INTERNAL CONTROL FUNCTION AND FINANCIAL REPORTING QUALITY OF PUBLIC HOSPITALS IN OGUN STATE, NIGERIA

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Abstract

Inadequate control activities in public hospitals have contributed to financial opacity and weakened decision-making among healthcare practitioners, underscoring the need for robust internal control systems. This study examines the effect of internal control systems on the quality of financial reporting in selected secondary and tertiary public hospitals in Ogun State, Nigeria. Internal control was assessed with control environment, risk assessment, control activities, information and communication, and monitoring. Financial reporting quality was measured using the dimensions of relevance, faithful representation, timeliness, and understandability of financial reports. Adopting a descriptive survey design, the study collected data from 213 internal auditors and accountants, selected through stratified random sampling from a population of 456 officers involved in financial reporting. A structured questionnaire, based on a five-point Likert scale, was administered both physically and electronically via Google Forms.

The results show that internal control mechanisms significantly improve the relevance of financial reports, with control activities exerting the strongest influence by enhancing reporting usefulness through authorizations, verifications, and reconciliations. Similarly, faithful representation was most influenced by a strong control environment, indicating that governance, ethical leadership, and institutional values foster credible and unbiased reporting. Timeliness was also improved across all internal control dimensions, with control activities again standing out as the most effective in ensuring prompt disclosures through operational checks and approvals. In contrast, none of the internal control components had a significant impact on the understandability of financial reports, despite exhibiting positive but weak effects, suggesting that clarity is shaped more by report presentation formats and users' financial literacy. The study recommends institutionalizing internal control frameworks to promote transparency, strengthen compliance through clear policy enforcement, and enhance staff training to improve report clarity and overall financial management.

Keywords: Control Activities, Control Environment, Financial Reporting Quality, Risk Assessment, Information and Communication

1.0 Introduction

Hospitals depend on accurate and timely financial reporting to ensure operational efficiency, stakeholder trust, and compliance with regulatory standards. Effective communication channels, as highlighted by Olayisade et al. (2023), enhance the reliability of financial reports by fostering collaboration among departments such as finance, operations, and clinical services. Continuous monitoring through internal audits and compliance reviews is critical for identifying weaknesses in control processes (Adamu, 2020). In the absence of robust monitoring, internal controls often fail, leading to financial discrepancies that undermine the integrity of financial reports. Consequently, monitoring serves as a vital mechanism for sustaining effective internal control system in secondary and tertiary healthcare institutions.

Financial reporting quality, defined as the extent to which financial reports accurately reflect an institution's financial health, is essential for enabling informed decision-making by stakeholders, including management, regulators, and investors (Pratiwi & Aufa, 2023). In healthcare institutions/organizations, high-quality financial reporting directly influences resource allocation and patient care outcomes. However, challenges such as weak internal controls, resource constraints, and regulatory pressures often hinder consistent financial reporting quality, particularly in developing countries (Eton et al., 2022). The International Accounting Standards Board (IASB) outlines qualitative characteristics, relevance, faithful representation, timeliness, comparability, and understandability as critical for meeting stakeholders' needs (IASB, 2020). While healthcare institutions in developed nations like the United States and the United Kingdom leverage these attributes to support effective decision-making, institutions in sub-Saharan Africa, including Nigeria, struggle with inadequate internal controls and resource limitations, resulting in financial misstatements and delays (Mungai, Maina, & Kungu, 2021; Eton et al., 2022). Timeliness is particularly crucial in healthcare, where delayed reporting can disrupt resource alignment and negatively impact service delivery (Wulandari & Jatmiko, 2022). Comparability across reporting periods and institutions further ensures stakeholders can assess performance trends, yet inconsistent practices often obscure financial transparency (Olayinka, 2022).

Internal control systems are fundamental to ensuring financial integrity and operational efficiency in healthcare institutions. Rooted in frameworks like the Committee of Sponsoring Organizations of the Treadway Commission (COSO), internal controls encompass five core components: control environment, risk assessment, control activities, information and communication, and monitoring (Eskin, 2020). A strong control environment, characterized by ethical leadership and clear governance, fosters reliable financial reporting (Karina et al., 2021). Effective risk assessment and control activities, such as segregation of duties and account reconciliation, mitigate financial risks and enhance reporting accuracy (Kasse, Sutisman, & Ponto, 2023).

