 1.

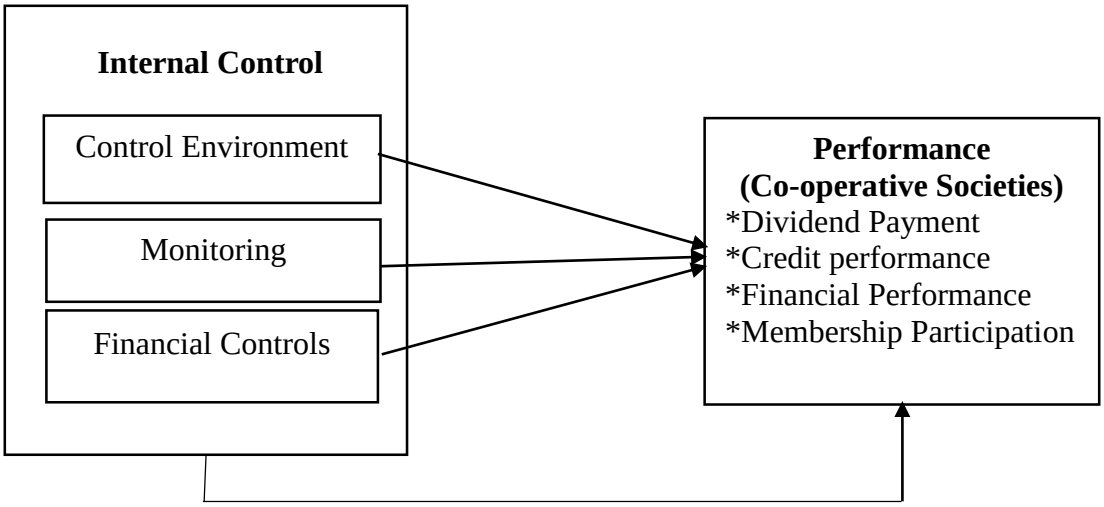

Figure 1. The study's conceptual model. Source: Researcher's field survey (2025).

The model illustrates the relationship between three components of internal control system - control environment, monitoring, and financial controls – as independent variables, and performance of co-operative societies (dependent variable) measured through dividend payment, credit performance, financial performance, and membership participation.

3.0 Methodology

The research methodology adopted for the cross-sectional study has several components. The study employed quantitative method using statistical approach to quantify and test the data. The population of the study comprises all members of co-operatives in Lagos State. The sampling frame is 1174 representing members of three co-operatives namely Lagos State Cooperative Federation, Cowries Cooperative Multipurpose Society, and Rehoboth Cooperative Multipurpose Society, all located in Lagos State, from which a representative sample size of 298 was determined using the Taro Yamane 1967 formula (Yamane, 1967). Primary data was collected via questionnaire administered directly and electronically through random sampling method. The questionnaire comprised of two sections. The first section is on demographic characteristics while the second section consisted of twenty questions distributed equally across four sub-sections namely control environment, monitoring, financial controls and performance. Each question was rated on a five-point Likert scale: 5 for "strongly agree," 4 for "agree," 3 for "neutral," 2 for "disagree," and 1 for "strongly disagree."

The draft questionnaire underwent content validation by two experts in the field of co-operatives to ensure alignment with the research objectives and operational definitions. Subsequently, feedback from the experts was incorporated, and the questionnaire's content validity index was calculated. To assess reliability, the draft questionnaire was administered to fifteen members, randomly selected from the three co-operatives that make up the population for this study. Each sub-section yielded a Cronbach's alpha reliability coefficient of $\alpha>0.7$, signifying satisfactory reliability of data and internal consistency (Burns & Burns, 2008; Cohen, Manion & Morrison, 2017). The results of individual constructs are as follows: Control environment is 0.754, monitoring is 0.718, financial control is 0.801, while performance of co-operative societies is 0.739.

Collected data was analysed using both descriptive and inferential statistical methods. Socio-demographic data was analysed using frequency distribution and percentage while strength and direction of relationships between the independent variables was determined using correlation matrix. The hypotheses were tested using correlation and multiple regression analyses. These statistical analyses were conducted at a significance level of 5%. The analysis was carried with the aid of Statistical Package for the Social Sciences (SPSS) IBM Version 25.

4.0 Results

Descriptive Analysis

The demographic characteristics of the respondents is presented in Table 1.

