



## **Revenue Generation as a Function of Internal Control system at a Power Holding Company in Imo State, Nigeria.**

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### ABSTRACT :

In other to evaluate the revenue generation using an internal Control system at Power Holding Company in Imo State Nigeria a sample of 40 was selected randomly for the study. Questionnaires were adopted in putting together the primary data while secondary data were collated through a literature review. These data collated the statistical tool which was used to ascertain the hypothesis valuation is ANOVA. And the findings revealed that if there is a weak internal Control system it must be result to the loss of revenue which will have tremendous effect on the company delivery effective services therefore making it difficult for revenue generation. It is important to note that for their to be operational compliance of set out policies by the company through proper accounting record keeping on internal auditing must also be taking place. The Study also revealed that there should be some changes in the company's internal control system and the unit in charge of investigation must also be strengthened for proper organizational operations that shall effectively lead to revenue generation.

Keywords: working environment, questionnaire, internal control system, revenue generation, internal auditing.

### 1. Introduction :

The core purpose of every organization is to make products and rendering some services at a price set aside by the company for its operation. The production of goods and rendering of services results to cash receipt flowing into the firm. Revenue is therefore the money generated from normal business operations, calculated as the average sales price times the number of units sold.

Hongreen et al (2002:568) described revenue as inflows of assets (almost always cash or account receivable) received for product or services provided to customers. According to the establishment customer service chartered (2004) her mission as a service industry is to satisfactorily meet customers electricity demand in the most cost effective manner using proven technology and well-motivated customer friendly work force with adequate consideration for the environment. Her goals include To continuously improve her service to her customer, To realize full payment for timely accurate and complete billing of electricity delivered, Institutionalize business and commercial orientation among the work force, To improve skill and motivation of staff, Gradually aiming at closing the gap between demand and supply by upgrading and expanding, generating, transmission distribution of infrastructure. To achieve the above mission and goals, the management of the establishment must adopt measures to ensure that available resources are prudently used to obtain value for money from resources allocated to them. Thus developing a strong system of internal control provides this assurance. There the American Institute of Certified Public Accountant in 1949 defined internal control as comprising the plan or organization and all the coordinate methods and measures adopted within a business (or profit making body) to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies.

National Electricity Power Authority was established by Decree No. 24 of 1st April 1972 with the amalgamation of the Electricity Corporation of Nigeria (ECN) and the Niger Dam Authority (NDA). Electricity Corporation of Nigeria was brain child of the 1960 independence in Nigeria whereas the Niger Dam Authority existed and was the source of power during the colonial era. National Electricity Power Authority was empowered to maintain an efficient coordinated and economic system of electricity supply to all channels of the nation.

Internal control system as defined by accounting and auditing is a process for assuring of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. A broad concept, internal control involves everything that controls risks to an organization. It is a means by which an organization revenue are directed, monitored, and measured. It plays an important role in detecting and preventing fraud and protecting the organization resources.

At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals and compliance with laws and regulations. At the specific transaction level, internal controls refers to the actions taken to achieve specific

objectives like how to ensure the organizations payments to the third parties are paid for valid services rendered. Internal control procedures reduces process variation, leading to more predictable outcomes. Internal control is a key element of the foreign corrupt practices act {FCPA} of 1977 and the Sarbanes Oxley act of 2002, which required improvements in internal control in United States public corporations. Internal controls within business entities are also referred to as operational controls. The main controls in place are sometimes referred to as key financial controls {KFCs}

Controls can be evaluated and improved to make business operations run more effectively and efficiently. For example automating controls that are manual in nature can save costs and improve transaction processing. If the internal control system is thought of by executives as only means of preventing fraud and complying with laws and regulations, an important opportunity may be missed. Internal controls can be also used to systematically improve businesses, particularly in regards to effectiveness and efficiency.

Internal control plays an important role in prevention and detection of fraud under the Sarbanes Oxley act, companies are required to perform a fraud risk assessment and assess related controls. This typically involves identifying scenarios in which theft or loss could occur and determining if existing control procedures effectively manage the risk to be an acceptable level.