However, public hospitals in Ogun State, Nigeria, often face challenges due to inadequate control activities, leading to financial opacity (Adamu, 2020). Robust internal controls are thus critical for safeguarding assets, preventing fraud, and ensuring compliance with standards like the International Financial Reporting Standards (IFRS), ultimately improving financial reporting quality (Isaruk & Yacob, 2022).

Poor financial reporting quality, driven by weak internal control systems, undermines operational efficiency and transparency in healthcare institutions, eroding stakeholder trust and hindering effective decision-making (Ogbenna, 2023; Etonyeaku et al., 2022). Inadequate internal controls, ineffective risk assessment, and weak governance structures contribute to inaccuracies in financial statements, compromising accountability and regulatory compliance (Alawaqleh, 2021; Adamu, 2020). Despite frameworks like IFRS and the Financial Reporting Council of Nigeria guidelines, many hospitals struggle to produce timely, reliable, and relevant financial reports (Eton et al., 2022). Inconsistent findings in the literature further complicate the understanding of internal controls' impact on financial reporting quality. For instance, Olayisade et al. (2023) found that robust controls, including communication systems and audits, improve reporting quality, while Adamu (2020) noted persistent weaknesses in risk assessment and monitoring, leading to errors and misstatements. Similarly, Mutoharoh and Ifada (2022) observed that resource constraints and inadequate training limit control effectiveness, though Kinanu, Irungu, and Obara (2021) argued that well-designed controls can enhance accountability regardless of resources.

These inconsistencies highlight the need for further research to clarify the relationship between internal control functions and financial reporting quality, particularly in resource-constrained settings like Ogun State, Nigeria

2.0 Literature Review

2.1 Financial Reporting Quality

Financial reporting quality is central to transparency and stakeholder trust, especially in non-financial institutions such as hospitals, where accurate information supports efficiency and resource allocation. Schipper (2003) defines it as the faithful representation of economic reality, marked by completeness, neutrality, and freedom from error. In healthcare, such quality fosters collaboration across finance, operations, and clinical units, enhancing confidence among stakeholders (Olayisade et al., 2023).

The principle of prudence, emphasized by the IASB (2020), ensures cautious judgment and balanced estimates, preventing misleading optimism. This is particularly critical in hospitals where misstatements can undermine service delivery (Eton et al., 2022). Similarly, the going concern assumption underpins accrual accounting but requires transparent disclosure when uncertainties about continuity arise, a frequent challenge in resource-pressed hospitals (Karina et

al., 2021). Materiality further guides disclosure by emphasizing information significant to decision-making, ensuring reports are relevant and focused (Pratiwi & Aufa, 2023). Neutrality complements this by demanding unbiased reporting, reinforcing accountability and credibility in hospital financial statements (Isaruk & Yacob, 2022).

2.2 Internal Control System

Internal control systems are critical processes that help organizations achieve objectives in operations, financial reporting, and compliance. Graham (2020) views them as systematic approaches to managing risks, safeguarding assets, and ensuring reliable information. The COSO framework (2013) defines internal control as a process led by management and personnel to provide reasonable assurance of achieving operational, reporting, and compliance objectives. In healthcare, particularly in resource-constrained hospitals, such systems are vital for financial integrity, efficiency, and stakeholder trust.

The COSO framework consists of five components: control environment, risk assessment, control activities, information and communication, and monitoring. The control environment sets the tone through ethical leadership, governance, and accountability structures, reducing fraud risks (D'Aquila, 1998; Gupta, 2019). Risk assessment identifies and prioritizes threats, using tools such as risk matrices and adopting responses aligned with risk appetite (Linsley & Shrives, 2006; Hopkin, 2018). Control activities, including segregation of duties, audits, reconciliations, and automated checks, implement safeguards against errors and fraud (IFAC, 2020; Whittington & Pany, 2019).