Table 1: Demographic Characteristics

Characteristics	Status	Frequency	Valid (%)	Cumulative Percent
Gender	Male	184	62.2	62.2
	Female	112	37.8	100.0
	Total	296	100.0	

Age	20-29 yrs.	51	17.2	17.2
	30-39 yrs.	161	54.4	71.6
	40 yrs. & above	84	28.4	100.0
	Total	296	100.0	
Highest Educational Qualification	O-Level	45	15.2	15.2
	OND/NCE	79	26.7	41.9
	B.Sc./HND	118	39.9	81.8
	M.Sc./MBA	37	12.5	94.3
	DBA/PhD	8	2.7	97.0
	Others	9	3.0	100.0
	Total	296	100.0	
Years of Experience	Below 19yrs	39	13.2	13.2
	20-29 yrs.	187	63.2	76.4
	30--39 yrs.	53	17.9	94.3
	40 yrs. & above	17	5.7	100.0
	Total	296	100.0	

According to the findings presented in Table 1, 62.2% of participants were male and 37.8% were female. This implies that the sample is inclusive of both genders. Age profiling revealed that 17.2% of participants were within the ages of 20-29 years, 54.4% were within the age bracket 30-39 years, while the remaining 28.4% were 40 years and above. This suggests that the participants fall within age groups indicative of sufficient maturity to contribute meaningfully to the study. 15.2% of participants have O-level certificate as their highest qualification, 26.7% have OND/NCE certificates, majority representing 39.9% of participants have obtained B.Sc./HND degrees, 12.5% have acquired M.Sc./MBA degrees, while 2.7% of the participants have attained DBA/PhD degrees. 3% of the participants have other educational qualifications that were not specified. This indicates that the participants have acquired various educational qualifications that qualified them to give useful information. 13.2% of the participants have less than 19 years of work experience while majority representing 63.2% of participants have acquired between 20-29 years. 17.9% have between 30-39 years of experience, while the remaining 5.7% have 40 and above years of experience. This indicates that the participants possess sufficient work experience, qualifying them to provide valuable insights that contribute to the outcomes of this research.

Inferential Analysis

Correlation

Analysis of correlation among the independent variables is presented in Table 2.

Table 2 - Correlation Matrix for the variables

1	**Var.**	**N**	**Skewness**	**Kurtosis**	**1**	**2**	**3**
1	COE	296	0.510	0.317	**1**		
2	MON	296	0.514	0.311	.462**	**1**	
3	FIC	296	0.508	0.310	.496**	.522**	**1**
Keys: *COE= Control Environment; MON= Monitoring; FIC = Financial Controls; N= Number of participants; Var = Variables*							

The correlation analysis in Table 2 shows the strength and direction of relationship among independent variables (control environment, monitoring and financial controls) and the normality of the data set using skewness and kurtosis. In this study, skewness measured the asymmetry of the data distribution of each independent variable around its mean while kurtosis measured the variance owing

to extreme values. Skewness and kurtosis of slightly above 0.5 and 0.3 respectively for each of the variable implies that the data sets are normal distribution, a key assumption of the correlation matrix and regression analysis models. The normality test is necessary to ensure the reliability of the conclusions of this study. Correlation coefficient of between 0.462 and 0.522 amongst the variables indicates that each of the variable has a positive and moderately strong relationship with the other variables, and that there is no concern for multicollinearity.

Hypotheses 1-4 Test

Regression analysis for hypotheses 1-4 is presented in Table 3.

Table 3 - Regression analysis for hypotheses 1-4

COE, MON, and FIC (Independent Variables); Performance (Dependent Variable)							
Hypothesis 1	**R**	**R^2**	**β**	**F**	**T**	***P* value**	**Decision**
COE	.102[a]	.010	.102	3.088	1.757	.080	Accepted
Hypothesis 2							
MON	-.114[a]	.013	-.114	3.867	-1.966	.050	Ind.
Hypothesis 3							
FIC	.155[a]	.024	.155	7.217	2.686	.008	Rejected
Keys: *COE= Control Environment; MON= Monitoring; FIC = Financial Controls; Ind.=Indifference*							

Dependent Variable: Performance (P<0.05)
Independent Variables: COE; MON; FIC
Source: Researcher's Computation (2025)