The internal auditors and external auditors of the organization also measure the effectiveness of internal control through their efforts. They assess whether the controls are properly designed implemented and working efficiently and make recommendations on how to improve controls. They may also review information technology controls, which relate to the IT systems of the organization. To provide reasonable assurances that internal controls involved in the financial reporting process are effective, they are tested by the external auditor { the organizations public accountants} who are required to opine on internal controls of the company and the reliability of its financial reporting.

### ***1.1 Objective of the Study***

1. To uncover the growing importance of revenue generation using internal control system.
2. To be able to uncover the advantages and disadvantages of internal control system in all the departments
3. To know the mechanisms used by Power Holding Company in Imo State Nigeria using internal control system to generate revenue

### ***1.2 Research Questions***

1. Does the internal audit system ensure that operations comply with set policies and promote accuracy and reliability of transactions?
2. Are internal/external auditors independent of those whose function they appraise?
3. Based on the evaluation of the internal control system is it effective and efficient?

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## **2. Conceptual Framework :**

### ***2.1 Concept of revenue***

The operation of an entity may be easy or hard and massive therefore a public accountant is expected to internal control such system for effective service delivery. Despite the procedures that could affect all plans and possible transactions of the company it is important to have in existence the establishment of an internal control system that shall ensure smooth and transparent organizational operations.

Revenue is seen as the total amount of money brought in by a company's operations, measured over a set amount of time. A business revenue is its gross income before subtracting any expenses. Profit and total earnings define revenue it is the financial gain through sales or services rendered. Thus in Kam (1989:237) FASB defined revenue as inflows or other enhancements of assets of an entity or settlements of its liabilities (or combination of both) during a period from delivery or producing goods, rendering services or other activities that constitute the entities ongoing major or central operations.

### ***2.2 Concept of Internal Control System***

This is a concept of which the management assures its customers that indeed the organization is highly controlled and all the accounting data it relies are so accurate and reliable. When this level of assurances are present it is because there is very effective presence of internal control system. In accounting and auditing, internal control is defined as a process affected by an organizations structure, work and authority flows it is also a means by which an organizations resources are directed, monitored and measured.

In addition Meigs et al(1982:139) further refers to internal control system as consisting of all measures employed by an organization to Safeguard assets from waste fraud and inefficient use, to Promote accuracy and reliability in accounting records, to encourage and measure compliance with Company policies and to evaluate the efficiency of operations.

### ***2.3 Objectives of Internal Control System***

The sole aim of an effective internal control system in an organization is to secure proper management of organizational assets and keep accountable records for effective revenue generation. It also ensures accurate record of accounting details such as transactions according to the management authorization. These records of transactions are very necessary so as to prepare its financial statements in line with the general accepted accounting principles.

Internal control system consists of two main categories Administrative control accounting control

## **2.4 ADMINISTRATIVE CONTROL**

Defliese et al (1975:85) says administrative control is not limited to the plan of the organization and the procedures and records that are concerned with the decision process leading to management function, authorization is directly allocated with the responsibility for achieving the objectives of the organization and is the starting point for establishing account control of transactions.

It is important to have an effective administrative control so as to control the management financial expenses to avoid high cost in management that is to say the company must use it's limited resources in an effective and efficient manner. That is why to achieve all of the above the management must develop the needed policies in other to promote efficiency and effectiveness in area of activity and these policies shall be implemented through training, personal selection and management.

## **2.5 ACCOUNTING CONTROL**

This is regarded as the plan of the organization in respect to procedures measures and records that are connected to safeguarding of assets and reliabilities of financial records and are programmed to provide the necessary assurances that transactions are executed with the authorization of the management generally. The definition clearly shows that accounting control is to bring about accurate recording and summarization of all financial transactions authorized by the company. Failure of the company to have an effective accounting control shall definitely lead to loss or errors.

## **2.6 Components of Internal Control System**

Internal control systems generally have certain characteristic that gives the organization reasonable assurance that administrative and accounting controls are functioning properly.

According to Bodnar et al (1998:169-184) and country of orange internal audit department (2003:780) an organizations internal control system consists of five interrelated components as follows: Control environment, Risk assessment, control activities, information and communication and monitoring. All five internal control components must be present to conclude that internal control is effective.