Information and communication processes ensure timely, accurate, and relevant data flow to support decision-making and transparency, strengthened by technologies like ERP systems and whistleblowing channels (COSO, 2013; Ghasemaghaei et al., 2018). Monitoring provides continuous evaluation of control effectiveness, with audits and oversight mechanisms reducing discrepancies and fostering accountability (Eton et al., 2022; Adamu, 2020).

2.2 Theoretical Framework

This study is anchored on Control Theory, developed by Ashby (1956), which emphasizes the importance of feedback mechanisms in guiding systems toward stability and achieving set objectives. The theory suggests that organizations operate effectively when continuous monitoring, detection of deviations, and corrective measures are applied. In financial management, internal control systems reflect these feedback loops by overseeing transactions, detecting errors or fraud, and ensuring compliance with regulatory standards (Merchant, 1998). These mechanisms enhance the reliability of financial reporting, mitigate risks of misstatement, and strengthen accountability to stakeholders (Kaplan & Norton, 1992). Control Theory is therefore relevant to this study as it provides a framework for understanding how public hospitals in Ogun State

implement internal controls to regulate financial processes, safeguard resources, and promote transparency. Conceptualizing internal controls as feedback systems, the theory justifies their role in fostering efficiency, fraud prevention, and credible financial reporting in healthcare institutions.

2.3 Empirical Reviews

Empirical studies, such as Adamu (2024), found that ineffective internal controls in Taraba State health establishments hindered the relevance of accounting records, recommending stronger frameworks and staff training. Yao et al. (2024), using the COSO framework in Ghanaian government departments, confirmed a significant positive relationship between internal controls and financial management, emphasizing independent audits and monitoring. Similarly, Lee et al. (2024) noted that internal controls improve hospital budget management and service delivery, though gaps in staff training persist. Karina et al. (2021) also demonstrated that government accounting standards, IT adoption, and competent personnel improve reporting quality in South Jakarta hospitals.

On faithful representation, Khoiriyah et al. (2024) showed that accounting standards, internal controls, and leadership practices enhance financial reporting quality in Indonesian health centers. Tuwei and Ondabu (2024) also found that control environment, risk management, and monitoring strengthened faithful representation in Kenyan hospitals, while Mutoharoh and Ifada (2024) noted that weak staff competence may limit this effect. Monteiro et al. (2021) confirmed that high-quality internal control and accounting systems directly improve faithful representation, ensuring reliability for decision-making.

With respect to comparability and understandability, Eskin (2024) observed that weak internal control systems in Nigerian hospitals reduce comparability, while Olayisade et al. (2024) found that effective control mechanisms improve financial planning and comparability in federal hospitals. Liu et al. (2024) highlighted that strong internal audits improve accounting comparability in China by reducing agency costs. Similarly, Sudirman et al. (2021) showed that internal audits in Indonesian banks foster transparency and clarity, strengthening report understandability.

Internal controls have been linked to the timeliness of financial reporting. Al Rahhaleh et al. (2024) reported that robust controls improved both accountability and timeliness in Saudi private hospitals. Pratama et al. (2024) further noted that governance structures such as audit committees enhance timeliness in Indonesian firms. Earlier works by Soudani (2012) and Phornlaphatrachakorn (2019) corroborated that effective internal controls reduce delays, errors, and omissions, ensuring prompt and reliable disclosures.

3.0 Methodology

3.1 Research Design

This study adopts a descriptive survey research design to examine the impact of internal control functions on financial reporting quality in selected public hospitals in Ogun State, Nigeria. The design allows for systematic data collection from hospital personnel, including auditors, accountants, and financial managers, and evaluates internal controls through the COSO framework, control environment, risk assessment, control activities, information and communication, and monitoring. Financial reporting quality is assessed along four dimensions: relevance, faithful representation, timeliness, and understandability.

3.2 Population of the Study

The study population comprises personnel involved in financial reporting across seven public hospitals in Ogun State. These include internal auditors, accountants, and financial managers, representing a cross-section of tertiary and general hospitals. This ensures a comprehensive assessment of internal control practices within the state's healthcare sector.