Table 3 illustrates the relationship between the independent variables (control environment, monitoring and financial controls) and performance (dependent variable) of co-operatives in Lagos State. The implication of β values of 0.102 and 0.155 for control environment and financial controls respectively is that both have a positive relationship with performance of co-operatives in Lagos while monitoring with β value of -.114 has a negative relationship with performance of co-operatives in Lagos. However, while financial controls with t=2.686 and p =.008 (p<0.05) has a significant effect on performance of co-operatives in Lagos, monitoring has a relative significant effect on performance of co-operatives in Lagos with t=-1.966 and p=0.05. Control environment does not have significant effect on performance of co-operatives in Lagos with t=1.757 and p=0.08 (p>.05). Where P value is less than the statistical significance level of 0.05, the hypothesis is rejected and it is accepted when P>.05 at 0.05 level of significance. Hence, hypothesis 1 is accepted, hypothesis 2 is marginally rejected and hypothesis 3 is rejected. This result indicates that financial controls and monitoring are more impactful on performance than the control environment in the context of Lagos co-operatives. The borderline significant effect of monitoring on performance highlights the need to review or redesign current monitoring processes to ensure they are effective and not counterproductive. In summary, this result provides critical direction for governance of co-operatives in Lagos State to review the effectiveness of monitoring and control environment practices of co-operatives.

Multiple Regression Analysis for internal control systems and performance (hypotheses 1-4) is presented in Table 4.

Table 4 - Multiple Regression for internal control systems and performance – hypotheses 1-4

Model summary
R= .292[a]
R^2= .085
R^2 (Adjusted) = .076
Standard Error of Estimate = .848
F=9.068, *P* <0.05

Model		Unstandardized Coefficients		Standardized Coefficients			
		B	**Std. Error**	**β**	**T**	**Sig.**	**Remarks**
1	(Constant)	3.020	.443		6.824	.000	Significant
	COE	.192	.113	.114	1.706	.089	Not Significant
	MON	-.446	.102	-.300	-4.392	.000	Significant
	FIC	.412	.113	.255	3.654	.000	Significant

a. Dependent Variable: Performance (P<0.05)
b. Predictors: (Constant), COE= Control Environment; MON= Monitoring; FIC = Financial controls

R value of .292 in table 4 indicates a positive relationship between the combined independent variables - control environment; monitoring and financial controls (components of internal control system) and performance (dependent variable) of co-operative societies in Lagos State. The R-squared value of 0.085 shows that 8.5% of the variation in the dependent variable is explained by the three predictors collectively. Additionally, the p-value being less than 0.05 indicates that the combination of these predictors has a statistically significant effect on the performance of co-operative societies in Lagos State. Although the explanatory power of the predictors is modest at 8.5%, they still demonstrate a combined statistically significant effect, suggesting that they offer meaningful insight into the relationship under study.

Both monitoring and financial controls have significant effect on performance because their p-values are both <.05, although monitoring has a negative relationship with performance with t-value of -4.392 while financial controls have a positive relationship with performance with t-value of 3.654. Control environment has a positive relationship but no significant effect on performance with t-value of 1.706 and p-value greater than 0.05. Hence, hypothesis 1 is accepted while hypotheses 2, 3 and 4 are rejected. Overall, this result indicates a modest but statistically significant collective influence of monitoring, financial controls, and control environment on performance outcomes. Monitoring had the highest relative contribution and a significant effect on performance; however, the negative relationship with performance suggests that existing monitoring mechanisms may be counterproductive or poorly implemented. Financial controls with a significant effect and positive relationship with performance, reinforces their critical role in ensuring efficiency and accountability within co-operative operations. Control environment, positively associated with performance but with no statistically significant effect, implies its limited separate effect on performance. These outcomes highlight the need for co-operative societies in Lagos State to reassess and strengthen their monitoring systems and further invest in robust financial control frameworks, while gradually improving the control environment to enhance long-term organisational effectiveness.

4.3 Discussion of findings

The study revealed some key findings in relation to the research objectives and existing literature. Firstly, control environment does not have significant effect on performance of co-operative societies in Lagos, though, there is positive relationship between the variables. This finding negates the outcomes of Barigye, Ocan and Adyanga (2024) who submitted that control environment has a significant positive connection with performance and efficiency of SACCOs in Uganda.