## **2.7 CONTROL ENVIRONMENT**

An organization control environment is the foundation of all other components of internal control system, it's sometimes referred to as the tone at the top of the organization. The control environment is the collective effects of various factors establishing, enhancing or mitigating the effectiveness of specific policies and procedures. In other words the control environment set the overall tone of the organization and influences the control consciousness of the employees.

## **2.8 INFORMATION AND COMMUNICATION**

Information and communication are essential to effecting control, information about an organizations plans control environment, risk, control activities and performance must be communicated up, down and across the organization. Reliable and relevant information from both internal and external sources must be identified, captured, processed and communicated to the people who need it in a form and time frame that are useful. When assessing internal control over a significant activity (or process) the key questions to ask about information and communication are as follows Does our department get the information it needs from internal and external sources in a form and time frame that is useful? Does our department provide information to others that alerts them to internal and external risks? Does our department communicate effectively internal and externally?

## **2.9 MONITORING**

Monitoring is the assessment of internal control performance over time; it is accomplished by an on-going monitoring activities and separate evaluation of internal control such as self-assessment, peer review and internal audits. The purpose of monitoring is to determine whether internal control is adequately designed and properly executed and effective.

Internal control is effective if the board of directors, the management and departmental management have reasonable assurance that They understand the extent to which operations objectives are being achieved, Published financial statements are prepared reliably, Applicable laws and regulations are being complied.

## **2.10 Functions of Internal Control System**

In other to provide reliable data management must be provided with accurate, timely as well as dependable information's that will aid them in an informed decision-making concerning the operations of the business

It ensures the existence of division of labor, providing that one person does not do the handing of a transaction or economic activity from the beginning to the end.

Internal accounting control system ensures that the values of assets remain at their true and fair values.

### **2.11 Operations of Internal Control System at Power Holding Company Nigeria**

Through designing a system of internal control, the personnel should be segregated by functions into who initiates or authorizes transactions and those who execute transaction. Transaction cycle maybe divided into

1. Revenue cycle: This is the taking of sales order request to delivery of product or services billing of the account and the ultimate collection of payment by the company
2. Expenditure cycle: These are activities in relation to acquisition of goods and Ktyj(services alongside it's distribution.
3. Production circle : These are methods of converting raw materials into finished goods with the view to fulfilling customer demands
4. Financial cycle: These are methods of managing organizational funds or resources including cash values.

### **2.12 Basic Control**

There are basic controls that are necessary for the completeness and accuracy of accounting records which are as follows

1. Pre-numbering documents for voucher and purchases invoices
2. Maintainance of total accounts that shall provide an independent overall control over the ledger to which they related.
3. Checking of documents after examinations and checking by the head of other charges sections and head payroll (salaries) section before proceeding to monthly reconciliation of cash book with their various bank statement
4. All service centers and customer care centers of the establishment render monthly returns and use/un-used receipt book.

### **2.13 Operational Control**

These are designed to ensure the continued and proper operation of safeguarding assets. At Power Holding Company of Nigeria, operational control entails the following:

1. It also measures and correct performance
2. It results about efficiency
3. It provides also essential control activities

### **2.14 Internal Auditing**

This is an important element of internal control, internal auditors are professional saddled with the responsibility of investigating the establishment and also the efficiency of operation in every department. They study and avail the list the system of internal control and report to the district business manager on their findings or problems which require strengthening of internal controls

### **2.15 Limitations of Internal Control System**

The limitation includes the following:

1. An effective system of internal control can become in-effective as a result of employees fatigue and indifference
2. Cost will prevent management from over installing an ideal system
3. Adequate accounting and management staff may be lacking and in other words making a way for in adequate managerial supervision, in-effectiveness and break down of the control system
4. A well-formulated system of internal control can be destroyed by employee's lack of confidence and cooperation

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## **3 Research Methodology :**

The sole aim of this chapter is to present in details the methods used in this research. This focuses on the various methods used to obtain data. Research methodology involves an orderly manner employed in collection, interpreting and analyzing of data used in this study which involves selection of sample, population and research data as well as the statistic tool of analysis.

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## **4 Research Design :**

This research work is designed to study how internal control system affects revenue generation in power holding company. The research work is being carried out through

### **4.1 EXPERIMENTAL DESIGN.**

#### **4.1.1 Population of the Study**

This study considers time and resources available. The research was only limited to the staff of the Power Holding Company Okpara avenue of various departments. The population of the staff of the company is 40.