3.3 Sampling Technique and Sample Size

A stratified random sampling technique was employed to capture the heterogeneous nature of the population across the seven hospitals. Within each stratum (hospital), respondents were selected using simple random sampling to minimize bias and ensure proportional representation. The sample size was determined using the Taro Yamane formula, which provides an appropriate estimate for finite populations.

$$n = \frac{N}{1 + N\,(e^2)}$$

Where: n = the sample size

N = the population of study = 456

e = the margin of error in the calculation = 0.05

$$n = \frac{456}{1 + 456(0.05^2)}$$

$$n = \frac{456}{1 + 1.14}$$

$$n = \frac{456}{2.14}$$

n ≈ 213

Thus, the calculated sample size is 213 staff members.

To ensure a proportional representation of staff from each hospital in the sample, the number of participants from each hospital was determined using proportional allocation. The proportion for each hospital was calculated as:

$$n_i = \frac{N_i}{N} X\ n$$

Where: n_i = sample size for each hospital; N_i = population size of each hospital; N = total population size (246); n = total sample size (213)

Table 3.1: Sample size for the study

Hospital Name	Population (N_i)	Sample Size (n_i)
Federal Medical Centre (FMC), Abeokuta	251	$\frac{251}{456} X\ 213 \approx 117$
Olabisi Onabanjo University Teaching Hospital (OOUTH), Sagamu	35	$\frac{35}{456} X\ 213 \approx 15$
Federal Neuro-Psychiatric Hospital, Aro, Abeokuta	78	$\frac{78}{456} X\ 213 \approx 36$
State General Hospital, Abeokuta	25	$\frac{25}{456} X\ 213 \approx 12$
State General Hospital, Ijebu-Ode	17	$\frac{17}{456} X\ 213 \approx 8$
State General Hospital, Ota	28	$\frac{28}{456} X\ 213 \approx 13$
State General Hospital, Ilaro	22	$\frac{22}{456} X\ 213 \approx 12$

3.4 Method of Data Collection

The study utilized a structured questionnaire on a five-point Likert scale to gather quantitative data from respondents for this study. To enhance accessibility and response rates, the questionnaire was administered both physically and electronically through Google Forms across the seven public hospitals in Ogun State.

3.5 Model Specifications

The model specification of this study follows the research's general objective to examine the relationship between internal control functions and financial reporting quality. Hence, a functional relationship is established through the model specified implicitly below:

$$\text{Financial reporting quality} = f(internal\ contril\ functions) \quad 3.1$$

Explicitly:

$$REL = f(\ CTRENV, RSKASM, CTRACT, INFCOM, MNT) \quad 3.2$$

$$FATREP = f(\ CTRENV, RSKASM, CTRACT, INFCOM, MNT) \quad 3.3$$

$$TIM = f(\ CTRENV, RSKASM, CTRACT, INFCOM, MNT) \quad 3.4$$

$$UND = f(\ CTRENV, RSKASM, CTRACT, INFCOM, MNT) \quad 3.5$$

Mathematically:

$$REL = \beta_0 + \beta_1 CTRENV + \beta_2 RSKASM + \beta_3 CTRACT + \beta_4 INFCOM + \beta_5 MNT + \varepsilon_1 \quad 3.7$$

$$FATREP = \beta_0 + \beta_1 CTRENV + \beta_2 RSKASM + \beta_3 CTRACT + \beta_4 INFCOM + \beta_5 MNT + \varepsilon_2 \quad 3.8$$

$$TIM = \beta_0 + \beta_1 CTRENV + \beta_2 RSKAM + \beta_3 CTRACT + \beta_4 IMFCOM + \beta_4 MNT + \varepsilon_3 \quad 3.9$$

$$UND = \beta_0 + \beta_1 CTRENV + \beta_2 RSKAM + \beta_3 CTRACT + \beta_4 IMFCOM + \beta_5 MNT + \varepsilon_5 \quad 3.10$$

Where: REL- Relevance; FATREP - faithful representation; TIM - timeliness; COMP- comparability; UND - understandability; CTRENV - control environment; RSKASM - risk assessment; CTRACT - control activities; INFCOM - information and communication and MNT- Monitoring

β_0 are the intercepts of the model

β_{1-5}, are the coefficients of the independent variable to be estimated

ε_{1-5} are the error terms.