Secondly, monitoring has a marginal significant effect on performance of co-operatives in Lagos State, though, the relationship is negative. This finding partially supports the outcome of the study of Okafor, Okoroji, Joseph, Njideka and Mathias (2024) who found out that monitoring played a significant role in operational performance of agricultural cooperatives in Anambra State. Thirdly, financial controls have positive relationship with and significant effect on performance of co-operative societies in Lagos State. This finding corroborates the outcome of the study of Wiklef and Whatmore (2020) that there is significant relationship with internal financial controls and organisational financial performance at Grain Motor Services. Lastly, internal control activities (the combination of control environment; monitoring and financial controls) demonstrates a positive association with performance of co-operative societies in Lagos State and has a jointly modest but significant effect on it. This finding supports the outcomes from a study carried out by Cheng, Goh and Kim (2018) that concluded that strengthening their internal systems and encouraging active member participation improve performance of co-operatives in Malaysia.

4.4 Implications for Practice, Theory, and Policy

The outcomes of this study have important implications for practice, theory and policy formulation and implementation. For practice, this study underscored the importance of embedding strong control environment, continuous monitoring systems, and strong financial controls in the governance structures of co-operatives in Lagos State to enhance their performance. For theory, this study emphasised how agency theory can help co-operative societies to protect members' interests through sound governance practices, and improve on efficient use of resources and performance. In addition, system theory emphasised how internal control as an integral subsystem within co-operative societies can work cohesively with all other units to drive performance and achieve the objectives of co-operatives. Based on the findings of this study, policymakers should prioritise implementing policy frameworks that will strengthen the internal control frameworks and improve performance, member trust, and sustainability of co-operative societies, not only in Lagos State, but in Nigeria at large.

5.0 Conclusion

In conclusion, an effective control environment cultivates a culture of accountability, ethical behaviour, and commitment to organisational objectives, which reduces risks and improves stakeholders' trust. In addition, continuous monitoring systems ensure that procedures remain effective and adaptable to internal and external changes, while strong financial controls enforce necessary checks for errors and fraudulent practices in co-operative enterprises. Jointly, the internal control dimensions examined in this study not only reinforce financial integrity and compliance, but also serve as enabler for improved efficiency, stakeholders' confidence, and sustainable growth which will enhance performance. Based on these findings, this study concluded that internal control is a tool for enhancing the performance of co-operative societies in Lagos State.

Recommendations

The study recommends that co-operatives in Lagos State should enhance the following processes to improve their performance:

i. Implement and enforce codes of conduct and policies to embed and promote ethical commitment within the control environment. Regular orientation sessions should be implemented to maintain and reinforce the culture.
ii. Introduce periodic risk assessments and internal audits to proactively identify control gaps in their monitoring exercises which should be resolved timely.
iii. Design multi-tiered approval protocols that can enforce proper segregation of duties for the purpose of minimising errors and frauds.
iv. Establish key performance indicators to monitor how effectively their specific objectives are being met.
v. Provide periodic performance reports so stakeholders will know the financial condition of the associations which will enhance transparency and accountability and build trust.
vi. Develop and implement targeted training programs on internal control techniques to enhance effectiveness and performance for staff and management.
vii. Policymakers to implement policy frameworks that will strengthen the internal control frameworks of co-operatives to improve their performance.

Limitations of the Study

The limitations are based on the empirical context of this study. This study was geographically confined to co-operative societies in Lagos State. Therefore, this has limited the generalisability of findings across co-operative societies in other states. The sample size was controlled owing to time with only a number of co-operatives surveyed in Lagos State rather than the entire population. The study also focused on three dimensions of internal control namely control environment, monitoring and financial controls and excluded other components like risk assessment, information and communication that may also significantly affect performance outcomes of co-operative societies in Lagos State. Despite the limitations, the findings of this study offer valuable insights on how internal control can have effect on the performance of co-operatives in Lagos State.

Suggestion for Further Studies

Despite the valuable insights of this study, further studies should adopt comparative and multi-site research designs by investigating internal control systems across multiple co-operatives in different states of Nigeria and beyond to enhance generalisability and capture contextual disparities. Future research may benefit from employing a mixed-method research approach to gain a more comprehensive understanding of how various control dimensions are operationalised in practice and the extent to which they affect performance. Further studies could examine the role of technology adoption such as automation of processes or monitoring systems to understand whether digital controls can further improve performance of co-operative societies.

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