#### 4.1.2 Sampling Method/Sample Size

This is the number of respondents the questionnaire was administered to the entire population being 40 respondents were giving questionnaire and all was returned correctly filled. The sampling method adopted is stratified sampling method.

### 5 Method of Data Analysis :

This involves the procedures adopted in analyzing the hypothesis used in the research. The null hypothesis (HO) and the altering hypothesis (HA) were analyzed using percentages and ANOVA.

The percentages were used to calculate the number of respondents who answered Yes, No and No ideal. The presentation is in a tabular form. The ANOVA was used to test the hypothesis put forward in chapter one and from the answer gotten the questionnaire and personal interview. The use of ANOVA is very important where there are two or more population proportion ANOVA is used to test the validity of the result and the correlation coefficient, it should however be stressed that the correlation coefficient measures the direction of the association among the variables.

### 6 Data Collection Method :

However for good understanding of the revenue generation both primary and secondary sources of data were used. As a matter of facts filled research work in form of personal interview, questionnaire was administered together for the purpose of the work.

#### 6.1 Primary Data

Primary source of data provide basic reliable and concrete information from the respondents. The questionnaire was the major source of my data collection. Personal interviews were conducted in scenes where adequate and accurate information was not obtained through the use of questionnaire

#### 6.2 Secondary Data

There is information already in existence before the conduction of this research work assignment e.t.c just in this case. It is because the knowledge acquired from reading and collecting materials done by others will help me generate primary data, library research was also done.

### 7 Statistical Tool for Test of Hypothesis :

The data was categorized and tabulated with the evidences gotten in order to be tested with the research hypothesis.

The ANOVA statistical tool will be used for testing of the hypothesis

#### FORMULAR

$$TSS = \sum X^2 - \frac{(\sum X)^2}{N}$$

$$TRSS = \sum E_x^2 - \frac{(\sum E_x)^2}{N}$$

$$ESS = TSS - TRSS$$

### 8 Data Analysis :

This is the presentation of data analysis and interpretation of data collected from both primary and secondary sources. A total of 40 questionnaire copies were sent out and it was all returned. This presents 100% respondents.

**Table 1: Bank Respondents**

Characterization of Bank Respondents		
Variables	Respondents	Percentage
Senior Managers	2	7
Managers	3	7.5
Assistant managers	5	12.5
Officer 1,2,3	15	37.5
Other	15	37.5
Total	40	100

From the above responses to question 1 in the questionnaire in table 1 above only two respondents or 7% indicated that they hold position of senior managers, 3 or 7.5% are managers, 5 or 12.5% are assistant managers, 15 or 37.5% hold position of officer 1,2,3 and 37.5% indicated that they hold other positions not mentioned in the table.

**Table 2: Characterization Employees Years of Service**

Variables	Respondents	Percentage
Less than 3years	10	25
4-6 years	7	17.5
7-9years	10	25
10years and above	13	32.5
Total	40	100

From the response to the question 2 in the questionnaire, table 2 indicated that 10 or 25% of all the responses have work under Power Holding Company of Nigeria between 0 and 3 years, 7 or 17.5% between 4 – 6 years. 10 or 25% between 7 – 9 years and 13 or 32.5 % between 10 years and above.

**QUESTION 1:** Does the internal audit system ensure that operations comply with set policies and promote accuracy and reliability of transaction?

**Table 3: Responses to internal audit system ensure that operations comply with set policies and promote accuracy and reliability of transaction.**

Variables.	Respondent's	Percentage
Yes	40	100
Total	40	100

From the above responses to question 1 in the questionnaire in table 3,40 respondents or 100% agreed that the internal audit system ensures that operation comply with set policies and promotes accuracy and reliability and transactions.

**QUESTION 2:** Are external/auditors independent of those who function they appraise?

**Table 4: Responses to external/auditors independent of those who function they appraise.**

Variables.	Respondents.	Percentage
Yes	20	50
NO	15	37.5
NO Ideal	5	12.5
Total	40	100

From the response to the question 2 in the questionnaire in table 4,20 respondents or 50% agreed that this internal/external auditors are independent of those who function they Appraise and their employees only 15 or 37.5% respondents stated otherwise.