3.6 Method of data analysis

The data analysis for this study involves the use of both descriptive and inferential statistics to achieve the study's objective. The inferential statistics, including multiple regression analysis, are applied to test the study hypotheses by examining the relationship between the proxies to the independent variable (control environment, risk assessment, control activities, information and communication, and monitoring) and the proxies to the dependent variable (relevance, faithful representation, timeliness, comparability, and understandability).

4.0 Data Analysis and Presentation of Results

4.1 Inferential Analysis

Table 4.1: Result of Regression Between Internal Control Functions and Relevance of the quality of financial reports of Public Hospital in Ogun State, Nigeria.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	2.114	0.153	–	13.822	0.000
CTRENV	0.174	0.043	0.183	4.047	0.000
RSKASM	0.142	0.045	0.139	3.156	0.002
CTRACT	0.198	0.040	0.214	4.950	0.000
IFCOM	0.126	0.045	0.122	2.804	0.005
MNT	0.158	0.050	0.153	3.160	0.002
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.569	0.512	0.406	0.5412		
F-statistics	30.821				
Sig.	.000[b]				

Dependent Variable: REL (Relevance of the quality of financial reports)

Source: Author's Computation (2025)

Table 4.1 presents the regression results assessing the effect of internal control functions on the relevance of the quality of financial reports in public hospitals in Ogun State. CTRACT has a coefficient of 0.198 (p = 0.000), indicating that a one-unit improvement in the implementation of control activities leads to a 0.198-unit increase in the relevance of financial reporting.

CTRENV has a B = 0.174 (p = 0.000), suggesting that strengthening institutional values, governance, and ethical leadership results in a 0.174-unit enhancement in financial report relevance. Similarly, MNT (B = 0.158, p = 0.002) implies that consistent internal evaluations and oversight can increase financial reporting relevance by 0.158 units. The influence of RSKAM (B = 0.142, p = 0.002) further reveals that structured identification and evaluation of financial risks contribute to a 0.142-unit rise in relevance. IFCOM (B = 0.126, p = 0.005) showed that improved communication channels and timely information flow promote a 0.126-unit gain in the usefulness of financial reports to stakeholders.

The adjusted R^2 of 0.406 indicates that internal control functions jointly explain 40.6% of the variation in the REL. The F-statistic of 30.821(p-value = 0.000) confirms that the model is significant at the 1% level. Based on these findings, the null hypothesis (H_{01}) that internal control functions have no significant effect on the relevance of financial reporting is rejected. This provides empirical support for the assertion that strong internal control mechanisms significantly enhance the informational relevance of financial reports in public sector hospitals.

Table 4.2: Result of Regression Between Internal Control Functions the Faithful representation of financial reports of Public Hospital in Ogun State.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	2.087	0.167	–	12.495	0.000
CTRENV	0.193	0.046	0.201	4.196	0.000
RSKASM	0.158	0.048	0.162	3.292	0.001
CTRACT	0.185	0.042	0.206	4.405	0.000
IFCOM	0.143	0.049	0.138	2.918	0.004
MNT	0.171	0.051	0.164	3.353	0.001
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.452	0.422	0.326	0.542		
F-statistics	45.243				
Sig.	.000[b]				

Dependent Variable: FATREP (faithful representation of financial reports)

Source: Author's Computation (2025)

Table 4.2 presents the regression results assessing the effect of internal control functions on the faithful representation of financial reports in public hospitals in Ogun State. CTRACT has a coefficient of 0.185 (p = 0.000), showing that a one-unit improvement in control activities leads to a 0.185-unit increase in faithful representation. CTRENV (B = 0.193, p = 0.000) indicates that strengthening governance, ethics, and institutional values improves faithful reporting by 0.193 units. MNT (B = 0.171, p = 0.001) reveals that consistent oversight contributes a 0.171-unit gain in reporting integrity. RSKASM (B = 0.158, p = 0.001) shows that stronger risk identification and evaluation increase faithful representation by 0.158 units, while IFCOM (B = 0.143, p = 0.004) demonstrates that effective communication improves reliability and neutrality by 0.143 units.

The adjusted R^2 of 0.326 indicates that internal control components jointly explain 32.6% of the variation in faithful representation. The F-statistic of 45.243 (p-value = 0.000) confirms that the model is significant at the 1% level. Based on these findings, the null hypothesis (H_{02}) that internal control functions have no significant effect on faithful representation is rejected. The results affirm that robust internal controls are essential for ensuring credible and unbiased financial reporting in public hospitals.

Table 4.3: Result of Regression Between Internal Control Functions and the Timelines representation of financial reports of the Public Hospital in Ogun State.

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
(Constant)	1.984	0.172	–	11.535	0.000
CTRENV	0.165	0.048	0.174	3.438	0.001
RSKASM	0.147	0.044	0.154	3.341	0.001
CTRACT	0.172	0.040	0.193	4.300	0.000
IFCOM	0.132	0.046	0.128	2.870	0.005
MNT	0.144	0.049	0.138	2.939	0.004
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.483	0.433	0.346	0.642		
F-statistics	37.11				
Sig.	.000[b]				

Dependent Variable: TIM (Timeliness of financial reports)

Source: Author's Computation (2025)

The regression results in Table 4.3 reveal that the coefficient of the CTREV is 0.165 (p = 0.001), indicating that a one-unit increase in the CTREV leads to a 0.165-unit improvement in the timeliness of financial reports. RSKSM has a coefficient of 0.147 (p = 0.001), implying that proactive identification and evaluation of financial risks enhance the punctuality of reporting. CTRACT exert a coefficient of 0.172 (p = 0.000), showing that implementing robust checks, approvals, and security measures significantly improves timely disclosures.

IFCOM contributes positively with a coefficient of 0.132 (p = 0.005), meaning that effective dissemination and accessibility of financial data support timeliness in reporting. MNT also has a positive coefficient of 0.144 (p = 0.004), demonstrating that continuous review and evaluation mechanisms ensure deadlines are consistently met.

The F-statistic (37.116, p = 0.000) confirms the overall significance of the regression model. Hence, the null hypothesis (H_{03}), which states that internal control functions have not significantly affected the timeliness of financial reports, is rejected, affirming that effective internal control practices are crucial for ensuring timely financial disclosures in public hospitals.

Table 4.4: Result of Regression Between Internal Control Functions and the Understandability of Financial Reports of the Public Hospital in Ogun State.

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error			
(Constant)	2.045	0.198	–	10.333	0.000
CTRENV	0.073	0.055	0.081	1.327	0.186
RSKASM	0.068	0.050	0.077	1.362	0.175
CTRACT	0.082	0.049	0.093	1.673	0.096
IFCOM	0.058	0.053	0.065	1.094	0.275
MNT	0.066	0.051	0.071	1.294	0.198
R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.213	0.045	0.011	0.78		
F-statistics	1.318				
Sig.	.0258[b]				

Dependent Variable: UND (Understandability of financial reports)

Source: Author's Computation (2025)

The regression analysis in Table 4.4 shows that the coefficient CTRENV is 0.073 (p = 0.186), indicating that a unit improvement in the control environment would increase the understandability of financial reports by 0.073 units insignificantly. Similarly, RSKASM has a coefficient of 0.068 (p = 0.175), suggesting that strengthening risk identification and evaluation processes would improve understandability by 0.068 units insignificantly.

CTRACT shows a coefficient of 0.082 (p = 0.096), implying that enhanced procedures and compliance checks could raise understandability by 0.082 units; however, this effect remains statistically insignificant. IFCOM has a coefficient of 0.058 (p = 0.275), indicating that improvements in the clarity and dissemination of financial information would increase understandability by 0.058 units insignificantly. MNT, with a coefficient of 0.066 (p = 0.198), also showed that strengthened monitoring activities may raise understandability by 0.066 units insignificant.