**QUESTION 3:** Does internal control system have any impact on service delivery and revenue generation?

**Table 5: Responses to impact of internal control system on service delivery and revenue generation.**

Variables.	Respondents.	Percentage
YES	25	62.5
NO	10	25
NO Ideal	5	12.5
Total	40	100

From the responses to question 3 in the questionnaire in table 5, 25 respondent or 62.5 agreed that internal control system have some impact on service delivery and revenue generation. It is evidenced that customers are provided with credible bills based on proper tariff for electricity consumed within the billing month and the expected revenue realized. The internal control system is effective and efficient.10 respondents or 25% indicated otherwise and they considered the internal control system to be ineffective and inefficient and 5 respondents or 12.5%has no ideal.

**QUESTION 4:** Internal operation procedures?

**Table 6: Responses to Internal operation procedures**

Variables	Respondents.	Percentage
YES	20	50
NO	-	-
NO Ideal	20	50
Total	40	100

From the response to question 4 in the questionnaire in table 6, 20 respondents or 50% said that the accounting policies and operational procedures are set out in a manual and 20 respondents or 50% said they know not about it at all. This clearly communicates specific responsibilities to individual staff, facilitate training of new staff and enable one to overview and monitor the internal control system.

**QUESTION 5:** Evaluation of internal control system?

**Table 7: Responses on Evaluation of internal control system**

Variables	Respondents.	Percentage
YES	26	65
NO	10	25
NO Ideal	4	10
Total	40	100

From the above response to question 5 in the questionnaire in table 7, 26 respondents or 65% indicated that there has been periodic review and examination of internal control system by an external auditor in the past. This helps in the effective assessment of control activities and monitoring of the internal control system while 10 respondents or 25% stated otherwise and 4 respondents or 10% has no view at all.

#### TEST OF HYPOTHESIS :

In this section, the research hypothesis stated in the chapter one is tested. The statistical tool employed is ANOVA as indicated in chapter three of this study using table 4,5,6,7

**Table 8: Test of Hypothesis**

Tables	Yes	No	No idea	
4 1	20	15	5	
5 2	25	10	5	
6 3	20	-	20	
7 4	26	10	4	
Ex	91	35	34	160
X	22.75	8.75	8.5	40
N	4	3	4	11
Ex2	2,101	424	466	2992

$$TSS = \sum X^2 - (\sum X)^2 / N$$

$$TRSS = \sum x^2 - (\sum x)^2 / N$$

N

$$ESS = TSS - TRSS$$

#### ANOVA TABLE

Source of variable df sum of square x square F Ratio

Treatment 2 2619.

Error 8 403.1 50.4

Total. 10 665

F cal is = 9.65

Degree of freedom 0.01 i.e. one (1%) percent level of significance

Therefore F tab is 8.65

When F cal is greater than F tab is falls on the rejection region.

#### Decision Rule:

Based on the analysis above the null hypothesis is rejected & accept the alternative hypothesis which says weak internal control system encourages fraud, collusion, embezzlement and less of revenue, assets conversion and computation in Power Holding Company of Nigeria.

## 9.CONCLUSION :

This chapter summarizes the findings, draws conclusion and makes recommendation on this project titled Revenue Generation as a Function of Internal Control System at a Power Holding Company in Imo State, Nigeria. Based on the analysis of data collected and interpreted the research summarizes the findings as follows: The internal Control System in operation has a major impact on revenue generation. It was revealed that the company adopts various types and techniques of internal control to satisfactorily meet customer electricity demand provide credible bills based on proper tariff for electricity consumed within the billing month and therefore generates revenue. The study revealed that an opportunity for fraud, loss of revenue, embezzlement, assets conversion and corruption arises simply because of weak internal control system therefore suggests that Periodic evaluation of the internal control system by an external auditor Should be used to effectively access the control activities and detect fraudulent practices. In conclusion the incidence of

internal control system weaknesses have always affected the ability of Power Holding Company of Nigeria in Imo State to effectively supply electricity to her customers and therefore generates potential revenue. It also revealed that internal control system plays a major role in managing the resources and funds entrusted to the public sector managers.

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