F-statistic value of 1.318 with a p-value of 0.258 confirms that the model as a whole is not statistically significant. These findings indicate that internal control functions, taken together, do not exert a significant effect on the understandability of financial reports in public hospitals in Ogun State. Consequently, the null hypothesis (H_{04}), which states that internal control functions have no significant effect on understandability, is accepted.

4.2 Discussion of Findings

The findings from this study showed that internal control functions significantly enhance relevance, with CTRACT (B = 0.198, p = 0.000) and CTRENV (B = 0.174, p = 0.000) having the strongest effects. MNT (B = 0.158, p = 0.002), RSKASM (B = 0.142, p = 0.002), and IFCOM (B = 0.126, p = 0.005) also contribute positively, consistent with findings by Yao et al. (2024), Karina et al. (2021), Festus et al. (2023), and Kasse et al. (2023). These results suggest that robust controls enable actionable and relevant financial reporting.

For faithful representation, CTRENV (B = 0.193, p = 0.000) and CTRACT (B = 0.185, p = 0.000) are most influential, while MNT (B = 0.171, p = 0.001), RSKASM (B = 0.158, p = 0.001), and IFCOM (B = 0.143, p = 0.004) also enhance accuracy and neutrality, aligning with studies in

Indonesia (Khoiriyah et al., 2024) and Kenya (Tuwei & Ondabu, 2024). This confirms that internal controls foster credible reporting essential for stakeholder trust. Timeliness is similarly improved by all internal control functions, with CTRACT (B = 0.172, p = 0.000) and CTRENV (B = 0.165, p = 0.001) as key drivers, followed by RSKASM (B = 0.147, p = 0.001), MNT (B = 0.144, p = 0.004), and IFCOM (B = 0.132, p = 0.005). These findings support the study of Phornlaphatrachakorn (2019), Al Rahhaleh et al. (2024), and Pratama et al. (2024) research linking strong controls to timely reporting and effective operational decision-making In contrast, internal control functions show positive but insignificant effects on understandability (CTRENV B = 0.073, RSKASM B = 0.068, CTRACT B = 0.082, IFCOM B = 0.058, MNT B = 0.066), consistent with Eskin (2024) and Ozmeral et al. (2024), highlighting that additional strategies, such as simplified report formats or standardized frameworks, may be required to enhance clarity for stakeholders.

5. Conclusions and Recommendations

This study investigated the effect of internal control system on the quality of financial reporting in public hospitals across Ogun State. The findings reveal that all five components of internal control system (control environment, risk assessment, control activities, information and communication, and monitoring) exert positive and statistically significant effects on three key dimensions of financial reporting quality: relevance, faithful representation, and timeliness. Specifically, control activities had the strongest effect on relevance, while the control environment exerted the greatest influence on faithful representation. Timeliness was also significantly improved by all internal control dimensions, with control activities again emerging as the most influential factor.

In contrast, none of the internal control system proxies had a significant effect on the understandability of financial reports. The study concludes that a robust internal control system significantly enhances the reliability, relevance, and timeliness of financial reports in public hospitals, supporting decision-making and accountability.

Based on the findings of this study, the following recommendations were advanced to strengthen financial reporting practices in public hospitals through internal control functions. First, hospital administrators must institutionalize robust internal control frameworks to promote accountability and ensure transparency in financial management. Ethical leadership must be emphasized, with hospital executives fostering a culture of compliance with relevant laws, regulations, standards, and policies through clear and effective enforcement and exemplary conduct.

Furthermore, public hospitals should develop and implement structured risk management systems that enable early identification and mitigation of financial risks, thus safeguarding operational stability. Investment in digital financial infrastructure is also essential to streamline data processing, enhance communication efficiency, and support timely and accessible reporting.

In parallel, internal monitoring mechanisms such as routine audits, compliance checks, and regular performance evaluations should be reinforced to maintain the integrity of financial practices. Efforts should also be made to simplify the presentation of financial reports, using clear formats and explanatory notes to improve their understandability, particularly for non-financial stakeholders. Capacity building through targeted training programs for financial personnel should be prioritized to enhance technical competence and ensure consistent adherence to reporting standards.

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